

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MICHIGAN CITY AREA SCHOOLS

LA PORTE COUNTY, INDIANA

July 1, 2015 to June 30, 2017



FILED
05/31/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer/CFO	Lance E. Werner	01-01-15 to 12-31-18
Superintendent of Schools	Dr. Barbara Eason-Watkins	07-01-15 to 06-30-18
President of the School Board	Donald J. Dulaney	01-01-15 to 12-31-18



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TO: THE OFFICIALS OF THE MICHIGAN CITY AREA SCHOOLS, LA PORTE COUNTY, INDIANA

This report is supplemental to our audit report of the Michigan City Area Schools (School Corporation), for the period from July 1, 2015 to June 30, 2017. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

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

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

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

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

April 12, 2018

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS

FINDING 2017-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-001.

Condition

There were several deficiencies in the internal control system of the School Corporation related to Financial Transactions and Reporting. There was a lack of adequate segregation of duties as the School Corporation had not separated incompatible activities related to Cash and Investments, Receipts, Disbursements, and Financial Reporting.

Cash and Investments

Monthly bank reconciliations were prepared by one individual without a proper system of oversight or review.

Disbursements

One individual processed the vendor disbursements that were recurring monthly and were generated at the School Corporation business office. However, this individual stamped the Treasurer's signature without a proper system of oversight or review.

Financial Reporting

The School Corporation's School Lunch and Textbook Rental funds are maintained as separate extracurricular accounts (ECA). An ECA employee prepared spreadsheets and financial reports and submitted the reports to the School Corporation business department for submission to the Indiana Department of Education. There was no documented review of the ECA reports to ensure their accuracy prior to submission to the School Corporation.

School Lunch fund Receipts and Disbursements

Meal sales paid from students' prepaid account balances were recorded in the Clearing Account - Food Service Prepaid Collections fund as negative receipts instead of disbursements to the School Lunch fund.

Context

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

Criteria

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

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

"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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

Cause

Management of the School Corporation had not established a proper system of internal controls that segregated key functions

Effect

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

Recommendation

We recommended that the School Corporation establish a system of internal controls related to Cash and Investments, Receipts, Disbursements, and Financial Reporting.

Views of Responsible Officials

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

FINDING 2017-002

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).

The School Corporation failed to properly review the federal grant information prepared and submitted in the Indiana Gateway for Government Units financial reporting system, which was the source of the SEFA. One employee prepared and submitted the federal grant information without an oversight or review process in order to detect and correct errors before submission. The SEFA presented for audit contained the following errors:

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

1. The National School Lunch Program commodities of \$229,486 and \$267,954 were omitted for the 2015-2016 and 2016-2017 fiscal years, respectively.
2. The National School Lunch Program federal expenditures were overstated by \$795 for the 2015-2016 fiscal year.
3. The Summer Food Service Program for Children federal expenditures were understated by \$5,584 for the 2016-2017 fiscal year.
4. The Fresh Fruit and Vegetable Program federal expenditures were understated by \$14,611 for the 2016-2017 fiscal year.
5. The Child and Adult Care Food Program federal expenditures were overstated by \$20,195 for the 2016-2017 fiscal year.
6. The Coastal Zone Management Administration Awards program federal expenditures were overstated by \$11,196 and \$4,344 for the 2015-2016 and 2016-2017 fiscal years, respectively.
7. The Medical Assistance Program federal expenditures were overstated by \$104,166 and \$43,939 for the 2015-2016 and 2016-2017 fiscal years, respectively.

Context

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

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

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

2 CFR 200.510(b) states:

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

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

Effect

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

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

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 2017-003

Subject: Child Nutrition Cluster - Equipment

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 15-16, FY 16-17

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Equipment and Real Property Management

Audit Findings: Material Weakness, Modified Opinion

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the equipment requirements of the Equipment and Real Property Management compliance requirement.

The School Corporation did not have adequate policies and procedures to ensure compliance with the requirements that they maintain records of equipment purchased in whole or in part with federal funds and that they perform a physical inventory of this equipment.

The School Corporation did not comply with the equipment requirements. They did not maintain a list of equipment acquired with federal awards, nor did they perform a physical inventory of equipment acquired with federal awards during the audit period.

Context

The lack of controls and the noncompliance were systemic issues throughout the audit period.

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).
..."

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

2 CFR 200.313(d) states in part:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

1. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the projects costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
2. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. . . ."

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the equipment requirements of the Equipment and Real Property Management compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation establish controls to ensure compliance and comply with the Equipment and Real Property Management compliance requirement.

Views of Responsible Officials

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

FINDING 2017-004

Subject: Child Nutrition Cluster - Procurement

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY15-16, FY16-17

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

Condition

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

The School Corporation failed to comply with the procurement requirements that the contracts entered into and the purchases made were in compliance with its own procedures, as well as state laws and procedures.

The School Corporation contracted with a third-party purchasing service for food products. The School Corporation and Board of School Trustees (School Board) approved the contract with the purchasing service effective July 1, 2013. The contract had an initial one-year term of July 1, 2013, to June 30, 2014, with up to four optional one-year extensions that were exercisable each year. However, the optional one-year extensions were not approved by the School Board or the School Corporation's contracting agent.

Additionally, the procurement method used was not appropriate for other contracted vendors that were not covered by a third-party purchasing service. The contract files did not document the history of the procurement, and price quotations were not obtained for purchases determined to be covered under a small purchase procurement method.

Context

The lack of controls and the noncompliance related to the third-party purchasing service were systemic issues throughout the audit period. Additionally, 50 percent of the additional contracted vendors were not in compliance with procurement requirements.

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). . . ."

7 CFR 3016.36(b) states in part:

"*Procurement standards.*

- (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.
- (2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. . . .

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

- (9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. . . ."

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the procurement requirements of the Procurement and Suspension and Debarment compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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

FINDING 2017-005

Subject: Child Nutrition Cluster - Internal Controls

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 15-16, FY 16-17

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Program Income, Reporting

Audit Finding: Significant Deficiency

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 Program Income and Reporting compliance requirements.

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

Program Income

The School Corporation had not implemented adequate policies and procedures to ensure that program income was properly recorded in the financial records. There was no evidence that someone performed reviews to ensure that the correct fees for the different meal types were charged in accordance with the fee schedule approved by the School Board.

Reporting

The School Corporation had not designed or implemented adequate policies and procedures to ensure the accurate completion of the School Food Authority (SFA) Verification Collection Report prepared by the Food Service Field Coordinator. The report was submitted to the Indiana Department of Education without oversight, review, or approval.

Context

The lack of controls were systemic issues 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's management had not developed a system of internal controls to ensure compliance with Program Income 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. 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.

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to the grant agreement and the Program Income 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.

FINDING 2017-006

Subject: Title I Grants to Local Educational Agencies - Procurement and Suspension and Debarment
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): FY 2014-2015, FY2015-2016,
FY 2016-2017

Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Modified Opinion

Condition

The School Corporation had not established an effective internal control system to ensure compliance with the Procurement and Suspension and Debarment compliance requirement. The School Board adopted a procurement policy on February 8, 2017, which included procurement and suspension and debarment requirements; however, there were no controls to ensure compliance with the policy.

Procurement

The School Corporation failed to comply with the procurement requirement that small purchases must be in compliance with its procurement procedures, as well as state laws and procedures. In addition, small purchase procedures were not followed which required that at least three price or rate quotations be obtained from qualified sources. There was no evidence presented that quotes were obtained for any purchases.

Suspension and Debarment

The School Corporation did not perform procedures to verify that vendors were not suspended or debarred from participation in federal programs before entering into a contract.

Context

The lack of controls and the noncompliance were systemic issues throughout the audit period. There were no bids or quotes retained for any vendors during the audit period and no verification procedures were performed for any of the contracted vendors paid from the grants.

MICHIGAN CITY AREA 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). . . ."

2 CFR 200.318(a) states:

"The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part."

2 CFR 200.320(b) states:

"Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources."

Michigan City Area School Policy 6325 - PROCUREMENT - FEDERAL GRANTS/FUNDS

"Small purchase procedures provide for relatively simple and informal procurement methods for securing services, supplies, and other property the cost of which exceeds \$3,500 but is less than the competitive bid threshold of \$100,000. Small purchase procedures require that at least three (3) price or rate quotations shall be obtained from qualified sources."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the Procurement and Suspension and Debarment compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation establish controls to ensure compliance and comply with the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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

FINDING 2017-007

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): FY 15-16, FY 16-17

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Period of Performance, Special Tests and Provisions -
Comparability, Special Tests and Provisions - Highly
Qualified Teachers and Paraprofessionals

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: Period of Performance, Special Tests and Provisions - Comparability, and Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals.

Period of Performance

The School Corporation had not established an effective internal control system to ensure that adjustments recorded in the grant funds were within the period of performance. There were also no procedures in place to ensure and document that adjustments were approved by someone other than the individual who made the adjustments.

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

Special Tests and Provisions - Comparability

The School Corporation had not designed or implemented adequate procedures to ensure that the comparability reports were accurate before submission.

Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals

The School Corporation had not designed or implemented adequate procedures to ensure that the School Corporation hired only highly qualified teachers and paraprofessionals.

Context

The lack of controls was a systemic issue 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's management had not developed a system of internal controls to ensure compliance with the requirements listed above.

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.

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls related to the grant agreement and 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 2017-008

Subject: Title I Grants to Local Educational Agencies - Special Tests and Provisions - Assessment System Security
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): FY 15-16, FY 16-17
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Assessment System Security
Audit Findings: Material Weakness, Modified Opinion

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Special Tests and Provisions - Assessment System Security compliance requirement.

The School Corporation was required to properly implement policies and procedures regarding the security of tests. The School Corporation did not maintain Indiana Testing Security and Integrity Agreements (Agreements) for any individual who administered, handled, or had access to secure test materials at the district or school level, which prevented the determination of whether the Agreements were reviewed and signed.

Context

The lack of controls was a systemic issue throughout the audit period. In addition, Agreements were not retained for audit for the 2015-2016 fiscal year.

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 . . . provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

MICHIGAN CITY AREA 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). . . ."

2 CFR 200.207(a) states in part: "The Federal awarding agency or pass-through entity may impose additional specific award conditions as needed, . . ."

Indiana Assessment Program Manual, Chapter 10, Section 4, Part D states in part:

". . . Ensure all applicable school and corporation staff review and sign the Indiana Testing Security and Integrity Agreement annually by the end of September as described in the Code of Ethical Practices and Procedures. . . ."

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured that supporting documentation was completed and maintained for audit to ensure compliance with the Special Tests and Provisions - Assessment System Security compliance requirement.

Effect

The failure to maintain and provide adequate supporting documentation prevented the determination of the School Corporation's compliance with the Special Tests and Provisions - Assessment System Security compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure that adequate documentation is maintained for audit relating to the Special Tests and Provisions - Assessment System Security compliance requirement.

Views of Responsible Officials

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

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2017-009

Subject: Special Education Cluster - Procurement and Suspension and Debarment

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): 14214-040-PN01, 14215-040-PN01,
14216-038-PN01, 14217-038-PN01,
99914-040-TA01, 45175-040-PN01,
45716-038-PN01, 45717-038-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Modified Opinion

Condition

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

The School Corporation did not follow its own purchasing policy in regards to procurement methods for small purchases. They did not receive or document three price or rate quotations obtained from qualified sources for any small purchases tested. In addition, where competition was limited, the School Corporation did not adequately document its rationale for limiting competition.

The School Corporation did not verify that its vendors were not suspended or debarred from participation in federal programs as required by the School Corporation's procurement policy.

Context

The lack of controls and the noncompliance were systemic issues throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards 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 200.318(i) states:

"The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

2 CFR 200.320(b) states:

"Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

The School Corporation's purchasing policy states in part:

"All procurement transactions shall be conducted in a manner that encourages full and open competition and is in accordance with good administrative practice and sound business judgement. In order to promote objective contractor performance and eliminate unfair competitive advantage, the Corporation shall exclude any contractor that has developed or drafted specifications, requirements, statements of work, or invitations for bids or requests for proposals from competition for such procurements. . . ."

"Small purchase procedures provide for relatively simple and informal procurement methods for securing services, supplies, and other property the cost of which exceeds \$3,500 but is less than the competitive bid threshold of \$150,000. Small purchase procedures require that at least three (3) price or rate quotations shall be obtained from qualified sources. . . ."

"The Corporation shall not subcontract with or award subgrants to any person or company who is debarred or suspended. For contracts over \$25,000, the Corporation shall confirm that the vendor is not debarred or suspended by either checking the Federal government's System for Award Management, which maintains a list of such debarred or suspended vendors at www.sam.gov; collecting a certification from the vendor; or adding a clause or condition to the covered transaction with that vendor." (2 CFR Part 180 Subpart C)

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the Procurement and Suspension and Debarment compliance requirement.

Effect

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

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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

FINDING 2017-010

Subject: Twenty-First Century Community Learning Centers - Program Income

Federal Agency: Department of Education

Federal Program: Twenty-First Century Community Learning Centers

CFDA Number: 84.287

Federal Award Numbers and Years (or Other Identifying Numbers): A58-5-15DL-2117, A58-6-16DL-3086,
A58-7-17DL-0051, A58-4-140T-0020,
A58-6-16DL-0219, A58-7-17DL-0020

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Program Income

Audit Findings: Material Weakness, Modified Opinion

Condition

The School Corporation had not established an effective system of internal controls related to the grant agreement and the Program Income compliance requirement.

Program Fees

Controls had not been designed or implemented adequately to ensure that the proper fees were assessed and that the cash collections remitted were accurate. The School Corporation failed to comply with the program income requirement that the proper fees were assessed for program services.

The fees collected for the middle school and high school after-school programs and summer programs were not documented in the grant information; therefore, it could not be determined whether the proper fees were assessed. The total amount of fees for those programs totaled \$23,706. Fees for the elementary school after-school program differed by \$53 from the fees established in the grant agreement. When the sample errors for the elementary school were projected to the population as a whole, additional likely errors of \$2,362 were identified.

Use of Program Income

Controls had not been designed or implemented properly to ensure that the expenditures from program income were used for the purposes of the grant.

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

The School Corporation failed to comply with the program income requirement that the program income must be used for the purposes and under the conditions of the federal award. There were disbursements for food, gift cards, and party supplies which totaled \$1,731. When the sample errors for these disbursements were projected to the population as a whole, additional likely errors of \$7,238 were identified.

Context

The lack of controls and noncompliance were systemic issues 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). . . ."

21st Century Community Learning Centers Non Regulatory Guidance, G-14 states in part:

". . . Programs that opt to charge fees must offer a sliding scale of fees and scholarships for those who cannot afford the Page 31 - 21st Century Community Learning Centers Non-Regulatory Guidance program. Income collected from fees must be used to fund program activities specified in the grant application. . . ."

2 CFR 200.307(e)(1) states:

"*Deduction.* Ordinarily program income must be deducted from total allowable costs to determine the net allowable costs. Program income must be used for current costs unless the Federal awarding agency authorizes otherwise. Program income that the non-Federal entity did not anticipate at the time of the Federal award must be used to reduce the Federal award and non-Federal entity contributions rather than to increase the funds committed to the project."

Cause

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

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

Effect

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

Questioned Costs

Known questioned costs of \$25,490 were identified as detailed in the *Condition*.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Program Income compliance requirement.

Views of Responsible Officials

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

FINDING 2017-011

Subject: Twenty-First Century Community Learning Centers - Special Tests
and Provisions - Participation of Private School Children

Federal Agency: Department of Education

Federal Program: Twenty-First Century Community Learning Centers

CFDA Number: 84.287

Federal Award Numbers and Years (or Other Identifying Numbers): A58-5-15DL-2117, A58-6-16DL-3086,
A58-7-17DL-0051, A58-4-140T-0020,
A58-6-16DL-0219, A58-7-17DL-0020

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Special Tests and Provisions - Participation of Private School Children

Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation had not established an effective system of internal controls related to the grant agreement and the Special Tests and Provisions - Participation of Private School Children compliance requirement. Controls were not in place to ensure that the local educational agency (LEA) had timely and meaningful consultation with private school officials for all non-profit, private schools in the LEA's jurisdiction or in the specific geographical areas to be served by the program. Controls were also not in place to ensure that annual consultations with private school officials were performed.

The School Corporation did not comply with the participation of private school children requirements. Timely and meaningful consultations with private school officials were not performed or documented for all non-profit, private schools in the LEA's jurisdiction. In addition, consultations with private school officials were not performed on an annual basis.

Context

The lack of controls and the noncompliance were systemic issues throughout the audit period.

MICHIGAN CITY AREA 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 200.63(a) states: "In order to have timely and meaningful consultation, an LEA must consult with appropriate officials of private schools during the design and development of the LEA's program for eligible private school children."

34 CFR 200.63(e)(1) states: "The LEA must maintain in its records and provide to the SEA a written affirmation, signed by officials of each private school with participating children or appropriate private school representatives, that the required consultation has occurred."

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the Special Tests and Provisions - Participation of Private School Children compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Special Tests and Provisions - Participation of Private School Children compliance requirement.

MICHIGAN CITY AREA SCHOOLS
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 2017-012

Subject: Supporting Effective Instruction State Grants - Period of Performance

Federal Agency: Department of Education

Federal Program: Supporting Effective Instruction State Grants

CFDA Number: 84.367

Federal Award Numbers and Years (or Other Identifying Numbers): S367A130013, S367A140013,
S367A150013, S367A160013

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Period of Performance

Audit Finding: Significant Deficiency

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 Period of Performance compliance requirement.

There were no procedures in place to ensure and document that adjustments were approved by someone other than the individual who made the adjustments.

Context

The lack of controls was a systemic issue 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). . . ."

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

Cause

The School Corporation's management had not developed a system of internal controls to ensure compliance with the Period of Performance compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to the grant agreement and 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 2017-013

Subject: Supporting Effective Instruction State Grants - Special Tests
and Provisions - Participation of Private School Children

Federal Agency: Department of Education

Federal Program: Supporting Effective Instruction State Grants

CFDA Number: 84.367

Federal Award Numbers and Years (or Other Identifying Numbers): S367A130013, S367A140013,
S367A150013, S367A160013

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Special Tests and Provisions - Participation of Private School Children

Audit Finding: Significant Deficiency

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with the Special Tests and Provisions - Participation of Private School Children compliance requirement.

The School Corporation did not have proper controls in place to ensure that program funds allocated for the participation of private school children were spent on allowable activities per the grant agreement.

Context

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

MICHIGAN CITY AREA 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). . . ."

Cause

The School Corporation's management had not developed a system of internal controls to ensure compliance with Special Tests and Provisions - Participation of Private School Children compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to the grant agreement and the Special Tests and Provisions - Participation of Private School Children compliance requirement.

Views of Responsible Officials

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

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2017-014

Subject: Child Nutrition Cluster, Title I Grants to Local Educational Agencies, Twenty-First Century Community Learning Centers - Allowable Costs/Cost Principles

Federal Agencies: Department of Agriculture, Department of Education

Federal Programs: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children, Title I Grants to Local Educational Agencies, Twenty-First Century Community Learning Centers

CFDA Numbers: 10.553, 10.555, 10.559, 84.010, 84.287

Federal Award Numbers and Years (or Other Identifying Numbers): FY15-16, FY16-17, S010A140014, S010A150014, S010A160014, A58-5-15DL-2117, A58-6-16DL-3806, A58-7-17DL-0051, A58-4-14OT-0020, A58-6-16DL-0219, A58-7-17DL-0020

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Finding: Significant Deficiency

Condition

An effective internal control system was not in place at the School Corporation to ensure compliance related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement. The School Corporation did not have controls in place to ensure that all source documents needed to support the calculation of the indirect costs rate applied to the programs were submitted to the Indiana Department of Education.

Context

The lack of controls was a systemic issue 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). . . ."

MICHIGAN CITY AREA SCHOOLS
FEDERAL FINDINGS
(Continued)

Cause

The School Corporation's management had not developed an effective system of internal controls to ensure compliance with the Allowable Costs/Cost Principles compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials

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



Michigan City Area Schools

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Fax: (219) 873-2086

Lance E. Werner
Chief Financial Officer

CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: Lance E. Werner
Contact Phone Number: 219-873-2000 Ext 8343

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Cash and Investment

Monthly bank reconciliements will be reviewed and signed by the Treasurer.

Disbursements

Invoices that aren't ran through the Purchase Order process will be reviewed and signed by the appropriate person prior to being processed for payment.

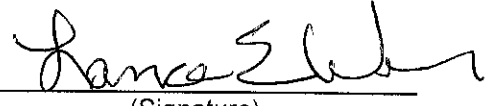
Financial Reporting

The School Corporation's School Lunch fund will be ran through the Financial System and not the ECA starting July 1, 2018. The reports provided to the Financial Assistant will be reviewed and initialed.

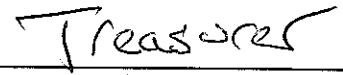
School Lunch fund Receipts and Disbursements

School Corporation's School Lunch will no longer receipt negative amounts. They are moving to the Finance System by July 1, 2018.

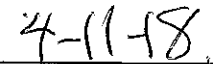
Anticipated Completion Date: 5/1/18



(Signature)



(Title)



(Date)



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Lance E. Werner
Chief Financial Officer

CORRECTIVE ACTION PLAN

FINDING 2017-002

Contact Person Responsible for Corrective Action: Lance E. Werner
Contact Phone Number: 219-873-2000 Ext 8343

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

When submitting the Schedule of Expenditures of Federal Awards (SEFA) the information will be reviewed by the Treasurer. The Financial Assistant and Treasurer both have their own sign on to Gateway so individual activities can be logged. Information from School Lunch will be compared to what was entered and tracked on the nutrition web site.

Anticipated Completion Date: 5/1/18

Lance E. Werner
(Signature)

Treasurer
(Title)

4-11-18.
(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-003

Contact Person Responsible for Corrective Action:
Contact Phone Number:
Cindy Licciardone
219-873-2131 ext. 8412

Views of Responsible Official:
"We concur with the finding."

Description of Corrective Action Plan:

A physical inventory of all Food Service equipment will be recorded. Property records will include name of facility, description of the property, serial number, condition and value.

Anticipated Completion Date: August 1, 2018

Cynthia Licciardone
(Signature)

FSD
(Title)

4-6-18
(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-004

Contact Person Responsible for Corrective Action:
Contact Phone Number:
Cindy Licciardone
219-873-2131 ext. 8412

Views of Responsible Official:
"We concur with the finding."

Description of Corrective Action Plan:

The Food Service Department will follow proper procurement procedures when entering into contracts, agreements, and small purchases. Contract extensions will be brought before the School Trustees for approval. Management will establish controls to ensure compliance and comply with the Procurement and Suspension and Debarment compliance requirement.

Anticipated Completion Date: Completed.

Cynthia Licciardone
(Signature)

FSD
(Title)

4-6-18
(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-005

Contact Person Responsible for Corrective Action:
Contact Phone Number:
Cindy Licciardone
219-873-2131 ext. 8412

Views of Responsible Official:
"We concur with the finding."

Description of Corrective Action Plan:

The Food Service Department will take all meal price changes, for student and adult meals, to the Board of Trustees for approval. A written policy on free meals for nonfood service employees will be established.

Procedures to verify SFA Verification Collection Report will be completed by the Office Manager and reviewed by the Food Service Director or the Field Coordinator for accuracy before being submitted to the Indiana Department of education.

Anticipated Completion Date: Completed.

Cynthia Licciardone
(Signature)

FSD
(Title)

4-12-18
(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-006

Contact Person Responsible for Corrective Action: Cathy Bildhauser
Contact Phone Number: 219-873-2000

Views of Responsible Official : As I am new to this position, I was not aware of this policy.

Description of Corrective Action Plan:

Three quotes will be obtained and kept on file following procurement procedures for the purchase of items over \$3,500.00. If three quotes are not obtained or available, a written explanation will be provided. For purchases over \$150,000 sealed bids will be obtained.

Vendors will be checked against the federal and state websites to ensure compliance with the Suspension and Debarment requirement. Evidence of this will be attached to the quote prior to the order being placed.

Anticipated Completion Date: April 2018

(Signature)

Curriculum Director

(Title)

April 6, 2018

(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-007

Contact Person Responsible for Corrective Action: Cathy Bildhauser
Contact Phone Number: 219-873-2000

Views of Responsible Official: As I am new to this position, I was not aware of this policy.

Description of Corrective Action Plan:

The technology director verify that the comparability report is correct and provide signature as evidence of verification.

The Curriculum Director will submit a signed form when any adjustments have to be made.

The Curriculum Director will be sure that the corporation keeps records to show that hires are highly qualified teachers or paraprofessionals.

Anticipated Completion Date: April 2018

(Signature)

Curriculum Director

(Title)

April 6, 2018

(Date)



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Michigan City, Indiana 46360
(219) 873-2000

CORRECTIVE ACTION PLAN

FINDING 2017-008

Contact Person Responsible for Corrective Action: Cathy Bildhauser
Contact Phone Number: 219-873-2000

Views of Responsible Official : As I am new to this position, I was not aware of this policy.

Description of Corrective Action Plan: Indiana Testing Security and Integrity Agreements will be collected by September 30 of each year from all school buildings. A staff list will be provided by school to provide assurance that signed agreements were obtained from all staff having access to test materials.

Anticipated Completion Date: September 30, 2018

(Signature)

Curriculum Director

(Title)

April 6, 2018

(Date)



Michigan City Area Schools

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Administration Building
408 South Carroll Avenue
Michigan City, Indiana 46360
(219) 873-2000

Heidi Brett Baker
Director
Student Support Services

April 9, 2018

Corrective Action Plan

Finding 2017-009

Contact Person Responsible for Corrective Action: Heidi Brett Baker – Director, Student Support Services.

Contact Phone Number: 219-873-2093

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: We will attach quotes on purchases of over \$3,500.

Anticipated Completion Date: Effective Immediately

Heidi Brett Baker, 4/9/18

Signature

Director - Student Support Service

Title

4/11/18

Date



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CORRECTIVE ACTION PLAN

FINDING 2017-010

Contact Person Responsible for Corrective Action: Sherri Silcox
Contact Phone Number: 219-873-2026

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Safe Harbor will write an addendum to the current grant, 21st CCLC Cohort 8, to put a written policy in place concerning charges for middle school and high school afterschool program fees and summer camp fees. In addition, an addendum will be added to the 21st CCLC Cohort 9 to put a written policy in place for elementary summer camp fees. These addendums will be authorized by 21st CCLC as well as Michigan City Area Schools Administration. Program fees will be specified in 21st CCLC grants from here forward.

Anticipated Completion Date: May 1, 2018

Sherri Silcox

Safe Harbor Program Coordinator

4-11-18



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CORRECTIVE ACTION PLAN

FINDING 2017-011

Contact Person Responsible for Corrective Action: Sherri Silcox
Contact Phone Number: 219-873-2026

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Safe Harbor will attach a checklist of all private and public schools in the geographical area served by Michigan City Area Schools to current 21st CCLC grants. If any of these schools have not completed an Equitable Participation of Private Schools form, it will be completed for all 21st CCLC services offered by Safe Harbor. The checklist and Equitable Participation forms for all private and public schools in the geographical area served by Michigan City Area Schools will be included with all future grant applications.

Anticipated Completion Date: May 1, 2018

Sherri Silcox

Safe Harbor Program Coordinator

4-11-18



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408 South Carroll Avenue
Michigan City, Indiana 46360
(219) 873-2000

CORRECTIVE ACTION PLAN

FINDING 2017-012

Contact Person Responsible for Corrective Action: Cathy Bildhauser
Contact Phone Number: 219-873-2000

Views of Responsible Official : As I am new to this position, I was not aware of this policy.

Description of Corrective Action Plan: A form will be developed that communicates the adjustments to be made and signature designating approval of the move will be obtained and kept on file in the Title I office.

Anticipated Completion Date: April 2018

(Signature)

Curriculum Director

(Title)

April 6, 2018

(Date)



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Administration Building
408 South Carroll Avenue
Michigan City, Indiana 46360
(219) 873-2000

CORRECTIVE ACTION PLAN

FINDING 2017-013

Contact Person Responsible for Corrective Action: Cathy Bildhauser
Contact Phone Number: 219-873-2000

Views of Responsible Official : As I am new to this position, I was not aware of this policy.

Description of Corrective Action Plan: All purchase orders submitted by private schools participating in federal grant programs are reviewed prior to approval to ensure that they meet the requirements of the grant. Explanation of denial will be provided to the school if a purchase does not meet requirements.

Evidence of purchase will include conference agenda or participation certificate along with receipts.

Anticipated Completion Date: April 6, 2018

(Signature)

Curriculum Director

(Title)

April 6, 2018

(Date)



**Michigan City
Area Schools**
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Administration Building
408 South Carroll Avenue
Michigan City, Indiana 46360-5345
Email: lwerner@mcas.k12.in.us
Phone: (219) 873-2000 ext. 8343
Fax: (219) 873-2086

Lance E. Werner
Chief Financial Officer

CORRECTIVE ACTION PLAN

FINDING 2017-014

Contact Person Responsible for Corrective Action: Lance E. Werner
Contact Phone Number: 219-873-2000 Ext 8343

Views of Responsible Official: We haven't been submitting the schedules for Capitalized Equipment nor the Schedule of Subawards because we haven't had charges to the object codes specified on the schedules.

Description of Corrective Action Plan:

This has been corrected with the submission of the Delegation for FY 2019. The financial assistant will continue to send all required forms and schedules to the IDOE and include a reason why any schedule is blank.

Anticipated Completion Date: 5/1/18

Lance E Werner
(Signature)

Treasurer
(Title)

4-9-18
(Date)

MICHIGAN CITY AREA SCHOOLS
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

A similar comment also appeared in prior Reports B40148, B43279, and B46738, entitled *OVERDRAWN CASH BALANCES*.

The financial statements presented in the Financial Statement and Federal Single Audit Report of the School Corporation included the following funds with overdrawn cash balances at June 30, 2016, and June 30, 2017:

Fund	Amount Overdrawn	
	06-30-16	06-30-17
General	\$ 1,132,147	\$ -
Capital Projects	1,807,173	1,602,084
Construction 2011-1	-	5,160

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems, which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Public School Corporation, Chapter 1)

APPROPRIATIONS

A similar comment also appeared in prior Report B46738, entitled *APPROPRIATIONS*.

The following funds recorded disbursements in excess of the 2015 and 2016 calendar year budgeted appropriations:

Fund	Years	Excess Amount Expended
Capital Projects	2015	\$ 3,197,746
General	2016	2,784,388
Capital Projects	2016	948,041
School Bus Replacement	2016	17,441

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

MICHIGAN CITY AREA SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on April 12, 2018, with Lance E. Werner, Treasurer/CFO; Dr. Barbara Eason-Watkins, Superintendent of Schools; Brenda Runnels, Deputy Treasurer; Donald J. Dulaney, President of the School Board; Marty Corley, Vice President of the School Board; Theresa Edwards, Secretary of the School Board; and Thomas R. Dombkowski, School Board member.