

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

BLUFFTON-HARRISON METROPOLITAN
SCHOOL DISTRICT
WELLS COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
03/22/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Dr. Brad Yates	07-01-16 to 06-30-19
Superintendent of Schools	Wayne Barker	07-01-16 to 06-30-19
President of the School Board	Dawn M. Frauhiger Heath Schlagenhaut Mike Murray	01-01-16 to 12-31-17 01-01-17 to 12-31-18 01-01-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the Bluffton-Harrison Metropolitan School District (School Corporation), for the period from July 1, 2016 to June 30, 2018. 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/.

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

February 13, 2019

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT
FEDERAL FINDINGS

FINDING 2018-001

Subject: Special Education Cluster (IDEA) - Reporting
Federal Agency: Department of Education
Federal Programs: Special Education Grants to States, Special Education Preschool Grants
CFDA Numbers: 84.027, 84.173
Federal Award Numbers and Years (or Other Identifying Numbers): 14216-001-PN01, 14217-001-PN01,
45716-001-PN01, 45717-001-PN01
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-002.

Condition

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

An effective internal control system was not in place at the Cooperative in order to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirement for the fiscal year 2016-2017.

Context

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

The reported proportionate share expenditures could not be verified on the Quarterly Proportionate Share Monitoring Reports for Non-Public Schools presented for the audit. Per inquiry of the Cooperative's Director, the reported expenditures were calculated by multiplying the applicable monthly reimbursed expenditures by the nonpublic school usage percentage, which was calculated based on a time study conducted annually by the Cooperative's Director. We requested a copy of the time study; however, it was not available for audit.

The lack of controls was isolated to fiscal year 2016-2017.

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

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). . . ."

Cause

Management had not designed or implemented a system of internal control for the Reporting compliance requirement.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with grant agreement and the Reporting compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporations' management establish controls related to the grant agreement and the Reporting compliance requirement.

Views of Responsible Officials

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

FINDING 2018-002

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 2016/2017, FY 2017/2018

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Reporting, Eligibility

Audit Finding: Material Weakness

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements:

Cash Management

The School Corporation had not designed, nor implemented, adequate policies and procedures to ensure that the School Lunch fund monthly cash balances (net cash resources) were limited to the three months average expenditures in accordance with the Cash Management compliance requirement. No evidence was presented to document this requirement was being monitored and reviewed.

Reporting

The School Corporation had not designed nor implemented adequate policies and procedures to ensure the monthly Reimbursement Reports, Annual Financial Report, and annual Verification Summary Report were accurate. These reports were completed by one employee and no evidence was presented that these reports were reviewed by another employee.

Eligibility

The School Corporation had not designed nor implemented adequate policies and procedures to ensure the eligibility compliance requirement was followed. The eligibility applications were completed by one employee and no evidence was presented that these applications were reviewed by another employee.

Context

The lack of internal controls was a systemic problem, occurring 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). . . ."

Cause

Management had not developed a system of internal controls that segregated key functions relating to the compliance requirements listed above.

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements listed above. A lack of segregation of duties within an internal control system could have allowed noncompliance with 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 a system of internal controls 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 2018-003

Subject: Child Nutrition Cluster - Allowable Costs/Cost Principles

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 2016/2017, FY 2017/2018

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Indirect costs in the amount of \$33,779 for a portion of central administration compensation and trash removal were charged to the School Lunch fund in fiscal year 2017-2018. The Indiana Department of Education had not approved an indirect cost rate or a report detailing that the costs could be charged directly and were allocable, reasonable, and necessary.

Context

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

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

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 200.403 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:

(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

Management had not developed a system of internal controls that would have ensured compliance with the Allowable Costs/Cost Principles compliance requirement.

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Questioned Costs

The \$33,779 of central administration compensation and trash removal expenses allocated to the School Lunch fund were considered questioned costs.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and 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.



BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT

*"A LEARNING COMMUNITY WHERE A QUALITY EDUCATION EMPOWERS
ALL STUDENTS TO LEARN AND ACHIEVE TO THEIR FULL POTENTIAL."*

805 EAST HARRISON STREET
BLUFFTON, IN 46714

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CORRECTIVE ACTION PLAN

Finding 2018-001

Auditee Contact Person: Dr. Brad Yates
Title of Contact Person: Assistant Superintendent / Treasurer
Phone number: 260-824-2620
Expected Completion Date: Completed upon notification of Finding in AWSSC Audit
Views of Responsible Officials: We concur with the findings.

The district's management procedures in coordination with Adams-Wells Special Services Cooperative (AWSSC) were modified to establish controls related to the reporting compliance requirements. After implementing corrective action regarding internal controls, AWSSC and the district completes, reviews, and signs original reporting documents. School corporations within the cooperative review the documents prior to submission to the IDOE.

January 31, 2019

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



BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT

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CORRECTIVE ACTION PLAN

Finding 2018-002

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

District personnel have established a monthly system for the Food Service Director and Assistant Superintendent to monitor and review Food Service Fund balances. Improved systems of review and submission of monthly reimbursement reports, annual reports, and verification reports are now in place for Food Service personnel, along with Central Office support staff, to conduct a multi-person review and approval. All applications and eligibility compliance requirements are reviewed and signed by the Food Service Director and the Assistant Food Service Director.

January 31, 2019

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



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CORRECTIVE ACTION PLAN

Finding 2018-003

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

Upon learning that indirect cost rates should be applied to the School Lunch Fund, the district ceased expending any costs for services completed by central office personnel (payroll, account management, etc) related to the School Lunch Fund. The district has already established plans to transfer funds from the Operations Fund to the School Lunch Fund for expenses taken from the School Lunch Fund during the 2018 calendar year.

The district intends to apply for indirect costs rate usage for the 2019-2020 school year prior to June 30, 2019.

January 31, 2019

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

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on February 13, 2019, with Wayne Barker, Superintendent of Schools; Dr. Brad Yates, Treasurer; Mike Murray, President of the School Board; and Bruce Holland, School Board member.