

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

BAUGO COMMUNITY SCHOOLS

ELKHART COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
03/28/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2018-001	
Financial Transactions and Reporting	4-5
Finding 2018-002	
Child Nutrition Cluster - Internal Controls	5-6
Finding 2018-003	
Child Nutrition Cluster - Procurement	6-8
Finding 2018-004	
Child Nutrition Cluster - Activities Allowed or Unallowed, Allowable Costs/Cost Principles	8-10
Corrective Action Plan.....	11-14
Exit Conference.....	15

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Bruce Perry Nancy R. Winnicki	01-01-16 to 01-27-17 01-28-17 to 12-31-19
Superintendent of Schools	James H. DuBois	01-01-16 to 06-30-19
President of the School Board	Edward Collins Caleb Pontius Edward Collins Eric Ott	01-01-16 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18 01-01-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE BAUGO COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of the Baugo Community Schools (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

March 19, 2019

BAUGO COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2018-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There was a deficiency in the internal control system of the School Corporation related to financial transactions and reporting.

Payroll Disbursements

There were no internal controls in place to ensure that all non-contracted employees' pay rates approved by the School Board were being used. The School Corporation did not have any type of master list that disclosed all the wages and salaries that were approved by the School Board for the non-contracted employees for the audit period. The person approving payroll did not have information available to ensure the correct rate was being paid.

Context

The lack of 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:

"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 would ensure proper reporting of payroll disbursements.

BAUGO COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish controls could have enabled misstatements or irregularities to remain undetected.

Recommendation

We recommended that the School Corporation establish a system of internal controls related to financial transactions and reporting of payroll disbursements.

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

CFDA Numbers: 10.553, 10.555

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, Special Tests and Provisions - School Food Accounts

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 Cash Management, Reporting, and Special Tests and Provisions - School Food Accounts compliance requirements.

Cash Management

There were no internal controls in place at the School Corporation to ensure that the School Corporation was in compliance with the cash management requirement that they limit their net cash resources in the School Lunch fund to the average of the food service expenditures for three months. During the first fiscal year, the School Corporation had a report that was used to monitor the cash management requirement. In August 2017, that report was modified and the new report no longer included the formulas that were used to determine compliance with this requirement.

Reporting

No evidence existed to indicate that Annual Financial Reports (AFR) were reviewed by someone other than the preparer. The original AFRs used to document the review process were not available for audit. Copies of the reports were provided for testing.

Special Tests and Provisions - School Food Accounts

There were no internal controls in place at the School Corporation to ensure that School Food Accounts transactions posted to the School Lunch fund were reviewed by an individual who was knowledgeable of the program requirements.

BAUGO COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Context

The lack of controls was a systemic issue 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 to ensure compliance with the compliance requirements listed above.

Effect

The failure to establish an effective internal control system resulted in the School Corporation being at risk of material noncompliance with the grant agreement and the compliance requirements.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to the 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 - Procurement

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016-2017, FY 2017-2018

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

BAUGO COMMUNITY SCHOOLS
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 procurement requirements.

The School Corporation had not followed its own policy, nor the federal requirements for procurement of small purchases. The School Corporation did not obtain multiple quotes from different vendors before making small purchases.

Context

The lack of controls and 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). . . ."

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."

Indiana Code 5-22-7-1 states: "A purchasing agent shall follow the procedure described in this chapter in awarding a contract for supplies, unless another purchasing method is required or authorized by this article."

Indiana Code 5-22-7-2(a) states: "A purchasing agent shall issue an invitation for bids."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the procurement requirements.

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.

BAUGO COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish an effective internal control system 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 2018-004

Subject: Child Nutrition Cluster - Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016-2017, FY 2017-2018
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

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

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements. Effective controls were not in place to ensure that only applicable employees were paid from program funds.

The School Corporation paid \$108,901 of business office salaries/wages, which were allocated to the School Lunch fund based on fixed percentages. There was no supporting documentation to indicate how the percentages were determined.

Context

The lack of controls and the noncompliance occurred during the first 19 months of the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

BAUGO COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

(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. . . ."

34 CFR 76.730 states:

"A State and a subgrantee shall keep records that fully show:

- (a) The amount of funds under the grant or subgrant;
- (b) How the State or subgrantee uses the funds;
- (c) The total cost of the project;

BAUGO COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

(d) The share of that cost provided from other sources; and

(e) Other records to facilitate an effective audit."

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

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

Effect

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

Questioned Costs

The \$108,901 of the business office salaries/wages 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 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.



BAUGO COMMUNITY SCHOOLS

Small School Feel ~ World Class Education

29125 County Road 22 West - Elkhart, Indiana 46517 / Phone 574-293-8583 / Fax 574-294-2171

CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Zac Quiett & Scott Kovatch
Contact Phone Number: 574-293-8583

Views of Responsible Official:

Management recognizes and acknowledges that an effective internal control system is established through proper reporting of financial transactions and reporting.

Description of Corrective Action Plan:

A salary ordinance system will be put into place to ensure proper employee pay rates are disclosed and approved by the School Board.

Anticipation Complete Date:

The process is in the developmental stage and will be implemented immediately following final Board Approval.



(Signature)

Business Manager

(Title)

3/19/19

(Date)



BAUGO COMMUNITY SCHOOLS

Small School Feel~World Class Education

29125 County Road 22 West - Elkhart, Indiana 46517 / Phone 574-293-8583 / Fax 574-294-2171

CORRECTIVE ACTION PLAN

FINDING 2018-002

Contact Person Responsible for Corrective Action: Kim Johnson
Contact Phone Number: 574-293-8583

Views of Responsible Official:

Management recognizes and acknowledges that an effective internal control system is established through compliance with the School Food Account Cash Management; Reporting; Special Tests and Provisions.

Description of Corrective Action Plan:

Management revised/updated the food service report to include the three month average expenditures to monitor the Cash Management requirement.

The Annual Financial Reports will be submitted by the Food Service Director and reviewed by the Grant Administrator in the future.

School Food Account transactions are reported in the food service report by the Treasurer and reviewed by the Food Service Director. All revenue and expenditure detailed transactions are attached with the report to ensure proper internal controls and compliance requirements.

Anticipation Complete Date:

Effective immediately as of January 31, 2019

Kimberly Johnson
(Signature)

FOOD SERVICE DIRECTOR
(Title)

3-19-19
(Date)



BAUGO COMMUNITY SCHOOLS

Small School Feel~World Class Education

29125 County Road 22 West - Elkhart, Indiana 46517 / Phone 574-293-8583 / Fax 574-294-2171

CORRECTIVE ACTION PLAN

FINDING 2018-003

Contact Person Responsible for Corrective Action: Kim Johnson
Contact Phone Number: 574-293-8583

Views of Responsible Official:

Management recognizes and acknowledges that an effective internal control system is established through maintaining proper compliance with the Procurement and Suspension and Debarment requirements.

Description of Corrective Action Plan:

The Food Service Director will implement procedures to comply with these requirements by receiving quotes/contracts from vendors for purchases over \$3,500 per year, and attend training for proper compliance procedures.

Anticipation Complete Date:

Effective immediately as of January 31, 2019

Kimberly Johnson
(Signature)

FOOD SERVICE DIRECTOR
(Title)

3-19-19
(Date)



BAUGO COMMUNITY SCHOOLS

Small School Feel~World Class Education

29125 County Road 22 West - Elkhart, Indiana 46517 / Phone 574-293-8583 / Fax 574-294-2171

CORRECTIVE ACTION PLAN

FINDING 2018-004

Contact Person Responsible for Corrective Action: Zac Quiett
Contact Phone Number: 574-293-8583

Views of Responsible Official:


Management recognizes and acknowledges that an effective internal control system is established through compliance with Allowable Costs/Cost Principles.

Description of Corrective Action Plan:

Management corrected this finding by eliminating any business office salaries/wages from the School Food Account.

Anticipation Complete Date:

Implemented June 30, 2018



(Signature)

Business Manager

(Title)

3/19/19

(Date)

BAUGO COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on March 19, 2019, with Nancy R. Winnicki, Treasurer; Zac Quiett, Business Manager; Eric Ott, President of the School Board; James H. DuBois, Superintendent of Schools; Carol Deak, Assistant Superintendent of Schools; and Kimberly Johnson, Food Service Director.