

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MUNCIE COMMUNITY SCHOOLS

DELAWARE COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
04/17/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Deborah Williams, CPA	07-01-16 to 01-10-17
	Bruce Perry	01-11-17 to 03-07-17
	(Vacant)	03-08-17 to 05-10-17
	Robert Coddington	05-11-17 to 12-09-18
	Brad DeRome	12-10-18 to 06-30-19
Superintendent of Schools	Dr. Steven Baule	07-01-16 to 06-30-18
	Stephen Edwards (interim)	07-01-18 to 04-30-19
President of the School Board	Michael Long	01-01-16 to 12-31-16
	Deborah Feick	01-01-17 to 06-30-18
	James Williams	07-01-18 to 06-30-19



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 MUNCIE COMMUNITY SCHOOLS, DELAWARE COUNTY, INDIANA

This report is supplemental to our audit report of the Muncie 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 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.

Tammy R. White, CPA
Deputy State Examiner

March 14, 2019

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2018-001

Subject: Financial Transactions and Reporting
Audit Finding: Significant Deficiency

Condition

The following deficiencies in the internal control system of the School Corporation related to financial transactions and reporting occurred during the audit period:

Lack of Segregation of Duties: The School Corporation had not separated incompatible activities related to receipts and cash. One individual opened the mail, collected payments, posted receipts, and prepared the bank reconciliation. No oversight was performed over the receipt entries. No oversight of the bank reconciliations was documented, except for June 2017.

Context

The lack of controls was a systemic issue, which occurred 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. . . ."

Cause

Management had not established a proper system of internal control related to financial transactions and reporting over receipts and cash.

Effect

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

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation establish a system of internal controls related to financial transactions and reporting over receipts and cash.

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

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-001.

Condition

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

The School Corporation had not established effective controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the School Corporation's SEFA. One employee prepared the federal information into Gateway without a control in place to prevent, or detect and correct, any errors prior to submission.

Context

The SEFA contained the following errors:

- The Child Nutrition Cluster commodities of \$314,445 were omitted for fiscal year 2016-2017 and were overstated by \$69,294 for fiscal year 2017-2018.
- The Child Nutrition Cluster non-commodities amounts were overstated by \$938,398 for fiscal year 2016-2017 and \$468,826 for fiscal year 2017-2018.
- The Special Education Cluster (IDEA) was understated by \$629,332 for fiscal year 2016-2017 and \$985,104 for fiscal year 2017-2018.
- The Adult Education - Basic Grants to States program was overstated by \$121,805 for fiscal year 2016-2017 and \$226,252 for fiscal year 2017-2018.
- The Career and Technical Education -- Basic Grants to States program was understated by \$67,979 for fiscal year 2016-2017 and \$1,209,404 for fiscal year 2017-2018.

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- The Child Nutrition Cluster grants were not separately identified within the cluster.
- Numerous program names were incorrectly reported.
- Identification numbers for numerous programs were incorrectly reported.

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. . . ."

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.

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

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

Effect

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

Recommendation

We recommended that the School Corporation's management establish controls 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 2018-003

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,
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: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Modified Opinion

MUNCIE 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 Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

The School Corporation had not designed or implemented adequate policies and procedures to ensure that expenditures were only for allowable activities and costs of the Child Nutrition Cluster. The School Corporation contracted with a company for the management of the School Corporation's food service operations. The company provided summarized invoices to the School Corporation without providing adequate detail of the amounts billed.

Additionally, due to the lack of effective internal controls, noncompliance occurred in 5 out of the 14 expenditures tested. Student refunds were paid from the School Lunch fund instead of the Food Service Prepaid Account fund.

Context

The lack of controls and noncompliance were systemic issues, which occurred 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 200.403 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. . . ."

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

7 CFR 220.7(e)(1) states in part:

". . . (ii) . . . use all revenues received by such food service only for the operation or improvement of that food service . . .

(iii) Revenues received by the nonprofit school food service shall not be used to purchase land or buildings or to construct buildings; . . ."

7 CFR 210.14(a) states in part:

". . . Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, *except that*, such revenues shall not be used to purchase land or buildings, unless otherwise approved by FNS, or to construct buildings. . . ."

7 CFR 225.15(a) states in part:

"*General.* (1) Sponsors shall operate the food service in accordance with: the provisions of this part; any instructions and handbooks issued by FNS under this part; and any instructions and handbooks issued by the State agency which are not inconsistent with the provisions of this part. . . ."

Cause

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

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to the grant agreement, the Activities Allowed or Unallowed compliance requirement, 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.

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2018-004

Subject: Child Nutrition Cluster - Cash Management, Eligibility, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP), Special Tests and Provisions - School Food Accounts, and Special Tests and Provisions - Paid Lunch Equity

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, Eligibility, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP), Special Tests and Provisions - School Food Accounts, Special Tests and Provisions - Paid Lunch Equity

Audit Finding: Material Weakness

Condition

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

Cash Management - The School Corporation had not designed or implemented adequate policies or procedures to ensure compliance with the Cash Management compliance requirement. There were no procedures in place to monitor that net cash resources did not exceed a three month average of School Lunch fund expenditures. The School Corporation's cash resources for the Child Nutrition Cluster programs did not exceed the three month average of expenditures. However, there were no procedures in place to perform calculations verifying that the School Corporation did not exceed the average; therefore, there were no procedures to review such calculations.

Eligibility - The School Corporation had not designed or implemented adequate policies or procedures to ensure compliance with the Eligibility compliance requirement. No procedures were in place to review or monitor the accuracy of the Child Nutrition Cluster eligibility determinations. Free and reduced price applications were processed by the management company's administrative assistant with no additional review or oversight over the determinations made.

Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) - The School Corporation had not designed or implemented adequate policies or procedures to ensure compliance with the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement. Verifications of free and reduced price applications were performed by the management company's resident district manager; however, there was no documented review of the verified applications during the second year of the audit.

Special Tests and Provisions - School Food Accounts - The School Corporation had not designed or implemented adequate policies or procedures to ensure compliance with the requirements of the Special Tests and Provisions - School Food Accounts compliance requirement. The reimbursement claims were prepared and submitted by the management company's resident district manager; however, there were no procedures in place to ensure that the reimbursement receipt was promptly and properly received into the School Lunch fund.

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Special Tests and Provisions - Paid Lunch Equity - The School Corporation had not designed or implemented adequate policies or procedures to ensure that there was a proper segregation of duties in regard to the Special Tests and Provisions - Paid Lunch Equity compliance requirement. The paid lunch equity calculations were prepared by the management company's resident district manager without any additional review of the calculations before the paid student lunch price recommendations were made to the School Board of Trustees.

Context

The lack of controls was a systemic issue, which occurred 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.

Effect

The failure to establish an effective internal control system placed the School at risk of non-compliance with the grant agreement and the compliance requirements listed above. A lack of segregation of duties within an internal control system could have also 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 an effective internal control system to ensure compliance with the grant agreement and the Cash Management, Eligibility, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP), Special Tests and Provisions - School Food Accounts, and Special Tests and Provisions - Paid Lunch Equity compliance requirements.

Views of Responsible Officials

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

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2018-005

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment
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: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Modified Opinion

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 and Suspension and Debarment compliance requirement.

The School Corporation had not designed or implemented adequate policies and procedures to ensure that procurement requirements over contractual procurements were being followed. The School Corporation could not provide evidence ensuring full and open competition or that a price analysis was performed before entering into a contract with the management company.

Additionally, procedures were not in place to verify that the management company was not suspended or debarred from receiving federal awards.

Context

The lack of controls and noncompliance were systemic issues, which occurred 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."

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

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 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 2018-006

Subject: Child Nutrition Cluster - Program Income

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: Program Income

Audit Findings: Material Weakness, Modified Opinion

MUNCIE 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 Program Income compliance requirement.

The School Corporation had not designed or implemented adequate policies and procedures to ensure compliance with program income requirements. The School Corporation contracted with a management company for the School Corporation's food service operations. The School Corporation did not provide any additional review of the school lunch income or the detailed expenditures charged by the management company. Due to the lack of an effective internal control system, unallowed costs were paid from the School Lunch fund as referenced in Finding 2018-003 above.

Context

The lack of controls was a systemic issue, which occurred 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 200.307(e) states in part:

"Use of program income. If the Federal awarding agency does not specify in its regulations or the terms and conditions of the Federal award, or give prior approval for how program income is to be used, paragraph (e)(1) of this section must apply. For Federal awards made to IHEs and nonprofit research institutions, if the Federal awarding agency does not specify in its regulations or the terms and conditions of the Federal award how program income is to be used, paragraph (e)(2) of this section must apply. In specifying alternatives to paragraphs (e)(1) and (2) of this section, the Federal awarding agency may distinguish between income earned by the recipient and income earned by subrecipients and between the sources, kinds, or amounts of income. When the Federal awarding agency authorizes the approaches in paragraphs (e)(2) and (3) of this section, program income in excess of any amounts specified must also be deducted from expenditures.

- (1) *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. . . ."

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Cause

Management had not developed a system of internal controls that would have ensured compliance with the grant agreement and the Program Income compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Program Income compliance requirement.

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 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 2018-007

Subject: Child Nutrition Cluster - Reporting

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: Reporting

Audit Findings: Material Weakness, Modified Opinion

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 Reporting compliance requirement.

The School Corporation had not designed or implemented adequate policies or procedures to ensure that there was a proper segregation of duties with regard to the Reporting compliance requirement. The annual financial reports, reimbursement claims, and Verification Summary Reports were prepared and submitted by the management company's resident district manager without any review or oversight. The lack of an effective internal control enabled material inconsistencies in both of the annual financial reports tested for the audit period. The annual financial reports were not supported by the School Corporation's records during both years of the audit period.

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Context

The lack of controls was a systemic issue, which occurred throughout the audit period. The noncompliance was isolated to the annual financial reports, but was also 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). . . ."

2 CFR 200.302(b) states in part:

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

. . .

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

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Reporting compliance requirement. A lack of segregation of duties within an internal control system could have also 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 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 Reporting compliance requirement.

MUNCIE COMMUNITY 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 2018-008

Subject: Title I Grants to Local Educational Agencies - Activities Allowed or Unallowed,
Allowable Costs/Cost Principles, Cash Management, Reporting

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

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

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost
Principles, Cash Management, Reporting

Audit Findings: Material Weakness, Modified Opinion

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: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Reporting.

The lack of an internal control system allowed several expenditures to be requested for reimbursement multiple times throughout the 2017-2018 school year. The appropriation report's month to date column was used to determine the amount for reimbursement, but it also contained amounts for expenditures previously requested. These duplicated amounts were considered questioned costs.

Additionally, we identified one employee who received additional compensation for safety patrol and student council duties, which was paid from Title I funding.

Context

The lack of controls and noncompliance in regard to the payment of unallowable compensation were systemic issues throughout the audit period. The duplication of reimbursement amounts was isolated to the 2017-2018 school year.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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. . . ."

2 CFR 200.305(b) states in part:

"For non-Federal entities other than states, payments methods must minimize the time elapsing between the transfer for funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means. . . .

- (3) Reimbursement is the preferred method when the requirements in paragraph (b) cannot be met, when the Federal awarding agency sets a specific condition per § 200.207 Specific conditions, or when the non-Federal entity requests payment by reimbursement."

31 CFR 205.12(b)(5) states: "Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes."

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

2 CFR 200.302(b) states in part:

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

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

Cause

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

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Reporting compliance requirements.

Questioned Costs

Questioned costs of \$648,808.30 were identified, as described in the *Condition*.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, 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 2018-009

Subject: Title I Grants to Local Educational Agencies - Earmarking
Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Number and Year (or Other Identifying Number): 2015-2016
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Matching, Level of Effort, Earmarking
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 Matching, Level of Effort, Earmarking compliance requirement.

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

The School Corporation did not comply with the parental involvement earmarking requirement for the 2015-2016 Title I program. The total expenditures for parental involvement were less than the required amount set aside per the grant application. Additionally, the School Corporation was unable to provide supporting documentation for one of the parental involvement claims selected for testing.

Context

The lack of controls and noncompliance were isolated to the 2015-2016 grant award.

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 200.302(b)(3) states:

"Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

20 USC 6318 (a)(3) states in part:

"(A) In general - Each local educational agency shall reserve at least 1 percent of its allocation under subpart 2 to assist schools to carry out the activities described in this section, except that this subparagraph shall not apply if 1 percent of such agency's allocation under subpart 2 for the fiscal year for which the determination is made is \$5,000 or less. Nothing in this subparagraph shall be construed to limit local educational agencies from reserving more than 1 percent of its allocation under subpart 2 to assist schools to carry out activities described in this section. . . ."

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

(D) Use of Funds - Funds reserved under subparagraph (A) by a local educational agency shall be used to carry out activities and strategies consistent with the local educational agency's parent and family engagement policy, including not less than 1 of the following:

- (i) Supporting schools and nonprofit organizations in providing professional development for local educational agency and school personnel regarding parent and family engagement strategies, which may be provided jointly to teachers, principals, other school leaders, specialized instructional support personnel, paraprofessionals, early childhood educators, and parents and family members.
- (ii) Supporting programs that reach parents and family members at home, in the community, and at school.
- (iii) Disseminating information on best practices focused on parent and family engagement, especially best practices for increasing the engagement of economically disadvantaged parents and family members.
- (iv) Collaborating, or providing subgrants to schools to enable such schools to collaborate, with community-based or other organizations or employers with a record of success in improving and increasing parent and family engagement.
- (v) Engaging in any other activities and strategies that the local educational agency determines are appropriate and consistent with such agency's parent and family engagement policy."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the grant agreement and the Matching, Level of Effort, Earmarking compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Matching, Level of Effort, Earmarking compliance requirement.

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 Matching, Level of Effort, Earmarking compliance requirement.

Views of Responsible Officials

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

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2018-010

Subject: Supporting Effective Instruction State Grants - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Reporting, and Level of Effort

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): S367A150015, S367A160013

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Reporting; Matching, Level of Effort, Earmarking

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 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Reporting, and Matching, Level of Effort, Earmarking compliance requirements.

Reimbursement requests were based on requisitions instead of actual disbursements made from the grant. The School Corporation could not provide adequate documentation to support the amount claimed on the reimbursement requests throughout the audit period. This prevented the determination of compliance with the compliance requirements listed above.

However, during our review of the records, we identified the following expenditures charged to the grant that would not be considered allowable activities or allowable costs:

An amount claimed as indirect costs in the amount of \$4,770.65 was paid to an employee directly involved with the grant and not considered to be indirect. The amount paid was based on what was left in the grant and was not related to the actual time spent on the grant. This amount was in addition to the employee's salary and did not have approval from the School Board. This was repaid to the School Corporation on March 5, 2019.

Some amounts paid to employees included items such as athletic coaching and safety patrol. The total amount identified was \$8,665.

These were considered questioned costs.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period. The lack of adequate supporting documentation prevented the determination of the School Corporation's compliance with the compliance requirements listed above.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

MUNCIE 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 200.302(b) states in part:

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

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . .
- (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation. . . ."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

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:

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS); . . .
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

Cause

The School Corporation had not developed a system of internal controls to ensure compliance with grant agreement and the Allowable Costs/Cost Principles, Cash Management, Reporting, and Matching, Level of Effort, Earmarking compliance requirements.

Effect

The failure to retain or provide appropriate supporting documentation prevented the determination of the School Corporation's compliance with the Allowable Costs/Cost Principles, Cash Management, Reporting, and Matching, Level of Effort, Earmarking compliance requirements.

Questioned Costs

Questioned costs of \$13,435.65 were identified, as detailed in the *Condition*.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls related to the grant agreement and the Allowable Costs/Cost Principles, Cash Management, Reporting, and Matching, Level of Effort, Earmarking 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 2018-011

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 Number and Year (or Other Identifying Number): S367A150015
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Period of Performance
Audit Findings: Material Weakness, Modified Opinion

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Period of Performance compliance requirement.

The School Corporation could not provide adequate documentation to support the disbursements claimed on the reimbursement requests throughout the audit period. This prevented the determination of compliance with the Period of Performance compliance requirement..

Context

The lack of controls was a systemic issue, which occurred throughout the audit period. The lack of adequate supporting documentation prevented the determination of the School Corporation's compliance with the Period of Performance compliance requirement.

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 200.302(b)(3) states:

"Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

Cause

The School Corporation had not developed a system of internal controls to ensure compliance with the grant agreement and the Period of Performance compliance requirement.

MUNCIE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Effect

The failure to retain or provide appropriate supporting documentation prevented the determination of the School Corporation's compliance with the Period of Performance compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish an effective internal control system to ensure compliance with 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.

MUNCIE COMMUNITY SCHOOLS

2500 N. ELGIN STREET, MUNCIE, IN 47303

Phone: 765-747-5222

Date: March 12, 2019

To: State Board of Accounts

Audit Period: July 1, 2016 – June 30, 2018

Corrective Action Plan

Finding 2018-001 – Financial Transactions and Reporting

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer-
(Hire Date- Dec 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Financial Transactions and Reporting.

Audit Finding: Significant Deficiency, lack of segregation of duties for activities related to receipts and cash, no oversight on Bank Reconcilements, no oversight on receipt postings. Lack of controls during the audit period. No established system of internal control.

View of Responsible Official - We concur with the findings.

Description of Corrective Action Plan

Establish a system of Internal Controls and clearly defined Segregation of Duties within the Business Office to assure that transactions are timely recorded, properly recorded, as well as properly authorized and verified. Establish and adopt an organized Bank Reconciliation process for month end that follows the SBOA template which can be used to verify with current Komputrol Accounting records, plus be able to show recon to our own Daily Cash Reports by Bank Account.

These changes to process and internal controls were implemented immediately in the current Business Office with the inclusion of new personnel. It is always a MCS goal to have accurate month end reports for Summary of Funds, Cash Balance, Komputrol accounting reports for Appropriations remaining, and monthly reconcilements with Bank Statements to the Komputrol accounting reports.

Anticipated Completion Date: February 1, 2019

Corrective Action Plan

Finding 2018-002 – Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Preparation of Schedule of Expenditures of Federal Awards (SEFA)
Audit Finding: Material Weakness, Noncompliance, Repeat finding from prior audit.

View of Responsible Official: We concur with the findings.

Description of Corrective Action Plan

Each year, the CFO will prepare a list of all federal awards with the assistance of the Assistant Treasurer, and Financial Specialist. Once the list of all federal awards is compiled by the CFO, it will be reviewed for accuracy by the administrators and directors such as the Special Ed Director, CTE/Vocational Adult Ed Directors, Federal Grant Administrators, Food Service Director, and Superintendent. The CFO will document this verification and approval process, and arrive at a completed list for SEFA awards.

The CFO will prepare the Schedule of Expenditures for Federal Awards with the Financial Specialist as required after the end of each fiscal year (June) in the state Gateway system. The Financial Specialist will be provided with the list of all federal awards for the fiscal year and will review all of the documentation supporting the Schedule's content for accuracy and completeness prior to the Schedule's submission. The data from the Federal Awards, such as Federal Lunch funds, will be broken out in the various sub section components of lunch funds for data entry and uploaded into the Gateway system, rather than loaded as " total" Federal Lunch funds. The documentation for the SEFA report and upload will be reviewed and verified for accuracy by the CFO before upload and submission. .

At present time, this required Schedule of Expenditures of Federal Awards is a " Gateway " on line report through the State of Indiana web portal. The CFO will print off the instructions, requirements, and deadlines for this on – line report process.

The goal is to have the reports compiled on a timely basis and entered into the Gateway System with accuracy for no audit findings or comments.

Anticipated Completion Date: August 1, 2019.

Corrective Action Plan

Finding 2018-003 – Child Nutrition Cluster – Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Child Nutrition – Activities Allowed or Unallowed and Allowable Costs/ Cost Principles, for School Breakfast Program, Summer Lunch Program, and Summer Food Service.

Audit Finding: Material Weakness, Internal Controls not in place to assure compliance.

View of Responsible Official: We concur with the findings. The Chartwells company is our provider of Food Services. These improvements as to reporting, internal controls, and process will be developed in cooperation with them as an entity and appropriate personnel.

Description of Corrective Action Plan

The CFO, in alliance with the Chartwells Food Service Company representatives, will develop internal control system and policies which will allow MCS to assure ourselves that we are in compliance with the Allowable Costs/ Cost Principles for the various Federal Lunch programs in which we participate. These internal controls would include such changes as to providing verification for detail items billed , in contrast to summary statements, as well as assuring that refunds are paid from the Food Service Prepaid account fund, not the School Lunch fund. These new internal controls will also include processes by which revenues are also verified as to type and for the operation of food service. We currently meet monthly with Chartwell reps to review operations and reports, this will also now include our action plan as described. These new developed processes will be documented as to when developed, reviewed, and implemented.

Anticipated Completion Date: June 1, 2019.

Corrective Action Plan

Finding 2018-004 – Child Nutrition Cluster – Cash Management, Eligibility, Verification of Free/Reduced Applications, Special Tests/ Provision for School Food Accounts

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Child Nutrition – Cash Management, Eligibility, Verifications of Free/Reduced Apps, Special Tests/ Provision for School Food Accounts.

Audit Finding: Material Weakness

View of Responsible Official: We concur with the findings. The Chartwells company is our provider of Food Services. These improvements as to Cash Management, Eligibility, Verification of Free/Reduced Apps, and tests of compliance process will be developed in cooperation with them as an entity and appropriate personnel.

Description of Corrective Action Plan

The CFO, in alliance with the Chartwells Food Service Company representatives, will develop internal control system and policies which will allow MCS to assure ourselves that we are in compliance with cash management, eligibility, verifications of free/reduced apps, and special tests and provisions for the various Federal Lunch programs in which we participate. These internal controls would include such changes as to providing verification and oversight as to federal reimbursements, free/reduced lunch applications, and appropriate segregation of duties. We currently meet monthly with Chartwell reps to review operations and reports, this will also now include our action plan as described. These new developed processes will be documented as to when developed, reviewed, and implemented.

Anticipated Completion Date: June 1, 2019.

Corrective Action Plan

Finding 2018-005 – Child Nutrition Cluster – Procurement and Suspension and Debarment

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Child Nutrition- Procurement, Suspension, and Debarment

Audit Finding: Material Weakness, Internal Controls not in place to assure compliance with grant agreement for Procurement, Suspension, and Debarment.

View of Responsible Official: We concur with the findings. The Chartwells company is our provider of Food Services. These improvements will be developed in cooperation with them as an entity and appropriate personnel.

Description of Corrective Action Plan

The CFO, in alliance with the Chartwells Food Service Company representatives, will develop internal control system and policies which will allow MCS to assure ourselves that we are in compliance with the person and or entity with whom we intend to do business with is not excluded or disqualified. This process will be done and verified by a) checking SAM exclusions, or b) collecting a certification from that person or entity, or c) adding a clause or condition to the covered transaction with that person or entity that states that they are not currently excluded, or debarred from federal procurement for the various Federal Lunch programs in which we participate. We currently meet monthly with Chartwell reps to review operations and reports. This will also now include our action plan as described. These new developed processes will be documented as to when developed, reviewed, and implemented.

Anticipated Completion Date: June 1, 2019.

Corrective Action Plan

Finding 2018-006 – Child Nutrition Cluster – Program Income

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Child Nutrition- Program Income

Audit Finding: Material Weakness, Internal Controls not in place to assure compliance for program income.

View of Responsible Official: We concur with the findings. The Chartwells company is our provider of Food Services. These improvements as to verification and compliance with program income will be developed in cooperation with them as an entity and appropriate personnel.

Description of Corrective Action Plan

The CFO, in alliance with the Chartwells Food Service Company representatives, will develop internal control system and policies which will allow MCS to assure ourselves that we are in compliance with the Program Income requirements. The process will include review of the school lunch income and the detailed expenditures by the management company. We currently meet monthly with Chartwell reps to review operations and reports. This will also now include our action plan as described. These new developed processes will be documented as to when developed, reviewed, and implemented.

Anticipated Completion Date: June 1, 2019.

Corrective Action Plan

Finding 2018-007 – Child Nutrition Cluster – Reporting

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Child Nutrition- Reporting

Audit Finding: Material Weakness, Internal Controls not in place to assure compliance for reporting.

View of Responsible Official: We concur with the findings. The Chartwells company is our provider of Food Services. These improvements as to reporting of annual financial reports, reimbursement claims, verification summaries, will be developed in cooperation with them as an entity and appropriate personnel.

Description of Corrective Action Plan

The CFO, in alliance with the Chartwells Food Service Company representatives, will develop internal control system and policies which will allow MCS to assure ourselves that we are in compliance with the reporting requirements. The process will include review of the various reports, annual reporting, and reimbursement claims. We currently meet monthly with Chartwell reps to review operations and reports. This will also now include our action plan as described. These new developed processes will be documented as to when developed, reviewed, and implemented.

Anticipated Completion Date: June 1, 2019.

Corrective Action Plan

Finding 2018-008 – Title I Grants to Local Educational Agencies- Activities Allowable or Unallowed, Allowable Costs/ Cost Principles, Cash Management and Reporting.

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Title I Grants to Local Educational Agencies

Audit Finding: Material Weakness, Internal Controls not in place to assure compliance with Activities Allowed, Cost Principles, Cash Management and Reporting.

View of Responsible Official: We concur with the findings. Requests for reimbursements occurred as duplicates by using incorrect source document Appropriation Reports, instead of Month To Date Budget History reports

Description of Corrective Action Plan

The CFO, in alliance with the Assistant Treasurer, Financial Specialist, and appropriate Federal Grant Administrator, will compile the list of all Federal awards for Title I. This team will review these federal program grants which are to have received funds and expenditures. The CFO will develop the process for submitting the reimbursements which will comply with the necessary Allowable Costs, Cost Principles, and reporting requirements. This process will be documented and new written process given to the team of Federal Grant Directors, Financial Specialist, and Assistant Treasurer. The Financial Specialist will provide the appropriate Komputrol Accounting Reports to the Federal Grant Administrator so requests for reimbursements for these federal programs will occur monthly, and requests will not be duplicated. The goal is to use the correct source documents for reimbursements, not submit duplicate requests, and to be in compliance will all necessary Allowable Costs and Allowable Cost Principles, Cash Management and Reporting.

Anticipated Completion Date: June 1, 2019.

Corrective Action Plan

Finding 2018-009 – Title I Grants to Local Educational Agencies- Earmarking

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Title I Grants to Local Educational Agencies

Audit Finding: Material Weakness, Internal Controls not in place to assure compliance with requirements related to grant agreement, Matching, Level of Effort, Earmarking compliance requirement.

View of Responsible Official: We concur with the findings. Effective Internal Controls not in place to ensure compliance with requirements in the grant agreement for Matching, Level of Effort, and Earmarking (minimum or maximum specified levels of spending as stated in the grant).

Description of Corrective Action Plan

The CFO, in alliance with the AssistantTreasurer, Financial Specialist, and appropriate Federal Grant Administrator, will compile the list of all Federal awards for Title I Local Educational Agencies that require earmarking. This team will review these federal program grants which are to have specified "earmarked" funds to be passed on to Local Educational Agencies. The CFO will develop the process for submitting the reimbursements which will comply with the necessary compliance requirements. This process will be documented. The new written process will be given to the team of Federal Grant Directors, Financial Specialist, and Assistant Treasurer in order to ensure that we are in compliance for earmarked spending in the federal grants.

Anticipated Completion Date: June 1, 2019.

Corrective Action Plan

Finding 2018-010 – Supporting Effective Instruction State Grant- Activities Allowed and Unallowwed, Allowable Costs/ Cost Principles, Cash Management, Reporting and Level of Effort.

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Effective Instruction State Grant- Activities Allowed and Unallowed, Allowable Costs/ Cost Principles, Cash Management , Reporting and Level of Effort.

Audit Finding: Material Weakness, Internal Controls not in place to ensure compliance with requirements related to grant agreement, Matching, Level of Effort, Earmarking, Supplement not Supplant compliance requirements.

View of Responsible Official: Effective Internal Controls were not in place to ensure compliance with requirements in the grant agreement for allowable costs as it related to indirect costs and grant administration.

Description of Corrective Action Plan

The CFO, in alliance with the Assistant Treasurer, Grant Administrators, and Assoc. Superintendent, will develop a list of district stipends that would be paid from district funds and State Grants , such as this Support Effective State Grant. The list of board approved stipends would be documented and presented to the school board for approval on at least an annual basis for such items as Stipends for Grants, Sub pay, After school tutor pay, professional development, and others. This would document and affirm any additional pay or stipends that could be paid from the Federal or State approved funds

Anticipated Completion Date: August 1, 2019.

Corrective Action Plan

Finding 2018-011 – Supporting Effective Instruction State Grant- Period of Performance

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Effective Instruction State Grant- Period of Performance

Audit Finding: Material Weakness, Internal Controls not in place to ensure compliance with requirements related to grant agreement, and the Period of Performance compliance.

View of Responsible Official: Effective Internal Controls were not in place to ensure compliance with requirements in the grant agreement and expenditures within the period of performance.

Description of Corrective Action Plan

The CFO, in alliance with the Assistant Treasurer, Financial Specialist, Federal Grant Administrators, and Assoc. Superintendent, will compile the list of all Federal awards. This team will review these federal program grants which are to spent in the specified years. The CFO will develop the process for submitting the reimbursements which will comply with the necessary compliance requirements for correct year of the federal and or state award. This process will be documented. The new written process will be given to the team of Federal and State Grant Directors, Financial Specialist, and Assistant Treasurer in order to ensure that we are in compliance for the spending in the correct period of state and federal grants.

Anticipated Completion Date: August 1, 2019.



Bradley T. DeRome, CFO / Treasurer
Muncie Community Schools

Date: March 12, 2019

MUNCIE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

This is a repeat comment from the immediately prior audit report B48786. The prior comment was titled *OVERDRAWN CASH BALANCES*.

The financial statement presented in the Financial Statement and Federal Single Audit Report included the following funds with overdrawn cash balances as of June 30, 2017, and June 30, 2018, that were not related to a reimbursable grant fund.

Fund	06-30-17 Amount Overdrawn	06-30-18 Amount Overdrawn
General	\$ 7,763,728	\$ 643,653
Capital Projects	496,545	-
Facility Const/Repair	78,474	-
Textbook Rental	443,270	-
Harry Mock Gift Fund	66	-
Kick-Off to Kindergarten	1,255	2,795
2015 Ball Brothers Operation Bearcat	1,096	-
2016/17 Opportunity School	756,703	-
2017/18 Opportunity School	-	227,981
2016/17 Priority School	220,230	-
Christmas Sing	7,502	-

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 Indiana Public School Corporations, Chapter 1)

ERRORS ON CREDIT CARD CLAIMS

This is a repeat comment from the immediately prior audit report B48786. The prior comment was titled *ERRORS ON CREDIT CARD CLAIMS*.

Of the three credit card claims tested, expenditures of \$312 in charges and \$1,696 in refunds and overpayments did not have adequate supporting documentation.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;

MUNCIE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

TEXTBOOK RENTAL FEES AND ELEMENTARY TECHNOLOGY FEE

This is a repeat comment from the immediately prior audit report B48786. The prior comment was titled *TEXTBOOK RENTAL FEES AND ELEMENTARY TECHNOLOGY FEES*.

Supporting documentation for curricular material rental fees was not sufficient to support the amounts charged for some of the calculated rental charges. Of the five curricular material rental charges tested, three textbooks were overcharged while two were undercharged.

Additionally, no documentation was provided to support the amount charged for the elementary technology fee.

Fees should only be collected as specifically authorized by law or properly authorized ordinances/resolutions. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Indiana Code 20-26-12-2 stated in part during the audit period:

"(a) A governing body may purchase from a publisher any curricular material selected by the proper local officials. The governing body may rent the curricular materials to students enrolled in any public or nonpublic school that is:

- (1) in compliance with the minimum certification standards of the state board; and
- (2) located within the attendance unit served by the governing body.

The annual rental rate may not exceed twenty-five percent (25%) of the retail price of the curricular materials.

(b) Notwithstanding subsection (a), the governing body may not assess a rental fee of more than twenty-five percent (25%) of the retail price of curricular materials that have been:

- (1) extended for usage by students under section 24(e) of this chapter; and
- (2) paid for through rental fees previously collected.

(c) This section does not limit other laws. "

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

MUNCIE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 20-26-4-1(d) concerning duties of the School Corporation Treasurer, states in part: "The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safeguarding and accounting for the funds." Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis for receipting into the appropriate school corporation fund. The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

TRAINING ON INTERNAL CONTROL STANDARDS

The School Corporation was not able to provide documentation that personnel received training concerning the internal control standards and procedures adopted by the School Corporation.

Indiana 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

COMPENSATION AND BENEFITS

On October 5, 2017, an employee was paid a stipend of \$4,770.65 from the Supporting Effective Instruction State Grants that was not part of their contract or approved by the School Board. This salary overpayment was reimbursed to the School Corporation on March 5, 2019.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

MUNCIE COMMUNITY SCHOOLS

2500 N. ELGIN STREET, MUNCIE, IN 47303

Phone: 765-747-5221

March 22, 2019

Audit Period: July 1, 2016 to June 30, 2018

RE: Audit Official Response

Please find attached our responses to the Audit Results and Comments from our most recent audit. I have included our corresponding comment and corrective action plan to the items that were considered "Repeat Findings", as well as our response to those items which were not considered as repeat.

It is the goal of our district to complete these corrective action plan steps and meet the timelines that we have established for compliance.

The responses to follow are related to these areas:

Overdrawn Cash Balances- Repeat
Errors on Credit Card Claims- Repeat
Textbook Rental Fees and Elem Technology Fee – Repeat
Training on Internal Control Standards
Compensation and Benefits

2018-001 Financial Transactions and Reporting
2018-002 Preparation of the SEFA (Schedule of Federal Awards)
2018-003 Child Nutrition – Activities Allowed or Unallowed Costs/ Cost Principles
2018-004 Child Nutrition – Cash Management, Eligibility, Verification, Free/Reduced, Special Tests.
2018-005 Child Nutrition- Procurement, Suspension, and Debarment test of vendors.
2018-006 Child Nutrition- Program Income
2018-007 Child Nutrition – Reporting
2018-008 Title I Grants Allowable Costs/ Cost Principles, Cash Management and Reporting.
2018-009 Title I Grants to Local Educational Agencies – Earmarking
2018-010 Support Effective Instruction Grant – Allowable Costs/Cost Principles, Reporting.
2018-011 Support Effective Instruction Grant – Period of Performance

Please see attached.



Bradley T. DeRome
CFO / Treasurer

**SBOA CORRECTIVE ACTION PLAN TEMPLATE
CORRECTIVE ACTION PLAN FOR : MUNCIE COMMUNITY SCHOOLS**

Today's Date: March 20, 2019

Report Period: July 1, 2016 – June 30, 2018
Title of Finding: OVERDRAWN CASH BALANCES
Contact Person: Brad DeRome, CFO / Treasurer
(Hire Date – Dec 10, 2018)

Contact Person Information: Muncie Community Schools
2500 N. Elgin Street
Muncie, IN 47303
Phone- 765-747-5221

Clearly State the Issue:

This is a "Repeat" comment from the immediate prior audit report. The prior audit comment was titled "Overdrawn Cash Balances". The financial statement presented in the Financial Statement and Federal Single Audit Report included funds with Overdrawn (negative) cash balances as of June 30, 2017 and June 30, 2018 that were not related to a reimbursable grant fund.

List the requirements that were not followed:

At June 30, 2017, the fund report showed ending fund balances in a negative overdrawn position for 10 funds that were not related to a reimbursable grant fund. At June 30, 2018, the fund report showed ending fund balances in a negative overdrawn position for 3 funds that were not related to a reimbursable grant fund. These particular funds should not have been in a negative position for these two fiscal year end closing periods at June 30, 2017 and June 30, 2018. The cash balances of any fund may not be reduced below zero. Routine overdrawn funds could be an indicator of serious financial problems which should be investigated.

View of the Responsible Official:

We concur with the audit result and comment.

Identify the root cause of the issue:

The Muncie Community School Corporation had negative overdrawn fund balances for the two fiscal year end closing periods of June 30, 2017 and June 30, 2018 due to their inability to have sufficient funds to offset these negative fund balances. Possible reasons for lack of sufficient funds could vary, as to declines in student enrollment, resulting loss of State Basic Grant revenue due to enrollment loss, management and board oversight, turnover among CFO's and other Business Office personnel, lack of training, internal controls, timeliness of billing of transfer tuition to school districts for shared services, as well as spending of prior 2014 Bond Funds for operations, vs. use for facilities. MCS was placed under State of Indiana Distressed Unit Appeals Board control during this audit period due to such financial difficulties in their "General Fund". This included being \$ 7.7M overdrawn as of June 30, 2017 in the General Fund, plus other funds overdrawn by \$ 2M for almost a \$ 10M overdrawn position. At June 30, 2018, after being placed on DUAB state control, the overall negative fund balances were only \$ 874,000. This was an improvement. Subsequent agreements with the State of Indiana will direct \$ 12 M of Common School Fund loans to MCS in 2019 to help offset and aid these negative fund balances that had occurred. caused such negative overdrawn cash position. Subsequent agreements with State of Indiana also placed Ball State University in control of MCS as of July 1, 2018. These subsequent agreements with State of Indiana and Ball State University also placed new school board members for MCS as of July 1, 2018.

Description of Corrective Action :

Establish a system of Internal Controls within the Business Office for Fund Balance review on a monthly basis, to ensure that negative (overdrawn) positions in Cash do not occur at Fiscal Year End except for reimbursable grant funds. Present fund balance reports to the school board on a timely basis, so they to are aware of any negative (overdrawn) positions plus receive information as to how these negative positions will be corrected. The receipt of the State Common School Loan of \$ 12 M into the new "Education Fund" (former General Fund) will benefit the cash position of MCS for 2019. This \$ 12 M is a loan that will be paid back to the State of Indiana per a schedule from 2020-2028.

Implementation Timeline:

The establishment of the process in the Business Office to review monthly fund balances and present to the school board was completed by February 28, 2019. The formal establishment of the IASBO template of Internal Controls for all school sites, Admin and Business office will be completed by July 1, 2019. The process of submitting Pay Apps and Cash Flow documentation to DUAB and receiving draws from the \$ 12 M State Common School Loan was implemented by February 1, 2019. MCS began receiving monthly draws on this State Common School Loan by February 1, 2019.

Summary how corrections will prevent future occurrence of issue:

The establishment of the review process of actual fund balances in the Business Office on a timely basis, plus the establishment, implementation, and training of updated Internal Controls for the MCS district, plus the infusion of the \$ 12 M of state funds will combine to prevent future occurrence of the negative cash balance issue, with exception for reimbursable grant funds.

Report Period: July 1, 2016 – June 30, 2018
Title of Finding: ERRORS ON CREDIT CARD CLAIMS
Contact Person: Brad DeRome, CFO / Treasurer
(Hire Date – Dec 10, 2018)

Contact Person Information: Muncie Community Schools
2500 N. Elgin Street
Muncie, IN 47303
Phone- 765-747-5221

Clearly State the Issue:

This is a “Repeat” comment from the immediate prior audit report. The prior audit comment was titled “Errors on Credit Card Claims”.

List the requirements that were not followed:

During the audit period, 3 tested credit card transactions were found to not have adequate supporting documentation. This involved \$ 312 in charges and \$ 1,696 in refunds.

View of the Responsible Official:

We concur with the audit result and comment.

Identify the root cause of the issue:

Inadequate training and inadequate establishment and implementation of internal controls for MCS Business Office personnel and MCS credit card users led to this issue of lack of support documents for Credit Card purchases.

Description of Corrective Action :

Establish, communicate, and implement a system of Internal Controls within the Business Office and MCS for those who reconcile the documents, and the credit card users. Adequate supporting documentation must be presented for all credit card transactions on a timely basis to the MCS Business office. This support documentation must also include detail transactions, not just summary billing.

Implementation Timeline:

This process of reviewing for adequate support documentation for credit card uses was implemented by March 22, 2019. The overall process of establishing, documenting, communicating, and implementing internal controls for MCS credit card users and those who reconcile these items in the Business Office will occur by May 1, 2019.

Summary how corrections will prevent future occurrence of issue:

The establishment of the review process of credit card support documentation by the MCS Business Office personnel will eliminate this issue. All credit card transactions must be supported with adequate documentation.

Report Period: July 1, 2016 – June 30, 2018
Title of Finding: TEXTBOOK RENTAL FEES AND ELEMENTARY TECHNOLOGY FEE
Contact Person: Brad DeRome, CFO / Treasurer
(Hire Date – Dec 10, 2018)

Contact Person Information: Muncie Community Schools
2500 N. Elgin Street
Muncie, IN 47303
Phone- 765-747-5221

Clearly State the Issue:

This is a “Repeat” comment from the immediate prior audit report. The prior audit comment was titled “Textbook Rental Fees and Elementary Technology Fee”.

List the requirements that were not followed:

During the audit period, supporting documentation for curricular material rental fees was not sufficient to support the amounts charged for some of the calculated rental charges. Additionally, no documentation was provided to support the amount charged for the elementary technology fee.

View of the Responsible Official:

We concur with the audit result and comment.

Identify the root cause of the issue:

Inadequate training and inadequate establishment of the process for calculating and documenting the annual Textbook Rental Fees and the Elementary Technology fee.

Description of Corrective Action :

Establish a documented process that follows the state’s guidelines for charging curricular material, and provide documented training to the appropriate MCS personnel to implement these new charges on an annual basis. As part of this review process, these Text Book Rental charges and any other Elementary Technology Fees would be verified and approved by the appropriate Administrator, CFO, and ultimately presented to the Board of School Trustees on an annual basis.

Implementation Timeline:

This process to document, verify, and approve new Text Book Rental charges and any other appropriate Fees for Elementary Technology will occur by July 1, 2019.

Summary how corrections will prevent future occurrence of issue:

The establishment of this documented annual curricular material review process which supports the annual charges for Text Books and Elementary Technology Fee, will allow MCS to provide necessary documentation for annual charges.

Report Period: July 1, 2016 – June 30, 2018
Title of Finding: TRAINING ON INTERNAL CONTROL STANDARDS
Contact Person: Brad DeRome, CFO / Treasurer
(Hire Date – Dec 10, 2018)

Contact Person Information: Muncie Community Schools
2500 N. Elgin Street
Muncie, IN 47303
Phone- 765-747-5221

Clearly State the Issue:

The school corporation was not able to provide documentation that personnel received training concerning the internal control standards and procedures adopted by the school corporation.

List the requirements that were not followed:

During the audit period, documentation was not able to be provided that personnel did indeed receive training for internal control standards and procedures. Per Indiana code, after June 30, 2016, the legislative body of a political subdivision shall ensure that internal control standards and procedures were developed and adopted by the political subdivision, plus that personnel received training concerning these standards and procedures.

View of the Responsible Official:

We concur with the audit result and comment.

Identify the root cause of the issue:

It was determined that insufficient documentation of meetings for the presentation of the internal control standards and procedures to the appropriate MCS personnel was not available.

Description of Corrective Action :

Establish a documented process of internal controls that follow the accepted IASBO (Indiana Association of School Business Officials) template that is modified for MCS. This system of Internal Controls would be adopted on an annual basis by the school board of the political subdivision to comply with state statute. This documented Internal Controls packet would then be presented and communicated to the appropriate MCS personnel. The verification of the training process would be documented and retained for audit purposes.

Implementation Timeline:

This process to document, verify, approve new Internal Controls and Standards, and implement appropriate training for personnel will occur by July 1, 2019.

Summary how corrections will prevent future occurrence of issue:

By establishing a new Internal Controls packet, training schedule, documented verification of such Internal Control training, and annual board adoption of such internal control standards, retaining of all such documentation, this required state statute will be met.

Report Period: July 1, 2016 – June 30, 2018
Title of Finding: COMPENSATION AND BENEFITS
Contact Person: Brad DeRome, CFO / Treasurer
(Hire Date – Dec 10, 2018)

Contact Person Information: Muncie Community Schools
2500 N. Elgin Street
Muncie, IN 47303
Phone- 765-747-5221

Clearly State the Issue:

During the audit period, an employee was paid a stipend that was not part of their original contract or specifically approved by the school board,

List the requirements that were not followed:

Compensation and benefits paid to employees must be included in a form, ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Internal controls were not in place to ensure that compliance with the grant agreement, matching levels of effort, and allowable costs.

View of the Responsible Official:

We concur with the audit result and comment.

Identify the root cause of the issue:

Insufficient internal controls were not in place for the documentation, approval, and payment of stipend compensation.

Description of Corrective Action :

The appropriate MCS Administrative personnel will develop a list of approved stipends that would be paid from district funds, federal, and state grants. The list of appropriate district stipends would be presented to the school board for approval on an annual basis.

Implementation Timeline:

This process to accumulate, document, and present the list of approved stipends to the school board for adoption of appropriate district stipends will occur by August 1, 2019.

Summary how corrections will prevent future occurrence of issue:

The process of gathering, listing, and reviewing the list of appropriate stipends for presentation to the board for adoption on an annual basis will allow us to comply with the state statute for compensation.

Corrective Action Plan

Finding 2018-001 – Financial Transactions and Reporting

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer-
(Hire Date- Dec 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Financial Transactions and Reporting.

Audit Finding: Significant Deficiency, lack of segregation of duties for activities related to receipts and cash, no oversight on Bank Reconcilements, no oversight on receipt postings. Lack of controls during the audit period. No established system of internal control.

View of Responsible Official - We concur with the findings.

Description of Corrective Action Plan

Establish a system of Internal Controls and clearly defined Segregation of Duties within the Business Office to assure that transactions are timely recorded, properly recorded, as well as properly authorized and verified. Establish and adopt an organized Bank Reconciliation process for month end that follows the SBOA template which can be used to verify with current Komputrol Accounting records, plus be able to show recon to our own Daily Cash Reports by Bank Account.

These changes to process and internal controls were implemented immediately in the current Business Office with the inclusion of new personnel. It is always a MCS goal to have accurate month end reports for Summary of Funds, Cash Balance, Komputrol accounting reports for Appropriations remaining, and monthly reconcilements with Bank Statements to the Komputrol accounting reports.

Anticipated Completion Date: February 1, 2019

Corrective Action Plan

Finding 2018-002 – Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Preparation of Schedule of Expenditures of Federal Awards (SEFA)

Audit Finding: Material Weakness, Noncompliance, Repeat finding from prior audit.

View of Responsible Official: We concur with the findings.

Description of Corrective Action Plan

Each year, the CFO will prepare a list of all federal awards with the assistance of the Assistant Treasurer, and Financial Specialist. Once the list of all federal awards is compiled by the CFO, it will be reviewed for accuracy by the administrators and directors such as the Special Ed Director, CTE/Vocational Adult Ed Directors, Federal Grant Administrators, Food Service Director, and Superintendent. The CFO will document this verification and approval process, and arrive at a completed list for SEFA awards.

The CFO will prepare the Schedule of Expenditures for Federal Awards with the Financial Specialist as required after the end of each fiscal year (June) in the state Gateway system. The Financial Specialist will be provided with the list of all federal awards for the fiscal year and will review all of the documentation supporting the Schedule's content for accuracy and completeness prior to the Schedule's submission. The data from the Federal Awards, such as Federal Lunch funds, will be broken out in the various sub section components of lunch funds for data entry and uploaded into the Gateway system, rather than loaded as " total" Federal Lunch funds. The documentation for the SEFA report and upload will be reviewed and verified for accuracy by the CFO before upload and submission. .

At present time, this required Schedule of Expenditures of Federal Awards is a " Gateway " on line report through the State of Indiana web portal. The CFO will print off the instructions, requirements, and deadlines for this on – line report process.

The goal is to have the reports compiled on a timely basis and entered into the Gateway System with accuracy for no audit findings or comments.

Anticipated Completion Date: August 1, 2019.

Corrective Action Plan

Finding 2018-003 – Child Nutrition Cluster – Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Child Nutrition – Activities Allowed or Unallowed and Allowable Costs/ Cost Principles, for School Breakfast Program, Summer Lunch Program, and Summer Food Service.

Audit Finding: Material Weakness, Internal Controls not in place to assure compliance.

View of Responsible Official: We concur with the findings. The Chartwells company is our provider of Food Services. These improvements as to reporting, internal controls, and process will be developed in cooperation with them as an entity and appropriate personnel.

Description of Corrective Action Plan

The CFO, in alliance with the Chartwells Food Service Company representatives, will develop internal control system and policies which will allow MCS to assure ourselves that we are in compliance with the Allowable Costs/ Cost Principles for the various Federal Lunch programs in which we participate. These internal controls would include such changes as to providing verification for detail items billed , in contrast to summary statements, as well as assuring that refunds are paid from the Food Service Prepaid account fund, not the School Lunch fund. These new internal controls will also include processes by which revenues are also verified as to type and for the operation of food service. We currently meet monthly with Chartwell reps to review operations and reports, this will also now include our action plan as described. These new developed processes will be documented as to when developed, reviewed, and implemented.

Anticipated Completion Date: June 1, 2019.

Corrective Action Plan

Finding 2018-004 – Child Nutrition Cluster – Cash Management, Eligibility, Verification of Free/Reduced Applications, Special Tests/ Provision for School Food Accounts

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Child Nutrition – Cash Management, Eligibility, Verifications of Free/Reduced Apps, Special Tests/ Provision for School Food Accounts.

Audit Finding: Material Weakness

View of Responsible Official: We concur with the findings. The Chartwells company is our provider of Food Services. These improvements as to Cash Management, Eligibility, Verification of Free/Reduced Apps, and tests of compliance process will be developed in cooperation with them as an entity and appropriate personnel.

Description of Corrective Action Plan

The CFO, in alliance with the Chartwells Food Service Company representatives, will develop internal control system and policies which will allow MCS to assure ourselves that we are in compliance with cash management, eligibility, verifications of free/reduced apps, and special tests and provisions for the various Federal Lunch programs in which we participate. These internal controls would include such changes as to providing verification and oversight as to federal reimbursements, free/reduced lunch applications, and appropriate segregation of duties. We currently meet monthly with Chartwell reps to review operations and reports, this will also now include our action plan as described. These new developed processes will be documented as to when developed, reviewed, and implemented.

Anticipated Completion Date: June 1, 2019.

Corrective Action Plan

Finding 2018-005 – Child Nutrition Cluster – Procurement and Suspension and Debarment

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Child Nutrition- Procurement, Suspension, and Debarment

Audit Finding: Material Weakness, Internal Controls not in place to assure compliance with grant agreement for Procurement, Suspension, and Debarment.

View of Responsible Official: We concur with the findings. The Chartwells company is our provider of Food Services. These improvements will be developed in cooperation with them as an entity and appropriate personnel.

Description of Corrective Action Plan

The CFO, in alliance with the Chartwells Food Service Company representatives, will develop internal control system and policies which will allow MCS to assure ourselves that we are in compliance with the person and or entity with whom we intend to do business with is not excluded or disqualified. This process will be done and verified by a) checking SAM exclusions, or b) collecting a certification from that person or entity, or c) adding a clause or condition to the covered transaction with that person or entity that states that they are not currently excluded, or debarred from federal procurement for the various Federal Lunch programs in which we participate. We currently meet monthly with Chartwell reps to review operations and reports. This will also now include our action plan as described. These new developed processes will be documented as to when developed, reviewed, and implemented.

Anticipated Completion Date: June 1, 2019.

Corrective Action Plan

Finding 2018-006 – Child Nutrition Cluster – Program Income

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Child Nutrition- Program Income

Audit Finding: Material Weakness, Internal Controls not in place to assure compliance for program income.

View of Responsible Official: We concur with the findings. The Chartwells company is our provider of Food Services. These improvements as to verification and compliance with program income will be developed in cooperation with them as an entity and appropriate personnel.

Description of Corrective Action Plan

The CFO, in alliance with the Chartwells Food Service Company representatives, will develop internal control system and policies which will allow MCS to assure ourselves that we are in compliance with the Program Income requirements. The process will include review of the school lunch income and the detailed expenditures by the management company. We currently meet monthly with Chartwell reps to review operations and reports. This will also now include our action plan as described. These new developed processes will be documented as to when developed, reviewed, and implemented.

Anticipated Completion Date: June 1, 2019.

Corrective Action Plan

Finding 2018-007 – Child Nutrition Cluster – Reporting

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Child Nutrition- Reporting

Audit Finding: Material Weakness, Internal Controls not in place to assure compliance for reporting.

View of Responsible Official: We concur with the findings. The Chartwells company is our provider of Food Services. These improvements as to reporting of annual financial reports, reimbursement claims, verification summaries, will be developed in cooperation with them as an entity and appropriate personnel.

Description of Corrective Action Plan

The CFO, in alliance with the Chartwells Food Service Company representatives, will develop internal control system and policies which will allow MCS to assure ourselves that we are in compliance with the reporting requirements. The process will include review of the various reports, annual reporting, and reimbursement claims. We currently meet monthly with Chartwell reps to review operations and reports. This will also now include our action plan as described. These new developed processes will be documented as to when developed, reviewed, and implemented.

Anticipated Completion Date: June 1, 2019.

Corrective Action Plan

Finding 2018-008 – Title I Grants to Local Educational Agencies- Activities Allowable or Unallowed, Allowable Costs/ Cost Principles, Cash Management and Reporting.

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Title I Grants to Local Educational Agencies

Audit Finding: Material Weakness, Internal Controls not in place to assure compliance with Activities Allowed, Cost Principles, Cash Management and Reporting.

View of Responsible Official: We concur with the findings. Requests for reimbursements occurred as duplicates by using incorrect source document Appropriation Reports, instead of Month To Date Budget History reports

Description of Corrective Action Plan

The CFO, in alliance with the Assistant Treasurer, Financial Specialist, and appropriate Federal Grant Administrator, will compile the list of all Federal awards for Title I. This team will review these federal program grants which are to have received funds and expenditures. The CFO will develop the process for submitting the reimbursements which will comply with the necessary Allowable Costs, Cost Principles, and reporting requirements. This process will be documented and new written process given to the team of Federal Grant Directors, Financial Specialist, and Assistant Treasurer. The Financial Specialist will provide the appropriate Komputrol Accounting Reports to the Federal Grant Administrator so requests for reimbursements for these federal programs will occur monthly, and requests will not be duplicated. The goal is to use the correct source documents for reimbursements, not submit duplicate requests, and to be in compliance with all necessary Allowable Costs and Allowable Cost Principles, Cash Management and Reporting.

Anticipated Completion Date: June 1, 2019.

Corrective Action Plan

Finding 2018-009 – Title I Grants to Local Educational Agencies- Earmarking

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Title I Grants to Local Educational Agencies

Audit Finding: Material Weakness, Internal Controls not in place to assure compliance with requirements related to grant agreement, Matching, Level of Effort, Earmarking compliance requirement.

View of Responsible Official: We concur with the findings. Effective Internal Controls not in place to ensure compliance with requirements in the grant agreement for Matching, Level of Effort, and Earmarking (minimum or maximum specified levels of spending as stated in the grant).

Description of Corrective Action Plan

The CFO, in alliance with the AssistantTreasurer, Financial Specialist, and appropriate Federal Grant Administrator, will compile the list of all Federal awards for Title I Local Educational Agencies that require earmarking. This team will review these federal program grants which are to have specified "earmarked" funds to be passed on to Local Educational Agencies. The CFO will develop the process for submitting the reimbursements which will comply with the necessary compliance requirements. This process will be documented. The new written process will be given to the team of Federal Grant Directors, Financial Specialist, and Assistant Treasurer in order to ensure that we are in compliance for earmarked spending in the federal grants.

Anticipated Completion Date: June 1, 2019.

Corrective Action Plan

Finding 2018-010 – Supporting Effective Instruction State Grant- Activities Allowed and Unallowed, Allowable Costs/ Cost Principles, Cash Management, Reporting and Level of Effort.

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Effective Instruction State Grant- Activities Allowed and Unallowed, Allowable Costs/ Cost Principles, Cash Management , Reporting and Level of Effort.

Audit Finding: Material Weakness, Internal Controls not in place to ensure compliance with requirements related to grant agreement, Matching, Level of Effort, Earmarking, Supplement not Supplant compliance requirements.

View of Responsible Official: Effective Internal Controls were not in place to ensure compliance with requirements in the grant agreement for allowable costs as it related to indirect costs and grant administration. .

Description of Corrective Action Plan

The CFO, in alliance with the Assistant Treasurer, Grant Administrators, and Assoc. Superintendent, will develop a list of district stipends that would be paid from district funds and State Grants , such as this Support Effective State Grant. The list of board approved stipends would be documented and presented to the school board for approval on at least an annual basis for such items as Stipends for Grants, Sub pay, After school tutor pay, professional development, and others. This would document and affirm any additional pay or stipends that could be paid from the Federal or State approved funds

Anticipated Completion Date: August 1, 2019.

Corrective Action Plan

Finding 2018-011 – Supporting Effective Instruction State Grant- Period of Performance

Contact Person Responsible for Corrective Action: Brad DeRome, CFO / Treasurer
(Hire Date- Dec. 10, 2018)

Contact Phone Number : 765-747-5222

Subject: Effective Instruction State Grant- Period of Performance

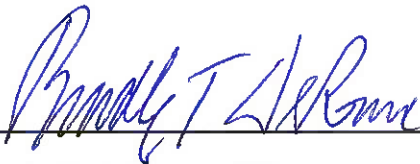
Audit Finding: Material Weakness, Internal Controls not in place to ensure compliance with requirements related to grant agreement, and the Period of Performance compliance.

View of Responsible Official: Effective Internal Controls were not in place to ensure compliance with requirements in the grant agreement and expenditures within the period of performance.

Description of Corrective Action Plan

The CFO, in alliance with the Assistant Treasurer, Financial Specialist, Federal Grant Administrators, and Assoc. Superintendent, will compile the list of all Federal awards. This team will review these federal program grants which are to spent in the specified years. The CFO will develop the process for submitting the reimbursements which will comply with the necessary compliance requirements for correct year of the federal and or state award. This process will be documented. The new written process will be given to the team of Federal and State Grant Directors, Financial Specialist, and Assistant Treasurer in order to ensure that we are in compliance for the spending in the correct period of state and federal grants.

Anticipated Completion Date: August 1, 2019.



Bradley T. DeRome, CFO / Treasurer
Muncie Community Schools

Date: March 22, 2019

MUNCIE COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on March 14, 2019, with Brad DeRome, Treasurer; Robert Coddington, former Treasurer; Stephen Edwards, interim Superintendent of Schools; James Williams, President of School Board; David W. Heeter, Secretary of the School Board; Brittany Bales, School Board member; James Lowe, School Board member; and Charles Reynolds, Associate Superintendent of Schools.