

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

PORTAGE TOWNSHIP SCHOOLS

PORTER COUNTY, INDIANA

July 1, 2017 to June 30, 2019



FILED
03/11/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director of Finance/Treasurer	Wendy Kulczyk Nicholas Gron	07-01-17 to 08-17-18 08-18-18 to 12-31-20
Superintendent of Schools	Dr. Amanda Alaniz	07-01-17 to 12-31-20
President of the School Board	Andrew Maletta Cheryl Oprisko Andrew Maletta	07-01-17 to 12-31-18 01-01-19 to 12-31-19 01-01-20 to 12-31-20



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TO: THE OFFICIALS OF THE PORTAGE TOWNSHIP SCHOOLS, PORTER COUNTY, INDIANA

This report is supplemental to our audit report of the Portage Township Schools (School Corporation), for the period from July 1, 2017 to June 30, 2019. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement. This report may be found at www.in.gov/sboa/.

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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

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

February 27, 2020

PORTAGE TOWNSHIP SCHOOLS
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not separated incompatible activities related to Average Daily Membership (ADM) and payroll disbursements. Control activities should be in place to reduce the risks of errors in financial reporting.

ADM

Although the School Corporation accurately reported eligible students in its ADM, the School Corporation did not have proper controls in place to ensure accurate reporting of the ADM. The School Corporation's supporting documentation for the ADM for the fiscal years ending June 30, 2018, and June 30, 2019, did not agree to the School Corporation Summary. It was determined that School Corporation officials were not provided the supporting documentation from the special education cooperative of students attending other schools for special education needs. By certifying the ADM without all the supporting documentation of student counts, School Corporation officials are at risk of incorrectly reporting the ADM.

Payroll Disbursements

Payroll and payroll withholdings were approved by the School Board and Director of Finance prior to payment from the Payroll Clearing fund in total. There was not a review of the gross payroll and benefits that list the employees individually by fund into the Payroll Clearing fund. Therefore, it could not be determined that a control was in place ensuring that employees were paid the proper rates or from the proper funds.

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. . . ."

PORTAGE TOWNSHIP SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

PREPAID SCHOOL MEAL ACCOUNTS

Condition and Context

The School Corporation's food service program allowed students to prepay for meals. Individual student accounts were established to account for payments made on students' accounts. The School Corporation did not reconcile the Prepaid Food Fund (8400) to the subsidiary records of the individual student accounts. The balance of the Prepaid Food Fund was not equal to the total individual student meal accounts. The variances are noted below:

	Balance	
	June 30, 2018	June 30, 2019
Prepaid Food Fund	\$ 109,125	\$ 84,154
Total Student/Adult Meal Accounts (Net of Negative Balances)	25,897	790
Variance	\$ 83,228	\$ 83,364

Receipts for monies received were posted directly to the School Lunch fund (800), including charges for negative accounts. The School Corporation did not follow their meal charges policy (policy). The policy states that all cafeteria purchases are to be prepaid before service begins. The money should be put into the Prepaid Food Fund and subsequently transferred to the School Lunch fund upon using the money on account. The policy also states that students can charge up to \$10, however, students were allowed to continue to charge meals after reaching negative \$10. The largest negative account balance was \$641.

Criteria

When a student puts money into their individual meal account, it should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while money is in the student's individual account, the balance should not be included in Fund 800 School Lunch. A school should set up a clearing account with the fund number of 8400 Prepaid School Lunch Accounts, which is included in Chapter 4 of the State Board of Accounts Uniform Compliance Guidelines for Indiana Public School Corporations. When a student brings in a deposit the receipt should be recorded to fund 8400 using receipt account 1630 Special Functions. After the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 Other Food Services and receipt this into fund 800 using the Food Services receipt accounts 1611-1623 at the time established in a written school policy to ensure accurate monthly reporting. At this point the receipts are considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis it is required that the balance of the 8400 fund be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, February 2019)

The governing body of a unit must have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balance. Documentation must exist for all efforts made by the unit to collect amounts owed prior to any write-offs. Write-offs or adjustments to records which are not documented or warranted may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

PORTAGE TOWNSHIP SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

On July 8, 2016, the USDA issued Memo 46-2016 providing requirements and guidance for school food authorities (SFA) to institute and communicate a meal charge policy. The memo states, "Because all students in participating schools may receive reimbursable meals, all SFAs must have a policy in place for children who are participating at the reduced or paid rate, but either do not have money in their account or in hand to cover the cost of the meal at the time of service." It is required that students and their parents or guardians must be informed about how students who pay the full or reduced price cost of a reimbursable meal are impacted by having insufficient funds on hand or in their account to purchase a meal. The memo includes a deadline of July 1, 2017 for all SFAs to have established and communicated their written meal charge policy. (The School Bulletin and Uniform Compliance Guidelines, December 2016)

USDA issued Memo 46-2016 defines "bad debt" as debts which have been determined to be uncollectable. It goes on to say once amounts are classified as bad debts that they must be written off and taken as an operating loss. 2 CFR 200.426 states, "Bad debts (debts which have been determined to be uncollectable), including losses (whether actual or estimated) arising from uncollectable accounts and other claims, are unallowable. Related collection costs, and related legal costs, arising from such debts after they have been determined to be uncollectable are also unallowable." Therefore, School Nutrition Program grant funds cannot be used cover the costs of writing off bad debt. The operating loss must be absorbed by using non-Federal funds. Transfers to the Prepaid School Lunch fund (8400) to cover bad debts may be made from the General fund (100), special funding from State or Local grants, funding received from school or community organizations, or other donations. (The School Bulletin and Uniform Compliance Guidelines, December 2016)

PORTAGE TOWNSHIP SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on February 27, 2020, with Dr. Amanda Alaniz, Superintendent of Schools; Andrew Maletta, President of the School Board; Wilma Vasquez, School Board member; Nicholas Gron, Director of Finance/Treasurer; and Maria Bravo, Assistant Director of Finance.