

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SOUTH BEND COMMUNITY SCHOOL CORPORATION

ST. JOSEPH COUNTY, INDIANA

July 1, 2013 to June 30, 2015



FILED
06/23/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Robert M. Orlofsk	01-01-13 to 12-31-16
Superintendent of Schools	Carole L. Schmidt	07-01-13 to 06-30-16
President of the School Board	Michelle L. Engel Jay Caponigro	01-01-13 to 12-31-14 01-01-15 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SOUTH BEND COMMUNITY SCHOOL
CORPORATION, ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our audit report of the South Bend Community School Corporation (School Corporation), for the period from July 1, 2013 to June 30, 2015. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

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

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

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

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

April 12, 2016

SOUTH BEND COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2015-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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 should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected. The SEFA that was provided for audit contained several errors. Although these errors were immaterial to the SEFA as a whole, the lack of controls could have resulted in material misstatements.

During the audit of the SEFA, we noted the following immaterial errors:

1. The SEFA did not include \$726,171 in non-cash assistance received by the School Corporation for school year 2014-2015.
2. The reported expenditures for CFDA 84.002 were overstated by \$172,440 in 2014-2015, which represented the state portion of grant funds.
3. The reported expenditures for CFDA 10.555 were overstated by \$96,250 in 2013-2014, and understated by \$67,405 in 2014-2015.
4. The reported expenditures for CFDA 10.558 were overstated by \$119,467 in 2013-2014, and \$178,626 in 2014-2015.
5. The pass-through entities for U.S. Department of Agriculture grants were incorrectly identified.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states in part:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. 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 award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

SOUTH BEND COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall 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. . . . "

FINDING 2015-002 - CASH MANAGEMENT

Federal Agency: U.S. 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 Years: FY 2013-14, FY 2014-15

Pass-Through Entity: Indiana Department of Education

The School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Cash Management compliance requirement. The failure to establish an effective internal control system places the School Corporation at risk of non-compliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could also allow noncompliance with the compliance requirement and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

The School Corporation has not designed or implemented adequate policies and procedures to ensure that the School Lunch fund's net cash resources were limited to the average expenditures for three months.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

SOUTH BEND COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation's net cash balance of the food service program exceeded the average expenditures for three months for eight of the twenty-four months in the audit period. For the 2013-2014 year, the average expenditures for three months was \$2,915,112; the cash balance exceeded that amount at the end of the July 2013, August 2013, and September 2013. For the 2014-2015 year, the average expenditures for three months was \$3,037,204; the cash balance exceeded that amount at the end of August 2014, September 2014, February 2015, March 2015, and June 2015.

7 CFR 210.14(b) states

"Net cash resources. The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with §210.19(a)."

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirement could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Cash Management requirement of the programs.

FINDING 2015-003 - PROCUREMENT AND SUSPENSION AND DEBARMENT

Federal Agency: U.S. 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 Years: FY 2013-14, FY 2014-15
Pass-Through Entity: Indiana Department of Education

The School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could also allow noncompliance with the compliance requirement and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

The School Corporation has not designed or implemented adequate policies and procedures to ensure that vendors used for the food service program were not suspended or debarred from participation in federal programs. An oversight, review, or approval process has not been established.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The School Corporation failed to provide evidence that a search of the Excluded Parties List Systems through the System of Award Manager Center at www.sam.gov was conducted, that certification from the entity was collected, or that a clause or condition was added to the contract.

During the years 2013-2014 and 2014-2015, the School Corporation made food service purchases exceeding \$25,000 from 14 and 17 vendors, respectively. A search of the System of Award Manager Center website resulted in no active exclusions for any of these vendors.

7 CFR 3016.35 states:

"Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, 'Debarment and Suspension.'"

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, to ensure compliance and comply with the Procurement and Suspension and Debarment requirement of the programs.

FINDING 2015-004 - PROGRAM INCOME

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Number and Year: FY 2012-13, FY 2013-14
Pass-Through Entity: Indiana Department of Education

The School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Program Income compliance requirement. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirement and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

The School Corporation has not designed or implemented adequate policies or procedures to ensure that program income was properly recorded in the financial records. An oversight, review, or approval process has not been established.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirement could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation establish controls, including segregation of duties, related to the grant agreement and Program Income compliance requirement. Additionally, we recommended that School Corporation's management comply with the applicable Program Income requirements.

FINDING 2015-005 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, ELIGIBILITY, AND SPECIAL TESTS AND PROVISIONS

Federal Agency: U.S. 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 Years: FY 2013-14, FY2014-15
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions - Verification of Free and Reduced Price Applications and Paid Lunch Equity. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Management of the School Corporation has not established an effective internal control system to ensure compliance with the Activities Allowed and Allowable Costs/Cost Principles requirements. There were procedures established; however, they were not always effective.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Claims were approved without the proper supporting documentation to verify that they were for allowable activities or for allowable costs. In addition, there were no procedures to ensure that purchased food items were actually received. Not all schools' Food Service Managers marked the invoices to indicate that the items had been received. An adequate oversight or review process has not been established.

Eligibility

Management of the School Corporation has not established an effective internal control system to ensure compliance with the Eligibility requirement. The School Corporation contracted with a business to validate the accuracy of scanned free/reduced meal applications but there was no evidence that School Corporation staff reviewed the meal applications for accuracy. An oversight, review, or approval process has not been established.

Special Tests and Provisions - Verification of Free and Reduced Price Applications

Management of the School Corporation has not established an effective internal control system to ensure compliance with the Special Test and Provisions - Verification of Free and Reduced Price Application requirement. The School Corporation performed the required verifications; however, the Food and Nutrition Services Director independently prepared the annual free/reduced meal application verification summary report without evidence of an oversight or review process.

Special Tests and Provisions - Paid Lunch Equity

Management of the School Corporation has not established an effective internal control system to ensure compliance with the Special Tests and Provisions - Paid Lunch Equity requirement. There were no procedures to ensure that the calculations for paid lunch equity were made or that they were accurate. The Food and Nutrition Services Director prepared the paid lunch equity calculations without evidence of an oversight or review process.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

SOUTH BEND COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

FINDING 2015-006 - CASH MANAGEMENT AND REPORTING

Federal Agency: U.S. Department of Education

Federal Programs: Special Education - Grants to States; Special Education - Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers: 14212-055-PN01, 14213-055-PN01, 14214-055-PN01, 14215-055-PN01,
5250-5259, 99914-TA01, 45712-055-PN01, 45713-055-PN01,
45714-055-PN01, 45715-055-PN01

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Cash Management and Reporting compliance requirements. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

The School Corporation has not designed or implemented adequate policies and procedures to ensure compliance with Cash Management and Reporting requirements of the programs. There were no procedures in place to ensure that supporting documentation for the requests for reimbursement of federal expenditures was available or that it agreed with the expenditure amounts submitted for reimbursement. In addition, there were no procedures to ensure that expenditures were actually made before reimbursement was requested. An oversight, review, or approval process has not been established.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The completeness and accuracy of the reimbursement claims that were submitted during the audit period for the Special Education programs could not be verified. The accounting system could not duplicate reports to support each reimbursement claim. At the end of the grant period the total disbursements posted to the grant fund and the total reimbursement claims submitted for the grants could not be matched.

When requests for reimbursement were prepared, a cumulative financial report was generated at the summary level by fund, account, and object. The amounts previously requested were subtracted from the current cumulative amounts and the difference was the amount of reimbursement requested. In some cases, the cumulative report was generated several days before the end of the time period covered by the report. No detailed report of the actual disbursements was generated and retained for audit.

When financial reports were generated for the time periods covered by the requests for reimbursement, over 80 percent of the reports tested did not agree with the supporting reports for the requests. There were minor differences due to timing; the original report was generated before some disbursements were recorded in the financial accounting system. However, without an original detailed report from the time the reimbursement was requested, the causes for most of the differences could not be readily identified or actual disbursements easily traced to the requests for reimbursement.

Also, the total amount of actual expenditures as reported on the Final Report for FY 2013 IDEA Part B (611) equaled the approved budgeted amount for the grant year, but did not agree with the total expenses posted on the Expense Summary report. The ledger amount was greater by \$12,670, which indicates that the budget for the grant year was actually overspent.

34 CFR 80.20 states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant . . . "

SOUTH BEND COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the Cash Management and Reporting compliance requirements. We also recommended that the School Corporation comply with the grant agreement and the Cash Management and Reporting requirements.

FINDING 2015-007 - MATCHING, EARMARKING, AND REPORTING

Federal Agency: U.S. Department of Health and Human Services
Federal Program: Head Start
CFDA Number: 93.600
Federal Award Numbers: 05CH8262/09, 05CH8428/01, 05CH8428/02, and 05HP0007/01
Pass-Through Entity: Direct grant

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Matching, Earmarking, and Reporting. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow non-compliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The School Corporation has not designed or implemented internal control procedures to ensure compliance with the requirements for Matching, Earmarking, and Reporting. The School Corporation did not have controls in place to ensure that supporting documentation for matching, earmarking, and subsequently, the reporting of matching and earmarking, was retained for audit.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

SOUTH BEND COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation reports indicated that the program had met this requirement through in-kind contributions. However, the supporting documentation to detail how the third-party, in-kind contributions were calculated was not available for audit. The monthly in-kind reports presented to the Consortium's Board included cumulative totals for in-kind contributions claimed, but there was no tabulation available to support the information presented.

The Earmarking requirements of the Head Start grant limit development and administrative costs to a maximum of 15 percent of the total costs of the program, including the non-Federal share contribution of such costs. The School Corporation reported total development and administrative expenditures that met the requirement; however, the administrative portion of wages for some employees could not be verified.

Attachment 1 of the Department of Health and Human Services' Notice of Award states in part:

"This grant is subject to Section 640(b) of the Head Start Act and 45 C.F.R. 1301.20 requiring a non-Federal match of 20 percent of the total cost of the program. This grant is also subject to the requirements in Section 644(b) of the Head Start Act and 45 C.F.R. 1301.32 limiting development and administrative costs to a maximum of 15 percent of the total costs of the program, including the non-Federal share contribution of such costs."

Federal Financial Report Form 425 requires the reporting of matching and earmarking totals. Due to the issues described above, the reporting requirements for the Head Start grant were not fully met. The School Corporation's records presented for audit did not provide the proper supporting documentation for the amounts reported on the required Federal Financial reports.

45 CFR 92.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. . . . "

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the Matching, Earmarking, and Reporting compliance requirements. We also recommended that the School Corporation comply with the grant agreement and the Matching, Earmarking, and Reporting requirements.



SOUTH BEND COMMUNITY SCHOOL CORPORATION
215 SOUTH ST. JOSEPH STREET SOUTH BEND, INDIANA 46601
TELEPHONE: (574) 283-8000

CORRECTIVE ACTION PLAN

FINDING 2015-001 – Preparation of the Schedule of Expenditures of Federal Awards

Contact Person Responsible for Corrective Action:

Robert M. Orlowski

Contact Phone Number: 574-283-8111

Views of Responsible Official:

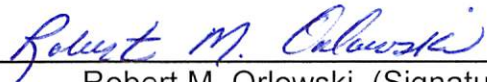
We concur with the finding.

Description of Corrective Action Plan:

The Schedule of Expenditures of Federal Awards (SEFA) will be developed by the Supervisor of Extra Curricular and Grant Awards. During the grant cycle a separate spread sheet will be used to track Food Service revenue and expenditures by CFDA number. The SEFA will be reviewed and placed on the Gateway System by the Executive Director of Operational Services. After the schedule is on the Gateway System, a hard copy will be printed and returned to the Supervisor of Extra Curricular and Grant Awards for review before the final submission.

Anticipated Completion Date:

August, 2016


Robert M. Orlowski (Signature)

Treasurer

(Title)

April 12, 2016 -----

(Date)



SOUTH BEND COMMUNITY SCHOOL CORPORATION
ADMINISTRATIVE SERVICES
215 SOUTH ST. JOSEPH STREET SOUTH BEND, INDIANA 46601
TELEPHONE: (574) 283-8111

CORRECTIVE ACTION PLAN

***FINDING 2015-002* – Cash Management**

Contact Person Responsible for Corrective Action

Victoria L. Moore, Director Food & Nutrition

Contact Phone Number:

574-283-8094

Views of Responsible Officer

We concur with the findings

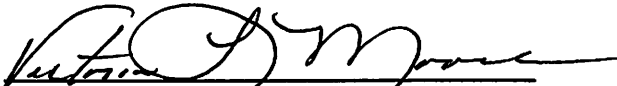
Description of Corrective Action Plan:

The Corrective Action Plan will include the following steps toward making the finding compliant:

1. The Director will analyze cash flow and expenditures to determine net cash resources.
2. The Director will review/monitor report of department financial status at the end of each month.
3. Department supervisory staff each year will assist Director in developing a suggested list of improvements for the National School Lunch Program. The list may include items such as: new equipment, up-scale food items, sending or providing employee training at the local/state/national level, student promotions & promotional items.
4. When it is determined that excess funds exist, using the list developed, the Director will approve spending the funds to the benefit of the program to determine an appropriate net cash balance.

Anticipated Completion Date:

On-going monthly during school year


Victoria L. Moore (Signature)

Director Food & Nutrition Services
(Title)

April 12, 2016
(Date)



SOUTH BEND COMMUNITY SCHOOL CORPORATION
ADMINISTRATIVE SERVICES
215 SOUTH ST. JOSEPH STREET SOUTH BEND, INDIANA 46601
TELEPHONE: (574) 283-8111

CORRECTIVE ACTION PLAN

FINDING 2015-003 – Suspension and Debarment

Contact Person Responsible for Corrective Action

Victoria L. Moore, Director Food & Nutrition

Contact Phone Number:

574-283-8094

Views of Responsible Officer

We concur with the findings

Description of Corrective Action Plan:

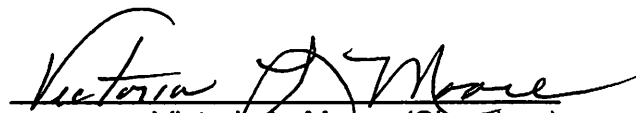
SBCSC Food & Nutrition contacted the DOE and obtained a copy of the Certification regarding Debarment, Suspension, Ineligibility, and Voluntary Exclusion form and instructions. This information was shared with the SBCSC Purchasing Supervisor. The Debarment & Suspension form will be included with all bid packets. A completed & signed copy of the Debarment & Suspension form will be the responsibility of the vendor. Bid packets returned without a signed Debarment & Suspension form will be excluded.

Duties:

1. The Food & Nutrition Director will include the Debarment & Suspension form in all bid packets.
2. SBCSC Purchasing agent will confirm the Debarment & Suspension form is received in all bid packets returned.
3. The Procurement Supervisor then checks to ensure the vendor is eligible to receive a bid award.
4. The Director will verify all bid awards and sends bid award report forward for Board of Trustees approval.

Anticipated Completion Date:

Completed March 1, 2016


Victoria L. Moore (Signature)

Director Food & Nutrition Services
(Title)

April 12, 2016
(Date)



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CORRECTIVE ACTION PLAN

FINDING 2015-004 –Program Income

Contact Person Responsible for Corrective Action

Victoria L. Moore, Director Food & Nutrition

Contact Phone Number:

574-283-8094

Views of Responsible Officer

We concur with the findings

Description of Corrective Action Plan:

The Food & Nutrition Department has implemented accounting procedures whereby all pre-paid monies are deposited into a specific fund (082) set up by the Budget Supervisor. The budget department staff will account for all pre-paid deposited weekly. The Budget Supervisor, each month, will transfer pre-paid monies used from the pre-payment fund to the Food and Nutrition breakfast /lunch account. The amount transferred is verified by the Sales & Meal Count Report generated by Food & Nutrition from the department POS system.

At the end of the school year any monies in the Pre-Paid Account will:

- A) For students no longer active in SBCSC system, monies will be returned to parent or transferred to other household members account upon written request from guardian.
- B) For students still active in the SBCSC system, monies will carry over to the next school year or can be applied to another household member upon written request from guardian.

Anticipated Completion Date:
 Completed February 1, 2016


 Victoria L. Moore (Signature)

Director Food & Nutrition Services
 (Title)

April 12, 2016
 (Date)



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ADMINISTRATIVE SERVICES
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CORRECTIVE ACTION PLAN

FINDING 2015-005 – Activities Allowed, Allowable Costs/Cost Principles, Eligibility and Special Tests and Provisions

Contact Person Responsible for Corrective Action

Victoria L. Moore, Director Food & Nutrition

Contact Phone Number:

574-283-8094

Views of Responsible Officer

We concur with the findings

Description of Corrective Action Plan:

The Corrective Action Plan will include the following steps toward making the finding compliant:

Activities Allowed, Allowable Costs/Cost Principles:

1. Weekly, Managers will submit all signed invoices to the Food & Nutrition Financial Supervisor.
2. The Food & Nutrition Financial Supervisor insure all invoices are signed by Manager.
3. All un-signed invoices will be fax back to the Manager for signature and comments if the invoice is NOT accurate as listed.
4. The SBCSC Manager will return the signed invoice within 24 hours.
5. The Food & Nutrition Financial Supervisor will process all invoices for payment.

Anticipated Completion Date:

March 31, 2016

Eligibility:

1. The Food & Nutrition Computer Application Specialist will review all paper meal applications for accuracy.
2. Meal Applications found to be inaccurate will be turned over to the Food & Nutrition Director.
3. The Food & Nutrition Director will notify the household in writing of change in status.
4. Families have the right to file a new meal application.

Anticipated Completion Date:

June 30 2016

Special Tests and Provisions - Verification of Free and Reduced Price Applications:

1. The Food & Nutrition Director will verify selected applications.
2. The Food & Nutrition will notify households of varication results.

FINDING 2015-005 – Activities Allowed, Allowable Costs/Cost Principles, Eligibility and Special Tests and Provisions

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3. After November 15th, the Food & Nutrition Director will prepare the Verification Summary Report.
4. Prior to submitting the Verification Summary Report, the Food & Nutrition Financial Supervisor will review both the selected applications and the Verification Summary Report for accuracy.
5. The Food & Nutrition Financial Supervisor will sign off once she has completed the review.
6. Once the Verification Summary Report has had a second review, the report will then be submitted to the DOE by December 15th.

Anticipated Completion Date:

December 15, 2016

Special Tests and Provisions — Paid Lunch Equity:

1. The Food & Nutrition Director will complete the on-line Paid Equity Application each year.
2. Prior to submission to DOE, the Food & Nutrition Financial Supervisor will review the Paid Equity Application for accuracy.
3. If there are any mistakes the application goes back to the Food & Nutrition Director for correction.
4. Once the application is complete and accurate the Food & Nutrition Financial Supervisor will print a copy of the Paid Equity application.
5. Both the Food & Nutrition Director and the Food & Nutrition Financial Supervisor will sign and date the Paid Equity application.
6. The Food & Nutrition Financial Supervisor will maintain the copy of the Paid Equity application with the NSLP contract for that school year.
7. The Director will submit the Paid Equity Application to DOE.
8. Should the Paid Equity Application indicate a lunch meal price increase is needed; the Food & Nutrition Director can file for a waiver not to increase lunch meal prices.
9. DOE will notify Food & Nutrition of approval or denial.

DOE decision letter will be maintained with the coming school year contract for the NSLP.

Anticipated Completion Date:

July 30, 2016


Victoria L. Moore (Signature)

Director Food & Nutrition Services
(Title)

April 12, 2016

(Date)



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CORRECTIVE ACTION PLAN

FINDING 2015-006 – Cash Management and Reporting

Contact Person Responsible for Corrective Action: Matthew Johns and Pauline Busby

Contact Phone Number: 574-283-8130

Views of Responsible Official:

The Special Education Department recognizes the value of having oversight at every level of budgeting and spending; accountability and transparency are key to successful money management.

Description of Corrective Action Plan:

The Special Education department will meet the first week of the month and review the grants. Members will include, the Director of Special Education, Coordinator for Grants and Budget and the Data and Budget Assistant. There will be a brief overview of the expenditures for the month. This will allow for multiple people to oversee the grant and what is being spent and out of what fund.

The Director of Special Education and the Coordinator for Grants and budget in the special education department will also meet with the budget department every month to review the closeout process. Each person will review the expenditures for that month and project the following month of expenditures.

Prior to the end of each grant the Director of Special Education and the Coordinator for Budgets and Grants will review the Final Report prior to submission.

Anticipated Completion Date:

This will become the new process. Ongoing process from the findings date in March of 2016



 Matthew Johns (Signature)

 Director Special Education
 (Title)

 April 12, 2016
 (Date)



SOUTH BEND COMMUNITY SCHOOL CORPORATION

215 SOUTH ST. JOSEPH STREET SOUTH BEND, INDIANA 46601
TELEPHONE: (574) 283-8000

CORRECTIVE ACTION PLAN

FINDING 2015-007 - Matching Earmarking and Reporting

Contact Person Responsible for Corrective Action:

Dr. Kathy Guajardo, Executive Director (574) 283-8128
Brenda Overton, Fiscal Officer (574) 283-8115

Contact Phone Number:

Dr. Kathy Guajardo, Executive Director (574) 283-8128
Brenda Overton, Fiscal Officer (574) 283-8115

Views of Responsible Official:

We concur with the finding.

Description of Corrective Action Plan:

Corrective Action Plan will include the following steps toward making the finding compliant.

1. Create a budget line in each category and entitle it Administrative Costs, which is to be listed within the administrative line of the Chart of Accounts noted in the AS400/RDS System and charged under the appropriate grant as administrative costs. Example, managerial portions of salaries and supplies.
2. Calculate Administrative Costs per pay period to ensure accuracy and note it on the AS400/ RDS system and submit the charge accordingly to the fiscal accounting system and reviewed by the Fiscal Officer.
3. All documentation will be filed at the Consortium's Grantee Office, which will include and not limited to: Relevant Chart of Account, Payroll Roster, Time Sheets, Reports, and any other forms of relevant documents.
4. The Fiscal Officer will review/monitor on a bi-weekly basis and the Executive Director will monitor the reports at the end of the each month.

FINDING 2015-007 - Matching Earmarking and Reporting – No system in place to accumulate/substantiate numbers being reported to the Board and Federal Agency.
Page 2

5. The Consortium Board will receive a monthly report along with the rest of the fiscal reports.
6. The methodology will be reflected in the Cost Allocation Plan (Manual) and the Consortium's Fiscal Manual, updates will be noted as needed based on regulatory changes. The actual will be supported through the bi-weekly reports.

Capturing In-Kind Documentation:

At the time of this audit, the Consortium has a Fiscal Officer vacancy and the position has been filled. The lack of documentation occurred resulting from not having information available to the Executive Director at the time of review.

Therefore, the Corrective Action Plan will include the following procedures:


1. Staff will turn in all in-kind generated by parents and submit to the Non-Federal Entity Office (Grantee).
2. The Consortium's Data Team will enter all allowable in-kind forms into the Childplus Software System under each parent's personal account so that hours and value amount can be captured. Additionally, the data team upon completion will mark the in-kind form as "received and allowable" based on federal guidelines. Should an in-kind form be submitted that is questionable the data team will send the form to the appropriate manager for their review. The Manager will evaluate the form and determine eligibility and sign off as "allowable" or "disallowable." If marked allowable the data team will continue the process of receiving the in-kind and enter into the system.
3. All Parent In-kind forms that are received and entered into the system will be collected by the month, a Childplus roster report will be attached, along with another Childplus report that reflects the total amount of in-kind collected for the month and a copy of the Board Report will be attached on top of the documentation to make the flow of information consistent and reliable.
4. The fiscal department will run a monthly report based on information captured within the month. The importance of monthly captures will generate an accumulative figure generated from the monthly entries regardless just as long as it meets the criteria of not being previously entered during the course of the grant year.

FINDING 2015-007 - Matching Earmarking and Reporting – No system in place to accumulate/substantiate numbers being reported to the Board and Federal Agency.
Page 3

5. All in-kind generated by other budget lines (examples: transportation) those items will be submitted according to a framework and dollar amount as approved by the Consortium's Board.

Anticipated Completion Date:

June 1st, 2016



Dr. Kathy Guajardo (signature)

Executive Director,
Elkhart and St. Joseph Counties Head Start Consortium
(Title)

April 12, 2016
(Date)

SOUTH BEND COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement presented in the Financial Statement and Federal Single Audit Report of the School Corporation included the Debt Service fund with an overdrawn cash balance of \$292,115 at June 30, 2014.

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 governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

APPROPRIATIONS

The records presented for audit indicated that the expenditures of the Bus Replacement fund were in excess of budgeted appropriations by \$677,912 for the year ended December 31, 2013.

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

SOUTH BEND COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 12, 2016, with Carole L. Schmidt, Superintendent of Schools; Robert M. Orlowski, Treasurer; Jay Caponigro, President of the School Board; Lori Weldy, Food and Nutrition Financial Supervisor; Matthew Johns, Special Education Services Director; and Kathy L. Guajardo, Head Start Executive Director.