

**BENTON HARBOR  
AREA SCHOOLS  
Berrien County, Michigan**

Additional Reports Required by  
the Uniform Guidance

For the year ended June 30, 2018

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## **BENTON HARBOR AREA SCHOOLS**

For the year ended June 30, 2018

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**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

October 30, 2018

The Board of Education  
Benton Harbor Area Schools  
Berrien County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Benton Harbor Area Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Benton Harbor Area Schools’ basic financial statements and have issued our report thereon dated October 30, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Benton Harbor Area Schools’ internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Benton Harbor Area Schools’ internal control. Accordingly, we do not express an opinion on the effectiveness of Benton Harbor Area Schools’ internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002, 2018-003, 2018-004, and 2018-005 that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Benton Harbor Area Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002, 2018-003, 2018-004, and 2018-005.

### **Benton Harbor Area Schools' Response to Findings**

Benton Harbor Area Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Benton Harbor Area Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants  
Grand Rapids, Michigan



**INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM  
GUIDANCE**

October 30, 2018

The Board of Education  
Benton Harbor Area Schools  
Berrien County, Michigan

**Report on Compliance for Each Major Federal Program**

We have audited Benton Harbor Area Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of Benton Harbor Area Schools' major federal programs for the year ended June 30, 2018. Benton Harbor Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Benton Harbor Area Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Benton Harbor Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of Benton Harbor Area Schools' compliance.

***Basis for Qualified Opinion on Title I, Part A and Child Nutrition Cluster***

As described in the accompanying schedule of findings and questioned costs, Benton Harbor Area Schools did not comply with requirements regarding CFDA 84.010 Title I, Part A as described in finding 2018-002 and 2018-005 for federal written procedures and unallowed/allowable cost principles and CFDA 10.555, 10.553 and 10.559 Child Nutrition Cluster as described in findings 2018-003 and 2018-004 for reporting. Compliance with such requirements is necessary, in our opinion, for Benton Harbor Area Schools to comply with the requirements applicable to that program.

***Qualified Opinion on Title I, Part A and Child Nutrition Cluster***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Benton Harbor Area Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 84.010 Title I, Part A and CFDA 10.555, 10.553 and 10.559 Child Nutrition Cluster for the year ended June 30, 2018.

***Other Matters***

Benton Harbor Area Schools' response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Benton Harbor Area Schools' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

Management of Benton Harbor Area Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Benton Harbor Area Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Benton Harbor Area Schools' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-002, 2018-003, 2018-004, and 2018-005 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We did not find any instances in internal control over compliance that we consider to be significant deficiencies.

Benton Harbor Areas Schools' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Benton Harbor Areas Schools' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Benton Harbor Area Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise of Benton Harbor Area Schools' basic financial statements. We issued our report thereon dated October 30, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Certified Public Accountants  
Grand Rapids, Michigan

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## ***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

### **BENTON HARBOR AREA SCHOOLS**

For the year ended June 30, 2018

<b>Federal Grantor Pass Through Grantor Program Title Grant Number</b>	<b>Federal CFDA Number</b>	<b>Approved Grant Award Amount</b>
<b>U. S. Department of Education</b>		
Passed through Michigan Department of Education (MDE):		
Title I, Part A:	84.010	
171530 1617		\$ 5,045,574
181530 1718		<u>3,585,480</u>
Total Title I, Part A		<u>8,631,054</u>
Title III Limited English:	84.365	
170580 1617		<u>11,684</u>
Title II, Part A:	84.367	
170520 1617		1,417,010
180520 1718		<u>949,597</u>
Total Title II, Part A		<u>2,366,607</u>
Title IV, Part A Student Support & Academic Enrichment:	84.424A	
180750 1718		<u>52,140</u>
Twenty-First Century Community Learning Centers:	84.287	
172110 H13007		540,000
182110 H13007		<u>540,000</u>
Total Twenty-First Century Community Learning Centers		<u>1,080,000</u>
Total Passed Through MDE		<u>12,141,485</u>
Passed Through Berrien RESA:		
Vocational and Technical Education (Perkins III):	84.048	
113520/171819		<u>41,570</u>
Total Passed Through Berrien RESA		<u>41,570</u>
<b>Total U. S. Department of Education</b>		<u>12,183,055</u>

*See Notes to Schedule of Expenditures of Federal Awards.*

Accrued (Deferred) Revenue At July 1, 2017	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2018
\$ 2,388,540	\$ 3,738,540	\$ 486,024	\$ 2,874,564	\$ -
-	-	3,304,454	2,790,000	514,454
2,388,540	3,738,540	3,790,478	5,664,564	514,454
-	-	10,573	10,573	-
23,300	398,300	291,637	314,937	-
-	-	453,381	265,000	188,381
23,300	398,300	745,018	579,937	188,381
-	-	10,548	-	10,548
205,000	540,000	-	205,000	-
-	-	540,000	295,000	245,000
205,000	540,000	540,000	500,000	245,000
2,616,840	4,676,840	5,096,617	6,755,074	958,383
-	-	41,570	28,166	13,404
-	-	41,570	28,166	13,404
2,616,840	4,676,840	5,138,187	6,783,240	971,787

***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)***

**BENTON HARBOR AREA SCHOOLS**

For the year ended June 30, 2018

<b>Federal Grantor Pass Through Grantor Program Title Grant Number</b>	<b>Federal CFDA Number</b>	<b>Approved Grant Award Amount</b>
<b>U.S. Department of Health and Human Services</b>		
Passed through Berrien Regional Education Service Agency (RESA):		
Medical Assistance Program:		
1718 Medicaid Outreach	93.778	\$ <u>3,831</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>3,831</u>
<b>U.S. Department of Agriculture</b>		
Passed through Michigan Department of Education (MDE):		
Child Nutrition Cluster:		
Non-Cash Assistance (U.S.D.A. Commodities):		
Entitlement Commodities	10.555	90,725
Bonus Commodities		<u>18,110</u>
Total Non-Cash Assistance		<u>108,835</u>
Cash Assistance:		
National School Lunch Program 171960	10.555	1,052,015
National School Lunch Program 181960, 181980		910,229
School Breakfast Program 171970	10.553	545,757
School Breakfast Program 181970		489,035
Summer Food Service Program 170900, 171900	10.559	<u>152,349</u>
Total Cash Assistance		<u>3,149,385</u>
Total Nutrition Cluster		<u>3,258,220</u>
Food Equipment Grant 151991 EAG2015	10.579	<u>70,350</u>
Fresh Fruit and Vegetable Program 170950	10.582	21,832
Fresh Fruit and Vegetable Program 180950		<u>49,527</u>
Total Fresh Fruit and Vegetables		<u>71,359</u>

*See Notes to Schedule of Expenditures of Federal Awards.*

Accrued (Deferred) Revenue At July 1, 2017	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2018
\$ -	\$ -	\$ 3,831	\$ -	\$ 3,831
-	-	3,831	-	3,831
-	-	90,725	90,725	-
-	-	18,110	18,110	-
-	-	108,835	108,835	-
151,713	-	-	151,713	-
-	-	910,229	779,851	130,378
87,653	-	-	87,653	-
-	-	489,035	417,982	71,053
14,103	-	152,349	140,153	26,299
253,469	-	1,551,613	1,577,352	227,730
253,469	-	1,660,448	1,686,187	227,730
-	-	24,454	24,454	-
5,796	-	-	5,796	-
-	-	49,527	49,527	-
5,796	-	49,527	55,323	-

***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)***

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**BENTON HARBOR AREA SCHOOLS**

For the year ended June 30, 2018

<b>Federal Grantor Pass Through Grantor Program Title Grant Number</b>	<b>Federal CFDA Number</b>	<b>Approved Grant Award Amount</b>
Child and Adult Care Food Program 171920, 172010	10.558	\$ 56,988
Child and Adult Care Food Program 181920, 182010		<u>51,753</u>
Total Child and Adult Care Food Program		<u>108,741</u>
<b>Total U.S. Department of Agriculture</b>		<u>3,508,670</u>
<b>Total Federal Financial Assistance</b>		<u>\$ 15,695,556</u>

*See Notes to Schedule of Expenditures of Federal Awards.*

<b>Accrued (Deferred) Revenue At July 1, 2017</b>	<b>(Memo Only) Prior Year Expenditures</b>	<b>Current Year Expenditures</b>	<b>Current Year Receipts (Cash Basis)</b>	<b>Accrued (Deferred) Revenue At June 30, 2018</b>
\$ 7,395	\$ -	\$ -	\$ 7,395	\$ -
-	-	51,753	51,753	-
7,395	-	51,753	59,148	-
266,660	-	1,786,182	1,825,112	227,730
<u>\$ 2,883,500</u>	<u>\$ 4,676,840</u>	<u>\$ 6,928,200</u>	<u>\$ 8,608,352</u>	<u>\$ 1,203,348</u>

# **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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## **BENTON HARBOR AREA SCHOOLS**

For the year ended June 30, 2018

### **Note A – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Benton Harbor Area Schools under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Benton Harbor Area Schools, it is not intended to and does not present the financial position, changes in net assets, or cash flows, as applicable, of Benton Harbor Area Schools.

### **Note B – Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

### **Note C – Indirect Cost Rate**

Benton Harbor Area Schools has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

### **Note D – Grant Section Auditor Report**

Management has utilized the MDE Cash Management System (CMS) Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.

### **Note E – Non-Cash Assistance**

The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with the SEFA for USDA donated food commodities.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**

**BENTON HARBOR AREA SCHOOLS**

For the year ended June 30, 2018

**Note F – Federal Income Reconciliation**

	<b>Expenditures Per Schedule of Federal Financial Assistance</b>	<b>Federal Revenue Per Financial Statements</b>	<b>Difference</b>
Title I, Part A	\$ 3,790,478	\$ 3,790,478	\$ -
Title III	10,573	10,573	-
Title II, Part A	745,018	745,018	-
Title IV, Part A	10,548	10,548	-
21st Century Community Learning Center	540,000	540,000	-
Vocational and Technical Education	41,570	41,570	-
Medical Assistance Program	3,831	3,831	-
Nutrition Cluster	1,660,448	1,660,448	-
Food Equipment Grant	24,454	24,454	-
Fresh Fruit and Vegetable Program	49,527	49,527	-
Child and Adult Care Food Program	51,753	51,753	-
	<u>\$ 6,928,200</u>	<u>\$ 6,928,200</u>	<u>\$ -</u>

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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## BENTON HARBOR AREA SCHOOLS

For the year ended June 30, 2018

### Section I - Summary of Auditor's Results

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#### Financial Statements

Type of auditor's report issued:

*Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified?     X     Yes            No
- Significant deficiency(ies) identified?            Yes     X     None reported

Noncompliance material to financial statements noted?

    X     Yes            No

#### Federal Awards

Internal control over major programs:

- Material weakness(es) identified?     X     Yes            No
- Significant deficiency(ies) identified?            Yes     X     None reported

Type of auditor's report issued on compliance for major programs:

*Qualified for Nutrition Cluster  
Qualified for Title I*

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

    X     Yes            No

Identification of major programs audited:

Child Nutrition Cluster:

<u>10.555</u>	<u>U.S.D.A. Commodities</u>
<u>10.555</u>	<u>National School Lunch Program</u>
<u>10.553</u>	<u>School Breakfast Program</u>
<u>10.559</u>	<u>Summer Food Service Program</u>
<u>84.010</u>	<u>Title I, Part A</u>

## ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)***

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### **BENTON HARBOR AREA SCHOOLS**

For the year ended June 30, 2018

#### **Section I - Summary of Auditor's Results (Continued)**

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Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as a low-risk auditee?

\_\_\_\_\_ Yes        X   No

#### **Section II - Financial Statements Audit Findings**

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##### **Current Year Findings**

**2018-001**    **Finding Type:** Material noncompliance with laws and regulations.

**Repeat of**

**2017-001**

Criteria: Section 21 of Public Act 140 of 1971 defines a "deficit condition" as a situation when total expenditures, including an accrued deficit, exceed total revenues for that fiscal year, including any surplus carried forward, and requires that units of local government who end their fiscal year in a deficit condition formulate a deficit elimination plan.

Condition: The District's General Fund had a deficit fund balance condition at June 30, 2018.

Cause: The District's total expenditures, including an accrued deficit, exceeded total revenues for the fiscal year.

Effect: The District's fund balance deficit in the General Fund was \$4,425,383 at June 30, 2018.

Context: The District remains in non-compliance for the twelfth consecutive year with Section 21 of Public Act 140 of 1971.

Recommendation: The District should continue to review budgeting policies and procedures to ensure compliance with its approved deficit elimination plan. Additionally, management should continue to enact changes to increase revenue and reduce expenditures in order to eliminate the deficit.

Views of Responsible Officials: Responsible parties within the District are working to ensure the District is in compliance with the Financial and Operating Plan.

## ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)***

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### **BENTON HARBOR AREA SCHOOLS**

For the year ended June 30, 2018

#### **Section III – Major Federal Awards Findings and Questioned Costs**

##### **Current Year Findings**

##### **2018-002 Internal Control/Federal Written Procedures**

##### **Repeat of**

**2017-002** Finding type: Material weakness in internal control over major programs.

Criteria: Uniform Guidance, 2 CFR 200.303, requires that the District establish and maintain effective internal controls over Federal awards that provide reasonable assurance that the non-Federal entity is managing Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the federal award.

Condition: The District did not consistently follow procedures established for the administering of Federal awards as documented in its Federal Written Procedures.

Cause: The District's business office experienced significant turnover during the year, resulting in ineffective and, in some cases, absent controls.

Effect: District policies and procedures, as documented in its Federal Written Procedures, were not consistently adhered to. Control activities performed by the business office staff were ineffective or, in some cases, nonexistent, increasing the risk of noncompliance with requirements of Federal programs administered by the District.

Recommendation: We recommend that the District review its documented Federal Written Procedures and make revisions as necessary to ensure that actual procedures performed are consistent with written procedures, and that such procedures support an effective control environment that provides reasonable assurance that the District is in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Views of Responsible Officials: The District agrees with the finding and will review and revise its written procedures to reflect current policies.

## ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)***

### **BENTON HARBOR AREA SCHOOLS**

For the year ended June 30, 2018

#### **2018-003 Reporting – Inaccurate Meal Counts**

##### **Repeat of Finding**

**2017-003**

Finding Type: Material weakness and noncompliance with laws and regulations.

Criteria: 7 CFR 210.8(a) requires that school food authorities establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly Claim for Reimbursement. At a minimum, these internal controls shall include on-site reviews of the meal counting and claiming system employed by each school in the District, comparisons of daily meal counts against data which will assist in the identification of meal counts in excess of the number of meals served each day to children eligible for such meals; and a system for following upon those meal counts which suggest the likelihood of meal counting problems.

Condition: The District did not maintain effective internal controls over the Nutrition program to ensure that meals served were accurate and did not exceed student enrollment at each school.

Cause: The District's process for recording, monitoring, and reporting meals served is inconsistent across the District, as some schools are utilizing point of sale technology and others are completing meal count checklists. The District also experienced significant turnover during the year, including the Food Service Director, resulting in periods of ineffective or absent controls.

Effect: As a result, monthly Claims for Reimbursement were inaccurate or not adequately supported.

Questioned Costs: Unknown

Context: We reviewed meal count information for three months during the audit period, for all schools in the District, and noted the following:

- For 2 of 3 months reviewed, complete meal count support documentation was not available for review. Therefore, we could not confirm the accuracy of the respective monthly Claim for Reimbursement. We noted that the District utilized point-of-sale technology for part of the year at select schools, and meal count checklists at other schools for the entirety of the year. For schools utilizing meal count checklists, we found that the checklist was inconsistently and, in some cases, inaccurately completed.
- For the month of February 2018, claim support documentation from the point-of-sale system indicated 21,498 less meals (40%) than were claimed on the monthly Claim for Reimbursement request. Additional documentation, including meal count checklists referenced above, was not available or incomplete to reconcile the difference. As a result, we were unable to gain reasonable assurance that meal counts were not materially overstated.

## ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)***

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### **BENTON HARBOR AREA SCHOOLS**

For the year ended June 30, 2018

- For the month of September 2017, we reconciled meals claimed for 3 of 6 schools to the supporting meals count checklists and noted that meals served were over-reported by 2,550 (14%). The difference includes the impact of absent meal count checklists.
- For 1 of 2 months reviewed, we noted one instance where meals served on a single day exceeded student enrollment at the school. We were unable to perform our review for the third month reviewed, based on the absence of daily meal count checklists.
- Totals recorded on meal count checklists did not always agree with the numbers checked off on the same form.
- On-site reviews were not performed at any school during the audit period.

**Recommendation:** The District should establish and maintain effective procedures and internal controls that would identify and correct meal count errors prior to requests for reimbursement.

**View of Responsible Officials:** The District agrees with the finding and will establish effective controls to ensure the accuracy of meal count records.

#### **2018-004 Reporting – Late Submission**

**Finding Type:** Material weakness and noncompliance with laws and regulations.

**Criteria:** 7 CFR 210.8(b) includes various requirements that MDE must comply with regarding its review of monthly Claims for Reimbursement submitted by grantees. MDE requires that Claims for Reimbursement be submitted by grantees within 60 days of the end of the claim month, as communicated in its annual Program Requirement Calendar.

**Condition:** The District did not maintain effective internal controls over the Nutrition program to ensure monthly Claims for Reimbursement were submitted timely to the grantor agency, the Michigan Department of Education (MDE).

**Cause:** The District experienced significant turnover during the year, including the Food Service Director and business office manager resulting in periods of ineffective or absent controls.

**Effect:** The District may impede MDE's ability to meet federal program requirements.

**Questioned costs:** Unknown

**Context:** The March 2018 Claim for Reimbursement was submitted to MDE on June 4, 2018, 65 days after the end of the claim month

## ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)***

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### **BENTON HARBOR AREA SCHOOLS**

For the year ended June 30, 2018

Recommendation: We recommend that the District establish and maintain effective internal controls over the Nutrition program to ensure timely preparation and submission of monthly Claims for Reimbursement.

View of Responsible Officials: The District agrees with the finding and will establish effective controls to ensure the timeliness of Claims for Reimbursement for the Nutrition program.

#### **2018-005 Unallowed/Allowable Cost Principles – Time and Effort Reporting**

Finding Type: Material noncompliance with laws and regulations.

Criteria: 2 CFR 200.430(i) requires that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. Among other requirements identified in this section, 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, and (v) comply with the established accounting policies and practices of the District.

Condition: The District did not comply with their documented time and effort reporting policies, and did not maintain adequate support documentation to substantiate salaries and wages charged to the Title I grant.

Cause: The District experienced significant turnover during the year, including the Title I grant coordinator and business office manager, resulting in periods of ineffective or absent controls.

Effect: The District is unable to support the accuracy of expenditures charged to the grant.

Questioned Costs: \$221,092

Context: The District indicates in their Federal Written Procedures that bi-weekly Personnel Activity Reports (PARs) are completed for employees whose time is split between a Federal grant and another funding source. For employees whose time is 100% funded by a Federal source, the District's policy is to complete semi-annual time certifications. Through our testing of the Title I program, we found no instances of PARs being completed, instead noting that time and effort is documented for all employees using semi-annual time certifications.

## ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)***

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### **BENTON HARBOR AREA SCHOOLS**

For the year ended June 30, 2018

We initially reviewed 21 employees charged to the Title I grant during fiscal year 2017-18 to test time and effort requirements, however testing was expanded based on errors noted. Our testing results are as follows:

- Time and effort documentation for 8 employees charged to the Title I grant was not available.
- 20 of 110 total employees charged to the Title I grant had federal claim rates that did not match rates identified on the District's semi-annual time certification.

Recommendation: We recommend that the District revise its documented Federal Written Procedures to reflect actual time and effort procedures being performed, and establish and maintain effective internal controls that ensure salaries and wages allocated to the Title I Federal award are based on records that accurately reflect the work performed.

View of Responsible Officials: The District agrees with the finding and will establish effective controls to ensure time and effort reporting is consistent with District policies, and that all charges to the grant are adequately supported. However, the amount of questioned costs may not reflect the adjustment made by MDE from its audit of the 2016-17 grant and the final expenditure report.

## ***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS***

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### **BENTON HARBOR AREA SCHOOLS**

For the year ended June 30, 2018

**2017-001 Finding Type:** Material noncompliance with laws and regulations.

Criteria: The State of Michigan Uniform Budgeting and Accounting Act prohibits school districts from having expenditures in excess of the adopted budget and prohibits school districts from depleting fund balances beyond that which has been approved by the Board of Education.

Condition: The Benton Harbor Area Schools' General Fund has been in a deficit fund balance position for ten consecutive years.

Cause: The District is not in compliance with the State of Michigan Uniform Budget and Accounting Act and, therefore, is required to have a deficit elimination plan and to operate within its parameters.

Context: The District remains in non-compliance with the State of Michigan Uniform Budget and Accounting Act since the General Fund balance remains in a deficit position.

Resolution: The finding has not been resolved. See finding 2018-001.

**2017-002 Internal Control/Written Federal Procedures**

Finding Type: Material weakness in internal control over major programs.

Condition and criteria: The District must establish and maintain effective internal controls over Federal awards that provide reasonable assurance that the non-Federal entity is managing Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. The District must have written policies and procedures manuals addressing all applicable compliance areas under the Uniform Guidance, for instance, cash draws, procurement, allow-ability of costs, and personnel costs.

Cause: The District's written Federal procedures manual is outdated and does not reflect current OMB requirements under the Uniform Guidance

Context: The District has no established, written policies that it follows with regards to Federal Grant compliance under the Uniform Guidance.

Resolution: The finding has not been resolved. See finding 2018-002.

## ***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)***

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### **BENTON HARBOR AREA SCHOOLS**

For the year ended June 30, 2018

#### **2017-003 Reporting**

Finding Type: Material weakness and noncompliance with laws and regulations.

Condition and criteria: The District did not maintain effective internal controls to ensure that meal counts were accurate and did not exceed student enrollment at each school. Per 7 CFR 210.8, the school food authority shall establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly Claim for Reimbursement. These internal controls all assist in the identification of lunch counts in excess of the number meals served.

Cause: The District's process for recording, monitoring, and reporting meals served is performed entirely by staff without assistance of point of sale technology, and is therefore subject to human error.

Context: We reviewed March meal counts for 3 of 6 schools in the District and noted the following:

- Daily lunch counts exceeded total enrollment at the school.
- Meal counts reported in the Claim Status Report, used by the District to request reimbursement for the Nutrition program, did not tie to daily meal counts. In total, meals served were under-reported.
- Totals recorded on Meal Count Forms, used by food service staff to count students receiving a meal, did not always agree with the numbers checked off on the same form.

Resolution: The finding has not been resolved. See finding 2018-003.



# Benton Harbor Area Schools

Quality Learning For Every Student Every Day

<b>Finding Number Federal Programs Audit:</b>	<b>Responsible Person</b>	<b>Management Views</b>	<b>Corrective Action</b>	<b>Anticipated Completion Date</b>
2018-001	Management Team	Management agrees with the finding and is in the process of implementing the recommendation.	The District and responsible parties within the State of Michigan will monitor the approved deficit elimination plan.	Immediately and continuing
2018-002	Grant Specialist	Management agrees with the finding and is in the process of implementing the recommendation.	The District will update and adhere to a written Federal policies manual that reflects current OMB requirements under the Uniform Guidance.	Immediately
2018-003	Finance Specialist	Management agrees with the finding and has implemented the recommendation.	The District has implemented a Point-of-Sale system and will review each Claim Status Report prior to submission to ensure that the number of meals served in the system equals the numbers of meals on the report. Beginning with the March 2018 claim, a detailed reconciliation process was initiated and meal claims are reconciled to appropriate source documents.	Immediately
2018-004	Finance Specialist	Management agrees with the finding and has implemented the recommendation.	The Food Service Director and the finance specialist began meeting each month, beginning in March 2018, to go through the claiming process in a timely matter.	Immediately
2018-005	Grant Specialist	Management agrees with the finding and has implemented the recommendation.	The Grant Specialist has been hired and will review all time records and related charged to the District's federal grants each payroll period and will verify that the payroll charges to the accounting system agree to grant budgets and spending plans.	Immediately