

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

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCHOOL TOWN OF MUNSTER

LAKE COUNTY, INDIANA

July 1, 2022 to June 30, 2024



FILED

02/21/2025

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Linda Zaborowski Jessica Espinoza	07-01-22 to 12-06-22 12-07-22 to 06-30-25
Superintendent of Schools	Dr. Bret Heller	07-01-22 to 06-30-25
President of the Board of Trustees	Ingrid Schwarz Wolf John Castro John J. Doherty Kyle Dempsey	07-01-22 to 12-31-22 01-01-23 to 12-31-23 01-01-24 to 12-31-24 01-01-25 to 06-30-25



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TO: THE OFFICIALS OF THE SCHOOL TOWN OF MUNSTER, LAKE COUNTY, INDIANA

This report is supplemental to the audit report of the School Town of Munster (School Corporation), for the period from July 1, 2022 to June 30, 2024. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with the Financial Statement Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement. This report may be found at www.in.gov/sboa/.

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

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

Beth Kelley, CPA, CFE
Deputy State Examiner

February 6, 2025

SCHOOL TOWN OF MUNSTER
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - COMPLIANCE

Condition and Context

Internal control deficiencies resulted in noncompliance over:

- Annual Financial Report
- Prepaid Lunch Account Reconciliations
- Negative Lunch Account Balances
- Capital Assets

These internal control deficiencies are further detailed in the comments below.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

ANNUAL FINANCIAL REPORT

The same comment also appeared in prior Report B61066.

Condition and Context

The Annual Financial Report (AFR) is required to be submitted annually via the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement and other information. The School Corporation had not established effective internal controls to ensure the accuracy and completeness of the capital asset information submitted in the AFR.

Amounts were reported in the AFR for the value of the capital assets owned by the School Corporation totaling \$145,757,372 and \$157,239,094 as of June 30, 2023 and 2024, respectively. However, the detailed listing was determined to be materially overstated since buildings and land were valued at current fair market values and not at historical costs as required. In addition, \$19,535,244 of equipment included items that were grouped together without detailing each piece of equipment to determine if the individual value was equal to or greater than the capital asset threshold per the School Corporation's policy.

SCHOOL TOWN OF MUNSTER
 AUDIT RESULTS AND COMMENTS
 (Continued)

The School Corporation approved the omission of the Schedule of Capital Assets from the Financial Statement Audit Report of the School Corporation.

Criteria

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner as set forth in the uniform compliance guidelines. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

PREPAID LUNCH ACCOUNT RECONCILIATIONS

The same comment also appeared in prior Reports B52351, B56836, and B61066.

Condition and Context

Internal controls were not in place to ensure Prepaid School Lunch fund cash balance agreed to the detailed listing of all individual account balances. Monthly reconciliations of all the individual lunch account balances to the Prepaid School Lunch fund (clearing account) were performed. However, the balance of the Prepaid School Lunch fund exceeded all the individual lunch account balances as follows:

Description	June 30,	
	2023	2024
Prepaid School Lunch Fund	\$ 69,472	\$ 43,937
Individual Lunch Account Balances	<u>40,190</u>	<u>21,216</u>
Variance	<u>\$ 29,282</u>	<u>\$ 22,721</u>

Criteria

SBOA opinion is that money a student puts into their individual meal account (prepaid food account) should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while it is in the student's individual account the balance it should not be included in the School Lunch fund. It is required that you set up a Prepaid School Lunch Accounts fund clearing account. When a student brings in a deposit the receipt would be recorded to the Prepaid School Lunch Accounts fund. Periodically, after the student has charged meals, you should disburse the amount charged from the Prepaid School Lunch Accounts fund and receipt it into the School Lunch fund. At this point it is considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis the balance of the Prepaid School Lunch Accounts fund should be reconciled with the total of the individual meal accounts. The School Food Prescribed Forms and any approved computerized Forms will be required to be maintained in the following manner to accurately account for prepaid items. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 10)

SCHOOL TOWN OF MUNSTER
AUDIT RESULTS AND COMMENTS
(Continued)

NEGATIVE LUNCH ACCOUNT BALANCES

Condition and Context

Internal controls were not in place to ensure compliance with School Board policies for individuals with significant negative meal account balances.

Policy 8500 over the Food Service Program states in part:

Meal Charges

". . . Significant negative lunch account balances shall not be permitted. A significant negative lunch account balance is any balance owed in excess of \$20.

If a student has a significant negative lunch account balance, the student shall be provided a regular reimbursable meal that follows the USDA meal pattern, the cost of which shall continue to accrue to the student's negative lunch account balance.

Furthermore, if a student has a significant negative lunch account balance, the student shall not be permitted to charge any à la carte food or beverage items.

Any significant negative lunch account balance should be pursued for collection before it is determined to be uncollectible pursuant to Policy 6151 . . ."

Bad Debt/Uncollectible Debt

"Significant negative lunch account balances that are not collected in the year when the debt was incurred shall be classified as bad debt. Bad debt incurred through the inability to collect lunch payment from students is not an allowable cost chargeable to any Federal program. Once classified as bad debt, non-Federal funding sources shall reimburse the school lunch program account for the total amount of the bad debt. If funds to reimburse the Corporation for this bad debt are not available from another source, such as school or community organizations (like the PTA) or any other non-Federal source, the funds to reimburse the school lunch program shall be transferred from the Corporation operations fund or other State or local funding to make that reimbursement.

Once the uncollectible/delinquent debt charges are converted to bad debt, records relating to those charges must be maintained in accordance with the record retention requirements in 7 C.F.R. 210.9(b)(17) and 7 C.F.R. 210.15(b). Any related collection costs, including legal costs, arising from such bad debt after they have been determined to be uncollectible also are unallowable.

Bad debt may be removed from accounts receivable in accordance with Policy 6151."

Policy 6151 over Bad Checks and Uncollectible Debts states in part:

"If efforts to collect an amount due the Corporation have not been successful and, in the opinion of the Treasurer, further efforts to collect the amount due are unlikely to be successful, the staff shall submit a recommendation that the Board find that the debt is uncollectable. This recommendation shall be supported by a brief statement that summarized the efforts to collect the debt to date and the reason(s) why further efforts to collect the debt are not likely to be successful. . . ."

SCHOOL TOWN OF MUNSTER
AUDIT RESULTS AND COMMENTS
(Continued)

The individual lunch account balances total \$21,316 as of June 30, 2024. Of that amount, the positive lunch account balances total \$46,476 and the negative lunch account balances total \$25,160. Of the negative \$25,160 balances, 172 individual account balances totaling negative \$22,223 were over \$20 and determined to be significant. However, the School Corporation did not pursue collection of the significant negative lunch account balance in accordance with the School Board Policies.

Criteria

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

CAPITAL ASSETS

Condition and Context

Internal controls were not in place to ensure a complete and accurate detailed listing of capital assets was maintained.

Policy 7455 over Accounting System for Capital Assets states in part:

"The Corporation will capitalize items with an individual value equal to or greater than \$5,000. Improvements or renovations to existing machinery and equipment will be capitalized only if the change causes the total cost to exceed \$5,000, extends its useful life two (2) or more years, and if the total costs will be greater than the current book value and less than fair market value."

The detailed listing was determined to be materially overstated since buildings and land were valued at current fair market values and not at historical costs as required. In addition, \$19,535,244 of equipment included items that were grouped together without detailing each piece of equipment to determine if the individual value was equal to or greater than the capital asset threshold per the School Corporation's policy.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

SCHOOL TOWN OF MUNSTER
EXIT CONFERENCE

The contents of this report were discussed on February 6, 2025, with Jessica Espinoza, Treasurer; William Melby, Director of Financial Operations; Dr. Bret Heller, Superintendent of Schools; Kyle Dempsey, President of the Board of Trustees; and Amy Sinder, Board of Trustees member.