

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MITCHELL COMMUNITY SCHOOLS

LAWRENCE COUNTY, INDIANA

July 1, 2013 to June 30, 2015



FILED
09/12/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Malinda Powell	07-01-13 to 12-31-17
Superintendent of Schools	Dr. Steve E. Phillips	07-01-13 to 06-30-18
President of the School Board	Christopher Shaw	07-01-13 to 12-31-17



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TO: THE OFFICIALS OF THE MITCHELL COMMUNITY SCHOOLS, LAWRENCE COUNTY, INDIANA

This report is supplemental to our audit report of the Mitchell Community Schools (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

July 18, 2017

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2015-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness and Other Matter

Condition

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

The School Corporation did not have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Federal expenditures were not reported for four grants totaling \$887,436. Federal expenditures were overstated \$57,542 in total for four grants and were understated \$156,735 in total for six grants. In addition, the program and project titles for several grants were incorrectly reported.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA.

Criteria

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

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

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

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

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 §_.310. . . ."

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

"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:

MITCHELL COMMUNITY SCHOOLS
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.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Cause

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

Effect

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

Views of Responsible Officials

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

FINDING 2015-002

Subject: Internal Controls over Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There was a lack of segregation of duties within the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not separated incompatible activities related to receipts.

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Electronic fund transfers from the Auditor of State comprised a large portion of the School Corporation's receipts. The Treasurer had complete control over funds received electronically. The only receipt for these transactions was generated from the Komputrol software when the Treasurer posted the receipts to the ledger. There was no indication of a review, oversight, or approval process.

Criteria

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

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

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

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

Cause

Management of the School Corporation had not established a proper system of internal control over receipts.

Effect

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

Views of Responsible Officials

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

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2015-003

Subject: Child Nutrition Cluster - Internal Control

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Eligibility, Equipment and
Real Property Management, Program Income,
Reporting, Special Tests and Provisions - Paid Lunch Equity

Audit Findings: Material Weakness

Condition

An effective internal control system, which would include segregation of duties, was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Cash Management, Eligibility, Equipment and Real Property Management, Program Income, Reporting, and Special Tests and Provisions - Paid Lunch Equity.

Cash Management

An effective internal control system was not in place to ensure that the School Lunch fund monthly cash balances did not exceed the average expenditures for three months.

Eligibility

An effective internal control system was not in place to ensure that all records related to eligibility determination were retained and available for audit. Also, controls were not in place to ensure that the eligibility calculations were accurate and that a public announcement of the eligibility criteria was made as required.

Equipment and Real Property Management

An effective internal control system was not in place to ensure that equipment and real property was properly managed, that dispositions of equipment or real property were properly handled, and that records related to equipment and real property management were maintained.

Program Income

The School Corporation had not designed or implemented adequate policies and procedures to ensure that program income was properly recorded. An oversight, review, or approval process had not been established.

Reporting

An effective internal control system was not in place to ensure that the monthly Sponsor Claim Summary Forms (reimbursement requests), Annual Financial Reports, and School Food Authority Verification Collection Reports were accurately prepared and submitted. There was no segregation of duties such as oversight, review, or an approval process.

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Special Tests and Provisions - Paid Lunch Equity

An effective internal control system was not in place to ensure that the Paid Lunch Equity calculations were retained and available for audit or to ensure that those calculations were accurate.

Context

This was a systemic problem within the School Breakfast Program, National School Lunch Program, and Summer Food Service Program for Children. Controls did not exist over the compliance requirements listed above during the audit period.

Criteria

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. . . ."

Cause

Management had not developed a system of internal controls, including segregation of duties that would have ensured that the School Corporation complied with the compliance requirements listed above.

Effect

The failure to establish an effective internal control system placed 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 have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

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

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2015-004

Subject: Child Nutrition Cluster - Cash Management
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Cash Management
Audit Finding: Modified Opinion

Condition

The School Corporation's cash balance (Net Cash Resources) exceeded the 3 months average expenditures by an average of \$37,638 and \$46,281, per month, in 2013-2014 and 2014-2015, respectively.

Context

This was a systemic problem as the ending cash balance of the School Lunch fund (Net Cash Resources) was greater than the 3 months average expenditures for 23 of 24 months during the audit period.

Criteria

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)."

7 CFR 220.7 states in part:

". . . (e) Each school food authority approved to participate in the program shall . . . with respect to participating schools under its jurisdiction:

- (1) . . . (iv) Limit its net cash resources to an amount that does not exceed three months average expenditure for it nonprofit school food service or such other amount as may be approved by the State agency . . ."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Cash Management compliance requirements.

Effect

The failure to establish an effective internal control system enabled noncompliance to occur. Non-compliance with the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation adequately monitor the cash balance of the School Lunch fund (Net Cash Resources) and comply with the Cash Management requirements.

Views of Responsible Officials

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

FINDING 2015-005

Subject: Child Nutrition Cluster - Eligibility
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Eligibility
Audit Finding: Modified Opinion

Condition

The School Corporation was required to provide written notice to applicants whose applications for free/reduced meal prices were denied. The School Corporation mailed letters to those applicants notifying them that the application was denied. However, the School Corporation did not maintain copies of those letters or any other documentation indicating to whom letters were sent. Therefore, testing of this requirement could not be performed.

The eligibility determination for free/reduced meal prices was not performed correctly for two applications tested. The determination indicated that the applicant was eligible for reduced meal prices when the applicant was eligible for free meals.

The School Corporation did not publicly announce the eligibility criteria as required.

Context

The lack of documentation to support written communication to denied applicants was a systemic problem as no documentation was maintained during the audit period.

Two of sixty tested eligibility determinations were performed incorrectly.

The lack of a public announcement of eligibility criteria was a systemic problem as a proper announcement was not made at any point during the audit period.

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Criteria

7 CFR 245.6(c)(7) states:

"Denied applications and the notice of denial. When the application furnished by a family is not complete or does not meet the eligibility criteria for free or reduced price benefits, the local educational agency must document and retain the reasons for ineligibility and must retain the denied application. In addition, the local educational agency must promptly provide written notice to each family denied benefits. As a minimum, this notice shall include:

- (i) The reason for the denial of benefits, e.g. income in excess of allowable limits or incomplete application;
- (ii) Notification of the right to appeal;
- (iii) Instructions on how to appeal; and
- (iv) A statement reminding parents that they may reapply for free or reduced price benefits at any time during the school year."

7 CFR 245.6(e) states:

"(e) Recordkeeping. The local educational agency must maintain documentation substantiating eligibility determinations on file for 3 years after the date of the fiscal year to which they pertain, except that if audit findings have not been resolved, the documentation must be maintained as long as required for resolution of the issues raised by the audit."

7 CFR 245.6(c)(4) states:

"Calculating income. The local educational agency must use the income information provided by the household on the application to calculate the household's total current income. When a household submits an application containing complete documentation, as defined in § 245.2, and the household's total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in § 245.2, the children in that household must be approved for free or reduced price benefits, as applicable."

7 CFR 245.5(a) states in part:

"After the State agency, or FNSRO where applicable, notifies the local educational agency (as defined in § 245.2) that its criteria for determining the eligibility of children for free and reduced meals and for free milk have been approved, the local educational agency (as defined in § 245.2) shall publicly announce such criteria: *Provided however*, that no such public announcement shall be required for boarding schools, residential child care institutions (see § 210.2 of this chapter, definition of *Schools*), or a school which includes food service fees in its tuition, where all attending children are provided the same meals or milk. Such announcements shall be made at the beginning of the school year or, if notice of approval is given thereafter, within 10 days after the notice is received. The public announcement of such criteria, as a minimum, shall include the following:

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (1) Except as provided in § 245.6(b), a letter or notice and application distributed on or about the beginning of each school year, to the parents of all children in attendance at school. The letter or notice shall contain the following information:
- (i) In schools participating in a meal service program, the eligibility criteria for *reduced price* benefits with an explanation that households with incomes less than or equal to the reduced price criteria would be eligible for either free or reduced price meals, or in schools participating in the free milk option, the eligibility criteria for *free* milk benefits;
 - (ii) How a household may make applications for free or reduced price meals or for free milk for its children;
 - (iii) An explanation that an application for free or reduced price benefits cannot be approved unless it contains complete information as described in paragraph (1)(i) of the definition of *Documentation* in § 245.2;
 - (iv) An explanation that households with children who are members of currently certified SNAP, FDPIR or TANF households may submit applications for these children with the abbreviated information described in paragraph (2)(ii) of the definition of *Documentation* in § 245.2;
 - (v) An explanation that the information on the application may be verified at any time during the school year;
 - (vi) How a household may apply for benefits at any time during the school year as circumstances change;
 - (vii) A statement to the effect that children having parents or guardians who become unemployed are eligible for free or reduced price meals or for free milk during the period of unemployment, *Provided*, that the loss of income causes the household income during the period of unemployment to be within the eligibility criteria;
 - (viii) The statement: 'In the operation of child feeding programs, no child will be discriminated against because of race, sex, color, national origin, age or disability;'
 - (ix) An explanation that Head Start enrollees and foster, migrant, and runaway children, as defined in § 245.2, are categorically eligible for free meals and free milk and their families should contact the school for more information;
 - (x) How a household may appeal the decision of the local educational agency with respect to the application under the hearing procedure set forth in § 245.7. The letter or notice shall be accompanied by a copy of the application form required under § 245.6.
 - (xi) A statement to the effect that the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) participants may be eligible for free or reduced price meals. . . ."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Eligibility compliance requirement.

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system enabled material noncompliance to occur. Noncompliance with the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation implement procedures to ensure compliance with the Eligibility compliance requirement.

Views of Responsible Officials

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

FINDING 2015-006

Subject: Child Nutrition Cluster - Equipment and Real Property Management
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Equipment and Real Property Management
Audit Finding: Modified Opinion

Condition

The School Corporation did not properly maintain records for equipment and real property totaling \$48,701. The additions were not recorded in the property records or labeled appropriately designating them as purchased with federal funds.

The School Corporation disposed of property during the audit period; however, the property records did not reflect the dispositions of property and no records of dispositions were presented for audit. Additionally, the School Corporation did not conduct periodic inventories of equipment and real property to reconcile to the property records.

Context

This was a systemic problem as the property records maintained by the School Corporation were not current and were not updated at any point during the audit period, no records of dispositions were presented for audit, and no periodic inventories were conducted.

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Criteria

7 CFR 3016.32(d) states:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

34 CFR 80.32(e) states:

"Disposition. When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:

- (1) Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.
- (2) Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.
- (3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Equipment and Real Property Management compliance requirement.

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system enabled noncompliance to occur. Non-compliance with the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation comply with the Equipment and Real Property compliance requirement.

Views of Responsible Officials

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

FINDING 2015-007

Subject: Child Nutrition Cluster - Program Income
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Program Income
Audit Finding: Modified Opinion

Condition

The School Corporation did not comply with requirements for accounting for program income generated from the operation of the food service program. All monthly receipts from sales, including prepayments, were recorded directly in the School Lunch fund as income. Prepayments are not considered program income and should not be recorded as income in the School Lunch fund.

Context

This was a systemic problem as all prepayments were recorded as revenue of the school food service program with no tracking in a separate record or fund during the entire audit period.

Criteria

7 CFR 210.14(c) states:

"Financial assurances. The school food authority shall meet the requirements of the State agency for compliance with § 210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority as provided in paragraph (a) of this section."

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Program Income compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to occur. Non-compliance with the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation comply with the Program Income requirements to ensure that program income is properly receipted and recorded in the School Corporation records.

Views of Responsible Officials

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

FINDING 2015-008

Subject: Child Nutrition Cluster - Reporting

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Finding: Modified Opinion

Condition

The School Corporation filed the required National School Lunch Program (NSLP) Annual Financial Report (AFR) for both years under audit. However, the Income Total reported was not accurate and did not agree to the income per the School Corporation's ledger for either year. Additionally, the beginning and ending cash balances reported did not agree to the fund balances shown in the ledger for either year.

Context

This was a systemic problem as two AFRs were filed during the audit period, and the reported Income Total and beginning and ending cash balances did not agree to the School Corporation's ledger for either report.

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Criteria

7 CFR 3016.20(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. . . .
- (6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. . . ."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Reporting compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to occur. Non-compliance with the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation ensure that all required reports are prepared accurately, in accordance with the Reporting requirements, and that reports are supported by source documentation.

Views of Responsible Officials

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

FINDING 2015-009

Subject: National School Lunch Program - Special Tests and Provisions - Paid Lunch Equity
Federal Agency: Department of Agriculture
Federal Program: National School Lunch Program
CFDA Number: 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Paid Lunch Equity
Audit Finding: Modified Opinion

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Condition

The Food Services Director prepared the Paid Lunch Equity calculations each year, but the School Corporation did not maintain the Paid Lunch Equity calculations for audit as required.

Context

This was a systemic problem as the School Corporation did not maintain the Paid Lunch Equity calculations for either year under audit.

Criteria

7 CFR 210.15 states in part:

"... (b) *Recordkeeping summary.* In order to participate in the Program, a school food authority or a school, as applicable, must maintain records to demonstrate compliance with Program requirements. These records include but are not limited to . . .

(6) Records to document compliance with the requirements in § 210.14(e). . . ."

7 CFR 210.14 states in part: "... (e) *Pricing paid lunches.* For each school year beginning July 1, 2011, school food authorities shall establish prices for paid lunches in accordance with this paragraph. . . ."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Special Tests and Provisions - Paid Lunch Equity requirements.

Effect

The failure to establish effective internal controls that would have ensured that documentation was maintained and available for audit prevented the determination of the School Corporation's compliance with the grant agreement and the Special Test and Provision - Paid Lunch Equity requirements.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation comply with the Special Tests and Provisions - Paid Lunch Equity requirements and retain the Paid Lunch Equity calculations.

Views of Responsible Officials

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

Dr. Steve E. Phillips

SUPERINTENDENT

Phillip Storm

ASSISTANT SUPERINTENDENT

Malinda Powell

TREASURER

Debbie Arthur

SECY. TO BOARD/
DEPUTY TREASURER

Sherry Burkett

BENEFITS/SECRETARY

Mitchell Community Schools

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MITCHELL COMMUNITY SCHOOLS

CORRECTIVE ACTION PLAN FOR MAY, JUNE, 2017 AUDIT

BOARD OF TRUSTEES

Cynthia L. Brooking

Steve Burton

Crystal D. Mikels

Patrick Redman

Christopher S. Shaw

FINDING 2015-001

Condition: The School Corporation did not have 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 did not have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Federal expenditures were not reported for four grants totaling \$887,436. Federal expenditures were overstated \$57,542 in total for four grants and were understated \$156,735 in total for six grants. In addition, the program and project titles for several grants were incorrectly reported.

Recommendation: None given

Corrective Action Plan: The Treasurer will have the Assistant Superintendent review and sign off on this reporting before it is submitted.

Anticipated Completion Date: Already addressed

FINDING 2015-002

Condition: There was a lack of segregation of duties within the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not separated incompatible activities related to receipts.

Electronic fund transfers from the Auditor of State comprise a large portion of the School Corporation's receipts. The Treasurer had complete control over funds received electronically. The only receipt for these transactions was generated from the Komputrol software when the Treasurer posted the receipts to the ledger. There was no indication of a review, oversight, or approval process.

Recommendation: None given

Corrective Action Plan: The Treasurer is now having the Superintendent sign off on the end of the month revenue reports.

Anticipated Completion Date: Already addressed

FINDING 2015-003

Condition: An effective internal control system, which would include segregation of duties, was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Cash Management, Eligibility, Equipment and

Real Property Management, Program Income, Reporting, and Special Tests and Provisions #4 – Paid Lunch Equity.

Recommendation: We recommend that the School Corporation’s management establish controls, including segregation of duties, related to the grant agreement and compliance requirement listed above.

Corrective Action Plan: The School Corporation will comply with all of the findings noted in this document and will implement the necessary controls to assure compliance.

Anticipated Completion Date: Begin addressing immediately.

FINDING 2015-004

Condition: The School Corporation’s cash balance exceeded the average expenditures for three months by an average per month of \$37,638 and \$46,281 in 2013-14 and 2014-15.

Recommendation: We recommend that the School Corporation adequately monitor the cash balance of the School Lunch fund and comply with the Cash Management requirements.

Corrective Action Plan: The Food Service Director (FSD) and the Superintendent will review cafeteria needs and purchase food service related items. As an internal control, the FSD will maintain a document indicating the target three (3) month figure and monthly totals. This report will include PPFT (Prepaid Food Trust) totals, so as to not include these funds as available for cafeteria spending. Further, this document will be reviewed/signed by the corporation treasurer monthly.

Anticipated Completion Date: Begin addressing immediately

FINDING 2015-005

Condition: The School Corporation was required to provide written notice to applicants whose applications for free/reduced meal prices were denied. The School Corporation mailed letters to those applicants notifying them that the application was denied. However, the School Corporation did not maintain copies of those letters or any other documentation indicating to whom the letters were sent. Therefore, testing of this requirement could not be performed.

The eligibility determination for free/reduced meal prices was not performed correctly for two applications tested. The determination indicated that the applicant was eligible for reduced meal prices when the applicant was eligible for free meals.

The School Corporation did not publically announce the eligibility criteria as required.

Recommendation: We recommend that the School Corporation establish a system of internal controls and implement procedures to ensure compliance with the Eligibility requirement. We recommend that the School Corporation retain copies of letters mailed and denied applicants or develop a tracking mechanism to ensure that documentation is available to audit this requirement. We also recommended that the School Corporation ensure that Eligibility determinations are made correctly. Additionally, the School Corporation should make the required public announcement regarding eligibility criteria.

Corrective Action Plan: A copy of the letter sent to applicants who were denied meal-textbook benefits will be stapled directly to the application. A document will be created by the FSD listing the applications that were denied. As an internal control, a cafeteria manager will sign this document, which will be retained and available for audit.

Annually, a random selection of 20 applications will be reviewed and documented as accurate by the FSD. An indication of such process will be marked directly on the application. Further, a list of these 20 applicants will be reviewed/signed by a school principal. This list will be retained and available for audit.

The eligibility criteria has been uploaded to the school corporation website and school officials are working to insure that the eligibility criteria is viewable within the school's Harmony database.

Anticipated Completion Date: Begin addressing immediately

FINDING 2015-006

Condition: The School Corporation did not properly maintain records for equipment and real property purchase with the program funds during the audit period. The School Corporation purchased equipment totaling \$48,701. The additions were not recorded in the property records or labeled appropriately designating them as purchased with federal funds. The School Corporation disposed of property during the audit period. The property records did not reflect the dispositions of property and no records of dispositions were presented for audit. Additionally, the School Corporation did not conduct periodic inventories of equipment and real property to reconcile the property records.

Recommendation: We recommend that the School Corporation prepare and maintain updated, accurate detailed property records, including information on dispositions of property. Inventories of equipment should be conducted and reconciled to the detailed property records at least once every two years. Significant differences should be investigated and the appropriate adjustments made to the records. Additionally, any equipment acquired with federal funds must be designate as such so that it is not disposed of improperly.

Corrective Action Plan: The School Corporation will prepare and maintain updated, accurate property records, including information on dispositions of property. Inventories of equipment will be conducted and reconciled to the records every two (2) years. Additionally, any equipment acquired with federal funds will be designated as such so that it is not disposed of improperly. As an internal control, this document will be maintained by the FSD and reviewed/signed by a principal in the respective building.

Anticipated Completion Date: Begin addressing immediately

FINDING 2015-007

Condition: The School Corporation did not comply with requirements for accounting for program income generated from the operation of the food service program. All monthly receipts from sales, as well as prepayments, were recorded directly in the School Lunch fund; prepayments were not recorded in a Prepaid Food fund.

Recommendation: We recommend that the School Corporation comply with the Program Income requirements to ensure that program income is properly receipted and recorded in the School Corporation records.

Corrective Action Plan: This issue has already been corrected. Once it was discovered how to complete document PPFT, Mrs. Powell immediately began recording the Prepaid Food Trust information as required. Online receipts and daily cafeteria receipts are now receipted into Prepaid Food Trust Fund and then transferred to the proper cafeteria accounts as reported to Treasurer at the end of the month by Food Service Director.

Anticipated Completion Date: Already addressed

FINDING 2015-008

Condition: The School Corporation filed the required National School Lunch Program (NSLP) Annual Financial Report (AFR) for both years under audit. However, the Income Total reported was not accurate and did not agree to with the income per the School Corporation's ledger for either year. Additionally, the beginning and ending cash balance reported did not agree with the fund balances shown in the ledger for either year.

Recommendation: We recommend that the School Corporation ensure that all required reports are prepared accurately, in accordance with the Reporting requirements, and that reports are supported by source documentation.

Corrective Action Plan: In order to ensure that the monthly Sponsor Claim Summary Forms, Annual Financial Reports and the Verification Collection Reports are accurately prepared and submitted, all source documentation used to create these reports will be available for review from the assistant superintendent. As an internal control system and as a segregation of duties, a document will be reviewed/signed by the assistant superintendent monthly for Sponsor Claims and annually for the AFR and Verification Reports indicating his/her review.

Anticipated Completion Date: Begin addressing immediately .

FINDING 2015-009

Condition: The Food Services Director prepared the Paid Lunch Equity calculations each year, but the School Corporation did not maintain the Paid Lunch Equity calculations for audit as required.

Recommendation: We recommend that the School Corporation comply with the Special Tests and Provisions – Paid Lunch Equity requirements and retain the Paid Lunch Equity calculations for audit.

Corrective Action Plan: This issue has already been corrected. PLE calculations have been retained for the last two (2) years and are available for review. As an internal control, this report and calculation tool will be added to the list above of documents reviewed/acknowledged by the assistant superintendent.

Anticipated Completion Date: Already addressed

Contact Person Responsible for Corrective Action: Steve E. Phillips Phone Number: 812-849-4481



7/18/17

MITCHELL COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCE

The financial statements presented in the Financial Statement and Federal Single Audit Report included the following fund with an overdrawn cash balance at June 30, 2015:

<u>Fund</u>	<u>Amount Overdrawn</u>
Textbook Rental	\$ 13,886

A similar comment appeared in prior Report B43159.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

PREPAID FOOD CLEARING ACCOUNT

Prepaid lunch receipts were not recorded into a Prepaid Lunch fund, but were instead accounted for within the School Lunch fund. Additionally, the School Lunch fund was not maintained in a way that would allow determination of which receipts were related to prepaid amounts.

Our opinion is that money a student puts into their individual meal 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 should not be included in Fund 800 School Lunch. Our recommendation is that you set up a clearing account with the fund number of 8400. Our suggestion is when a student brings in a deposit the receipt would be recorded to fund 8400 using receipt account number 1630. Periodically, after the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 and receipt it into fund 800 using receipts accounts 1611-1623. 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 that balance of the 8400 fund should be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, Vol. 211)

MITCHELL COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on July 18, 2017, with Dr. Steve E. Phillips, Superintendent of Schools; Phillip Storm, Assistant Superintendent of Schools; Malinda Powell, Treasurer; Christopher Shaw, President of the School Board; Cynthia L. Brooking, School Board member; and Alda L. McIntosh, Food Services Director.