

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
MERRILLVILLE COMMUNITY SCHOOL CORPORATION
LAKE COUNTY, INDIANA
July 1, 2015 to June 30, 2017



FILED
05/10/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Hilda Damianick Amy Tarr	07-01-15 to 02-07-16 02-08-16 to 06-30-17
Assistant Superintendent of Business Affairs/Treasurer	Hilda Damianick	07-01-17 to 06-30-18
Superintendent of Schools	Dr. Tony Lux Jeffery T. Studebaker Michael Berta	07-01-15 to 02-24-16 02-25-16 to 06-30-17 07-01-17 to 06-30-18
President of the School Board	Mark S. Lucas Thomas Bainbridge Mark S. Lucas	07-01-15 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18



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AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE MERRILLVILLE COMMUNITY
SCHOOL CORPORATION, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Merrillville Community School Corporation (School Corporation), for the period from July 1, 2015 to June 30, 2017. It has been provided as a separate report so that the reader may easily identify any Federal Findings 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.

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. 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 incorporated within this report, was not verified for accuracy.

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

April 16, 2018

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2017-001

Subject: Financial Reporting
Audit Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat of Finding 2015-001 from the immediate prior audit.

Condition

The School Corporation did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the financial statement.

Although reviews were indicated as performed by the Assistant Superintendent of Schools, Superintendent of Schools, and School Board, the reviews did not detect material errors on the financial statement. In addition, supporting documentation or other evidence of these reviews was not provided for audit.

Several of the fund beginning balances reported by the School Corporation did not agree with the audited ending balances from the prior financial statement.

Context

The lack of effective controls affected the preparation of the financial statement. Beginning balances reported as of July 1, 2015, differed from audited financial statement balances as of June 30, 2015, as follows:

Fund	Prior Audited Ending Balance June 30, 2015	Unaudited Beginning Balance July 1, 2015	Differences
Debt Service	\$ 1,150,565	\$ 1,001,166	\$ 149,399
Exempt Debt	8,833,903	6,650,180	2,183,723
Exempt Pension Debt	894,753	734,291	160,462
Capital Projects	5,990,767	5,214,383	776,384
School Transportation	2,554,463	1,923,227	631,236
School Bus Replacement	1,960,398	1,863,714	96,684
Lewy Excess	-	3,997,899	(3,997,899)

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

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:

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

"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. . . ."

"The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions"

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. 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."

Cause

Management of the School Corporation had not established a proper system of internal control that would have ensured proper reporting of the financial statement.

Effect

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

Recommendation

We recommended that the School Corporation design and implement a proper system of internal control related to the preparation of an accurate financial statement.

Views of Responsible Officials

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

FINDING 2017-002

Subject: Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

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

Although School Corporation officials indicated that reviews were performed by the Assistant Superintendent of Schools, the Superintendent of Schools, and the School Board, supporting documentation or other evidence of these reviews was not provided for audit. In addition, any reviews performed were not effective and allowed material errors to remain on the SEFA presented for audit.

Context

The lack of effective controls was a systemic issue and allowed the following errors to occur and not be detected or corrected:

- Federal expenditures for the Child Nutrition Cluster included state matching funds of \$24,644 and \$23,044 for the years ended June 30, 2016 and 2017, respectively.
- Special Education Cluster (IDEA) federal expenditures of \$1,372,524 were omitted for the year ended June 30, 2016.
- Mathematics and Science Partnerships federal expenditures of \$122,446 were omitted for the year ended June 30, 2017.
- Mathematics and Science Partnerships amounts of \$39,580 and \$34,791 passed through to subrecipients were omitted for the years ended June 30, 2016 and 2017, respectively.

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. . . ."

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

"The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes. . . .

- Accurate and timely recording of transaction"

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. 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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must 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. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

The School Corporation's management had not established a proper system of internal control that would have ensured proper reporting of the SEFA.

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish and properly implement internal controls enabled material misstatements to go undetected. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the School Corporation's management establish controls to ensure accurate reporting of the SEFA.

Views of Responsible Officials

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

FINDING 2017-003

Subject: Child Nutrition Cluster - Internal Controls

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): 2015/2016-4600, 2016/2017-4600

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Eligibility, Program Income, Special
Tests and Provisions - Food Service Accounts

Audit Finding: Material Weakness

Repeat Finding

This is a repeat of Finding 2015-004 from the immediate prior audit.

Condition

An effective internal control system 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, Program Income, and Special Tests and Provisions - Food Service Accounts.

Cash Management (School Breakfast Program and National School Lunch Program only)

The School Corporation did not have documented controls in place to calculate a three month average of expenditures for comparison to monthly cash balances and to verify that the calculation and comparison was performed.

Eligibility

The School Corporation used computer software to determine eligibility. The School Corporation did not have controls in place to ensure that the information used by the computer software was tested and verified.

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Program Income

The School Corporation had not established controls to ensure amounts collected, deposited, and receipted agreed to the number of paid meals served to ensure that program income was accounted for properly.

Food Service Accounts

The School Corporation had not established controls to ensure that amounts transferred from the prepaid food accounts to the sales recorded for the School Lunch fund were the correct amounts transferred and recorded as revenues.

Context

The lack of controls was a systemic issue throughout 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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

The School Corporation had not developed a system of internal controls that segregated key functions to ensure compliance with the grant agreement and the following compliance requirements: Cash Management, Eligibility, Program Income, and Special Tests and Provisions - Food Service Accounts.

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 allowed noncompliance with 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 programs.

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation establish controls to ensure compliance with the following compliance requirements: Cash Management, Eligibility, Program Income, and Special Tests and Provisions - Food Service Accounts.

Views of Responsible Officials

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

FINDING 2017-004

Subject: Child Nutrition Cluster - Procurement

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): 2015/2016-4600, 2016/2017-4600

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the procurement requirements of the Procurement and Suspension and Debarment compliance requirement.

The School Corporation did not have internal controls in place to ensure that the purchasing methods used complied with 2 CFR 200.320.

The School Corporation did not obtain price or rate quotes for purchases of snacks exceeding \$3,500, which fell under the small purchase procedures. Furthermore, the School Corporation did not obtain sealed bids for the purchase of produce which exceeded \$150,000.

Context

This was a systemic issue throughout 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. . . ."

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.320 states in part:

"The non-Federal entity must use one of the following methods of procurement.

(a) Procurement by micro-purchases. Procurement by micro-purchase is the acquisition of supplies or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold (§ 200.67 Micro-purchase). To the extent practicable, the non-Federal entity must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.

(b) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources.

(c) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm fixed price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction, if the conditions in paragraph (c)(1) of this section apply.

(1) In order for sealed bidding to be feasible, the following conditions should be present:

(i) A complete, adequate, and realistic specification or purchase description is available;

(ii) Two or more responsible bidders are willing and able to compete effectively for the business; and

(iii) The procurement lends itself to a firm fixed price contract and the selection of the successful bidder can be made principally on the basis of price.

(2) If sealed bids are used, the following requirements apply:

(i) Bids must be solicited from an adequate number of known suppliers, providing them sufficient response time prior to the date set for opening the bids, for local, and tribal governments, the invitation for bids must be publically advertised;

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (ii) The invitation for bids, which will include any specifications and pertinent attachments, must define the items or services in order for the bidder to properly respond;
- (iii) All bids will be opened at the time and place prescribed in the invitation for bids, and for local and tribal governments, the bids must be opened publicly;
- (iv) A firm fixed price contract award will be made in writing to the lowest responsive and responsible bidder. Where specified in bidding documents, factors such as discounts, transportation cost, and life cycle costs must be considered in determining which bid is lowest. Payment discounts will only be used to determine the low bid when prior experience indicates that such discounts are usually taken advantage of; and
- (v) Any or all bids may be rejected if there is a sound documented reason. . . ."

Cause

The School Corporation's management had not established controls which would have ensured compliance with the grant agreement and the procurement requirements of the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and 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's management establish controls to ensure compliance and comply with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2017-005

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): 2015/2016-4600, 2016/2017-4600
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Reporting
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat of Finding 2015-004 from the immediate prior audit.

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with the grant agreement and the Reporting compliance requirement. The School Corporation did not have controls in place to ensure the accuracy of the Annual Financial Report (AFR). The revenues reported in the AFR for the 2015-2016 fiscal year exceeded the revenues recorded in the ledger by \$320,995 due to reporting student sales in two locations on the AFR.

Context

The lack of controls was a systemic issue throughout the audit. The noncompliance was an isolated incident applicable to the 2015-2016 fiscal year AFR.

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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following . . .

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements . . .
- (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation. . . ."

Cause

The School Corporation had not established a proper internal control system that would have ensured that financial reports submitted agreed to the accounting records maintained by the School Corporation.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirements 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 establish controls to ensure compliance and comply with the Reporting 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 2017-006

Subject: Special Education Cluster (IDEA) - Reporting
Federal Agency: Department of Education
Federal Programs: Special Education Grants to States, Special Education Preschool Grants
CFDA Numbers: 84.027, 84.173
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016-4600, FY 2017-4600
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Reporting
Audit Finding: Significant Deficiency

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with the grant agreement and the Reporting compliance requirement.

Effective internal controls were not established for review of two of the three Data Collection Reports:

- Disciplinary Report (formerly Expulsion and Suspension Report) (DOE-ES Report) and Termination Summary Report (DOE-TR).
- The DOE-ES Report was prepared and submitted without a documented review prior to submission.
- The DOE-TR Report was prepared by the Special Education Cooperative based upon information provided by the School Corporation; however, it was submitted without a documented review prior to submission.

Context

The lack of an effective internal control system related to the Reporting compliance requirement was isolated to the two Data Collection Reports identified in the *Condition*.

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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

The School Corporation's management had not established a proper internal control structure to ensure compliance with the Reporting compliance requirement.

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the Reporting compliance requirement. 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 programs.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the Reporting 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 2017-007

Subject: Title I Grants to Local Educational Agencies - Internal Controls

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): 2014/2015-4600, 2015/2016-4600,
2016/2017-4600

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Eligibility, Special Tests and Provisions - Assessment System Security

Audit Finding: Material Weakness

Repeat Finding

This is a repeat of Finding 2015-005 from the immediate prior audit regarding Eligibility.

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Eligibility and Special Tests and Provisions - Assessment System Security compliance requirements.

Eligibility

The School Corporation had not established controls to ensure that the eligibility for individuals was properly determined. Students were tested at the building level and their rank was determined upon their test scores; however, there was no documentation of a review of the list of students and test scores to ensure that eligibility and rankings were properly determined.

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Special Tests and Provisions - Assessment System Security

The School Corporation had not established effective controls to determine that all individuals who came into contact with any tests administered under the Indiana Assessment System were properly trained.

Context

The lack of controls was a systemic issue throughout 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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

The School Corporation had not developed a system of internal controls to ensure compliance with the Eligibility and the Special Tests and Provisions - Assessment System Security compliance requirements.

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 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.

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation establish controls related to the grant agreement and the Eligibility and Special Tests and Provisions - Assessment System Security compliance requirements.

Views of Responsible Officials

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

FINDING 2017-008

Subject: Title I Grants to Local Educational Agencies - Special Tests and Provisions - Annual Report Card, High School Graduation Rate

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Education Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): 2014/2015-4600, 2015/2016-4600, 2016/2017-4600

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Special Tests and Provisions - Annual Report Card, High School Graduation Rate

Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

The School Corporation had not established internal controls to ensure that written supporting documentation was retained to support students' removal from the high school cohort graduation rate for mobility reasons.

The School Corporation did not comply with the Special Tests and Provisions - Annual Report Card, High School Graduation Rate requirement that students removed from the high school cohort graduation rate for mobility reasons have written documentation to support the students' removal from the cohort.

Context

The lack of controls and noncompliance were systemic issues throughout the audit period. Of the 28 students tested, 8 did not have proper supporting documentation available for audit.

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. . . ."

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 200.19(b) states in part:

"*High schools*—

(1) *Graduation rate.* Consistent with paragraphs (b)(4) and (b)(5) of this section regarding reporting and determining AYP, respectively, each State must calculate a graduation rate, defined as follows, for all public high schools in the State:

(i)(A) A State must calculate a 'four-year adjusted cohort graduation rate,' defined as the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for that graduating class. . . .

(ii) The term 'adjusted cohort' means the students who enter grade 9 (or the earliest high school grade) and any students who transfer into the cohort in grades 9 through 12 minus any students removed from the cohort.

(A) The term "students who transfer into the cohort" means the students who enroll after the beginning of the entering cohort's first year in high school, up to and including in grade 12.

(B) To remove a student from the cohort, a school or LEA must confirm in writing that the student transferred out, emigrated to another country, or is deceased.

(1) To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma. . . .

(2) *Transitional graduation rate.* (i) Prior to the deadline in paragraph (b)(4)(ii)(A) of this section, a State must calculate graduation rate as defined in paragraph (b)(1) of this section or use, on a transitional basis—

(A) A graduation rate that measures the percentage of students from the beginning of high school who graduate with a regular high school diploma in the standard number of years; or . . .

(ii) For a transitional graduation rate calculated under paragraph (b)(2)(i) of this section—

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (A) 'Regular high school diploma' has the same meaning as in paragraph (b)(1)(iv) of this section;
- (B) 'Standard number of years' means four years unless a high school begins after ninth grade, in which case the standard number of years is the number of grades in the school; and
- (C) A dropout may not be counted as a transfer. . . ."

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the grant agreement and the Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and 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's management establish controls related to the grant agreement and the Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

Views of Responsible Officials

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



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CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: H. Damianick
Contact Phone Number: (219) 650-5300

Views of Responsible Official: We disagree with the finding.

Description of Corrective Action Plan: We disagree with the finding based on the below information:

In December 2014, the tax collection received by Corporation totaled \$3,997,899 more than the anticipated 2014-levy set by the DLGF. Excess amounts were deposited into the Excess Levy Fund.

Our FY 2013-15 audit occurred between March and May 2016. Auditor informed us that the excess amount should not have been deposited into the Excess Levy Fund and the excess levy needed to be transferred back to the designated funds. Excess amounts were transferred back to the funds in May 2016.

The corporation submits the Form 9 every six months to the DOE. The DOE does not accept corrections to the Form 9 once the DOE has finalized the information for a six-month period. Additionally, as an internal control measure, we have set a parameter in our financial software that prevents us from making changes to the Form 9 once it has been submitted.

The audited ending balance of 6/30/15 for these funds does not agree with the unaudited beginning balance of 7/1/15 due to the above mentioned timing issue. There was no discrepancy in ending 6/30/16 and 6/30/21017 cash balances for these funds since amounts were transferred and the referenced differences did net out.

In the future, we will compare the audited ending balance to our unaudited beginning balance. Should there be a difference, we will bring it to the attention of the auditors.

Anticipated Completion Date:

July 1, 2018

Hilda Damianick
Asst. Supt./Business Affairs

4-16-18

Date



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CORRECTIVE ACTION PLAN


FINDING 2017-002

Contact Person Responsible for Corrective Action: H. Damianick
Contact Phone Number: 650-5300

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Information entered on various reports will be reviewed more closely.

Anticipated Completion Date: July 1, 2018



Hilda Damianick
Asst. Supt./Business Affairs

4-16-18

Date



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CORRECTIVE ACTION PLAN

FINDING 2017-003

Contact Person Responsible for Corrective Action: Colleen Hostetler
Contact Phone Number: 219-650-5363

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: **Cash Management**
Procedure has been implemented to verify that the monthly cash balance does not exceed the average expenditures of a three-month period. Reasons will be noted should exceptions occur.

Eligibility
Food Service staff will verify eligibility status for 1% of the applications on hand. Randomly selected applications to be verified will be generated on a monthly basis by an electronic report created by the technology staff. The procedure for verifying eligibility will be kept on file.

Program Income
Food service staff will generate the monthly activity report and the income/sales/deposit report. Information will be entered into monthly income spreadsheet by the staff. Information will be reviewed and approved by the Director or designee.

Food Service Account
Deputy Treasurer enters the receipts from monthly income spreadsheet and runs a financial receipt report. The Deputy Treasurer currently verifies the totals on the financial receipt report; the Food Service Director or designee will also review these totals.

Anticipated Completion Date: Above procedures will be completed by July 1, 2018.

(Signature)

(Title)

4-16-18

(Date)



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CORRECTIVE ACTION PLAN


FINDING 2017-004

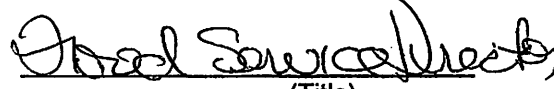
Contact Person Responsible for Corrective Action: Colleen Hostetter
Contact Phone Number: 219-650-5363

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Food Service Department will issue a notice to bid and obtain bids for the purchase of produce. Food Service staff will also obtain price or rate quotes for purchases items falling under the small purchase procedure. Additionally, vendors will be checked on the SAMS website for suspension/debarment.

Anticipated Completion Date: July 1, 2018


(Signature)


(Title)

4-16-18
(Date)



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FINDING 2017-005

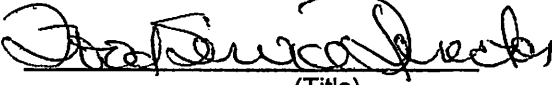
Contact Person Responsible for Corrective Action: Colleen Hostetler
Contact Phone Number: 219-650-5363

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The Food Service Director completes the annual financial report; the Assistant Food Service Director will also review the report. The Director and the Assistant Director will verify accuracy of information. Supporting documentation for information entered on AFR will be kept on file.

Anticipated Completion Date: July 1, 2018


(Signature)


(Title)

4-16-18
(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-006


Contact Person Responsible for Corrective Action: B. Snelson
Contact Phone Number: (219) 650-5300

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The Coordinator of Student Data Services will prepare the preliminary Disciplinary Report. Before the final report is submitted a building administrator will review it.

The Termination Summary Report will be prepared by NISEC, our Special Ed Co-op. Before the final report is submitted a building administrator or the Directors of Curriculum will review the report.

Anticipated Completion Date: July 1, 2018



(Signature)

Coordinator - Student Data Services

(Title)

7/16/2018

(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-007

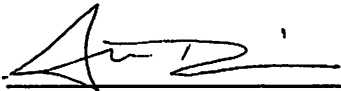
Contact Person Responsible for Corrective Action: A. Davis
Contact Phone Number: 650-5322

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: *Eligibility*
We will put into place controls to ensure that the individual student eligibility determinations are assessed properly and that an oversight or review process over the individual eligibility reports has been established. The Title I Administrator or designee will coordinate with building level Title I staff and school secretaries in charge of enrollment to review the individual eligibility reports. This coordination will ensure that children are ranked and served in order and that any child receiving Title I assistance is reported as such.

Special Tests and Provisions
We will put into place controls to ensure that all individuals who come into contact with any tests administered under the Indiana Assessment System are properly trained.

Anticipated Completion Date: July 1, 2018



(Signature)

Director of Elementary Curriculum

(Title)

4/16/18

(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-008

Contact Person Responsible for Corrective Action: M. Taylor
Contact Phone Number: 650-5321

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The High School staff is implementing procedures that will ensure adequate documentation is received to support a student's removal from a cohort. The documentation will be reviewed by a High School administrator and will be kept on file.

Anticipated Completion Date: July 1, 2018

Marnita Taylor
(Signature)

Director
(Title)

April 13, 2018
(Date)

MERRILLVILLE COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 16, 2018, with Michael Berta, Superintendent of Schools; Hilda Damianick, Assistant Superintendent of Business Affairs/former Treasurer; Amy Tarr, Treasurer; and Mark S. Lucas, President of the School Board.