

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MONROE-GREGG SCHOOL DISTRICT

MORGAN COUNTY, INDIANA

July 1, 2014 to June 30, 2016



**FILED**  
06/04/2018



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Federal Findings:	
Finding 2016-001	
Preparation of the Schedule of Expenditures of Federal Awards .....	4-6
Finding 2016-002	
Child Nutrition Cluster - Cash Management .....	6-7
Finding 2016-003	
Child Nutrition Cluster - Internal Controls .....	7-9
Finding 2016-004	
Special Education Cluster (IDEA) - Matching, Level of Effort, Earmarking .....	9-10
Corrective Action Plan.....	11-12
Audit Results and Comments:	
Public Works Contract .....	13
Prepaid School Meal Accounts.....	13
Errors on Claims - Itemized Invoices.....	14
Exit Conference.....	15

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kelly Dillon	07-01-14 to 12-31-18
Superintendent of Schools	Dr. William E. Roberson	07-01-14 to 06-30-18
President of the School Board	Tim Pridemore Scott Everett Jack Elliott Chris Williams	07-01-14 to 12-31-14 01-01-15 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18



**STATE OF INDIANA**  
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TO: THE OFFICIALS OF THE MONROE-GREGG SCHOOL DISTRICT, MORGAN COUNTY, INDIANA

This report is supplemental to our audit report of the Monroe-Gregg School District (School Corporation), for the period from July 1, 2014 to June 30, 2016. 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/](http://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

May 2, 2018

MONROE-GREGG SCHOOL DISTRICT  
FEDERAL FINDINGS

***FINDING 2016-001***

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

*Repeat Finding*

This is a repeat of Finding 2014-001 from the immediately prior audit.

*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).

*Context*

The SEFA presented for audit contained the following errors:

1. The Child Nutrition Cluster expenditures were overstated by \$392,855 for fiscal year 2015 and \$425,778 for fiscal year 2016.
2. The Special Education Cluster (IDEA) was understated by \$145,149 for fiscal year 2015.
3. The Improving Teacher Quality State Grants were understated by \$33,492 for fiscal 2015 due to the grant being omitted.
4. The state grants were included resulting in an overstatement of \$63,403 for fiscal year 2015 and overstatement of \$29,898 for fiscal year 2016.
5. The Medicaid Assistance Program was overstated by \$85 for fiscal year 2015 and understated \$14,979 for fiscal year 2016 due to the grant being omitted.

Additionally, other errors included omission of federal CFDA numbers, incorrect and/or omitted program titles, pass-through entities, and/or pass-through entity (or other) identifying numbers.

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.

MONROE-GREGG SCHOOL DISTRICT  
FEDERAL FINDINGS  
(Continued)

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:

- (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 the SEFA.

*Effect*

The failure to establish controls enabled material misstatements of the SEFA.

MONROE-GREGG SCHOOL DISTRICT  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

We recommended that the School Corporation's management establish controls to prevent, or detect and correct, errors on 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 2016-002**

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): FY2015, FY2016  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Cash Management  
Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat of Finding 2014-004 from the immediately 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 Cash Management compliance requirement. The School Corporation did not monitor the net cash resources of the School Lunch fund to ensure the amount did not exceed three months average expenditures.

*Context*

The School Corporation was required to limit its net cash resources to an amount that did not exceed three months average expenditures for its nonprofit school. During the entire audit period, the School Corporation's School Lunch fund net cash resources exceeded the three months average expenditures. The plan outlined for draw down submitted to Indiana Department of Education was not properly implemented.

*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. . . ."

MONROE-GREGG SCHOOL DISTRICT  
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). . . ."

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

*Cause*

The School Corporation's management had not established and implemented an effective internal control system to ensure compliance with the Cash Management compliance requirement.

*Effect*

The failure to establish an effective internal control system placed the School Corporation in non-compliance with the grant agreement and the Cash Management compliance requirement.

*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 Cash Management 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 2016-003**

Subject: Child Nutrition Cluster - Internal Controls

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): FY2015, FY2016

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Procurement and Suspension and Debarment, Program Income, Reporting

Audit Finding: Material Weakness

MONROE-GREGG SCHOOL DISTRICT  
FEDERAL FINDINGS  
(Continued)

*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: Procurement and Suspension and Debarment, Program Income, and Reporting.

*Procurement and Suspension and Debarment*

The School Corporation did not have procedures in place for small purchases to ensure three quotes were obtained prior to the purchase a piece of equipment.

*Program Income*

The School Corporation had not designed or implemented adequate policies and procedures to ensure that all of the collections received for sold breakfast and lunches were properly deposited and recorded into the School Lunch fund. The School Corporation also did not effectively implement an internal control to segregate duties between the individual who prepared the daily deposit and the individual who deposited the money daily.

*Reporting*

The School Corporation had not designed or implemented adequate policies and procedures to ensure the Annual Financial Reports and School Food Authority (SFA) Verification Collection Reports were accurate prior to submission. One person prepared and submitted the reports. There was no segregation of duties, such as an oversight, review, or approval process.

*Context*

The lack of properly designed and implemented controls was a systemic problem, which occurred 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). . . ."

MONROE-GREGG SCHOOL DISTRICT  
FEDERAL FINDINGS  
(Continued)

*Cause*

The School Corporation's management had not established and implemented an effective internal control system that segregated key functions.

*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.

*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 the 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.

**FINDING 2016-004**

Subject: Special Education Cluster (IDEA) - Matching, Level of Effort, Earmarking

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): 14213-063-PN01, 14214-063-PN01,  
14215-152-PN01, 14216-121-PN01,  
99914-063-TA01, 45715-152-PN01,  
45716-121-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Matching, Level of Effort, Earmarking

Audit Finding: Material Weakness

*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 Matching, Level of Effort, Earmarking compliance requirement. The Treasurer was responsible for ensuring compliance with the compliance requirements without an adequate system of oversight or review. There was no segregation of duties, such as oversight, review, or approval process.

*Context*

The lack of controls were systemic issues, which occurred throughout the audit.

MONROE-GREGG SCHOOL DISTRICT  
FEDERAL FINDINGS  
(Continued)

*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*

Management had not developed a system of internal controls that segregated key functions.

*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 requirement. A lack of segregation of duties within an internal control system could have allowed noncompliance with the Matching, Level of Effort, and Earmarking compliance requirement.

*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 compliance requirement listed above.

*Views of Responsible Officials*

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

# Monroe-Gregg Schools

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## CORRECTIVE ACTION PLAN

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### **FINDING 2016-001**

Contact Person Responsible for Corrective Action: Kelly Dillon  
Contact Phone Number: 317-996-3720 x1003

Views of Responsible Official: Monroe-Gregg School District concurs with finding 2016-001

Description of Corrective Action Plan: Corporation Treasurer shall submit and ensure all Federal Awards are reported and State Awards are omitted from the report. Corporation Treasurer will implement a cross check and review with the Deputy Treasurer to help insure reporting accuracy.

Anticipated Completion Date: Implementation of Corrective Action Plan will take effect beginning with the 2018 Reporting cycle.

### **FINDING 2016-002**

Contact Person Responsible for Corrective Action: Kelly Dillon  
Contact Phone Number: 317-996-3720 x1003

Views of Responsible Official: Monroe-Gregg School District concurs with finding 2016-002

Description of Corrective Action Plan: Corporation Treasurer will continue to correspond with Food Service Director to monitor the cash balance so that it does not exceed the three month average expenditures. The Food Service Director will outline a standing draw down plan to implement future purchases and staff raises.

Anticipated Completion Date: Implementation of Corrective Action Plan will take effect immediately.

### **FINDING 2016-003**

Contact Person Responsible for Corrective Action: Kelly Dillon  
Contact Phone Number: 317-996-3720 x1003

Views of Responsible Official: Monroe-Gregg School District concurs with finding 2016-003

Description of Corrective Action Plan: The School District will implement a requirement of no less than three quotes for equipment costing more than \$3,000.

Next, the School District will set up a separate fund to track pre-paid lunch. Fund number 840

Finally, the Head Cashier will prepare and initial daily deposits and the Food Service Director will calculate the deposit for accuracy, sign and take to bank for deposit.

Anticipated Completion Date: Implementation of Corrective Action Plan will take effect immediately.

**FINDING 2016-004**

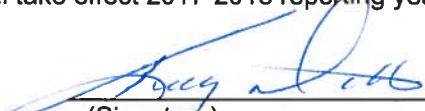
Contact Person Responsible for Corrective Action: Kelly Dillon

Contact Phone Number: 317-996-3720 x1003

Views of Responsible Official: Monroe-Gregg School District concurs with finding 2016-004

Description of Corrective Action Plan: Special Education Reporting. Treasurer will implement a cross check and review with the Special Education Director to help insure reporting accuracy. Should the Special Education Director be unavailable the Deputy Treasurer will cross check reports for accuracy.

Anticipated Completion Date: Implementation of Corrective Action Plan will take effect 2017-2018 reporting year

  
\_\_\_\_\_  
(Signature)

Corporation Treasurer

\_\_\_\_\_  
(Title)

4/30/2018

\_\_\_\_\_  
(Date)

MONROE-GREGG SCHOOL DISTRICT  
AUDIT RESULTS AND COMMENTS

***PUBLIC WORKS CONTRACT***

This is a repeat finding from the immediately prior Report B46276, entitled *PUBLIC WORKS CONTRACT*.

A public works contract was awarded for \$650,000. Retainage was not withheld from payments to the contractor and placed in an escrow account.

Further testing during the current audit period determined that change orders in the amount of \$74,276 were made, which increased the original contract amount. Supporting documentation provided determined that only 3 of the 11 change orders paid received prior approval from the School Board.

Indiana Code 36-1-12-14(b) states:

"A board that enters into a contract for public work, and a contractor who subcontracts parts of that contract, shall include in their respective contracts provisions for the retainage of portions of payments by the board to contractors, by contractors to subcontractors, and for the payment of subcontractors. At the discretion of the contractor, the retainage shall be held by the board or shall be placed in an escrow account with a bank, savings and loan institution, or the state as the escrow agent. The escrow agent shall be selected by mutual agreement between board and contractor or contractor and subcontractor under a written agreement among the bank or savings and loan institution and:

- (1) the board and the contractor; or
- (2) the subcontractor and the contractor."

Indiana Code 36-1-12-18(a) states:

"If, in the course of the construction, reconstruction, or repair of public work project, it becomes necessary to change or alter the original specifications, a change order may be issued to add, delete, or change an item or items in the original contract. The change order becomes an addendum to the contract and must be approved and signed by the board and the contractor."

***PREPAID SCHOOL MEAL ACCOUNTS***

The School Corporation did not create a Prepaid Food Fund, clearing account. Receipts from students who prepaid for meals were receipted directly into the School Lunch fund 800.

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 receipt accounts 1611-1623. At his point it is considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis the balance of the 8400 fund should be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, September 2015)

MONROE-GREGG SCHOOL DISTRICT  
AUDIT RESULTS AND COMMENTS  
(Continued)

***ERRORS ON CLAIMS - ITEMIZED INVOICES***

Two disbursements tested, totaling \$205,400, were not supported by fully itemized invoices. The invoices were from a vendor that had been awarded a significant dollar amount of construction and repair projects during the audit period. The descriptions of materials and services rendered, as documented on the invoices, were vague and general in nature.

Due to the lack of itemization, it could not be determined whether the amounts requested for payment were valid, reasonable, or applicable to the projects invoiced. Also, it could not be determined if the amounts invoiced were in agreement with any available approved contracts or quotes.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

MONROE-GREGG SCHOOL DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on May 2, 2018, with Kelly Dillon, Treasurer; Dr. William E. Roberson, Superintendent of Schools; and Chris Williams, President of the School Board.