

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, 2015 to June 30, 2017



FILED
12/29/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Malinda Powell	01-01-15 to 12-31-18
Superintendent of Schools	Dr. Steve E. Phillips	01-01-15 to 12-31-18
President of the School Board	Christopher Shaw	01-01-15 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 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.

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

November 13, 2018

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2017-001

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): FY2016, FY2017
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Cash Management
Audit Findings: Material Weakness, Other Matter

Repeat Finding

This is a repeat finding from the immediately prior year. The prior year finding number was 2015-004.

Condition

The School Corporation had not designed or implemented adequate internal controls to ensure that the School Lunch fund monthly cash balances (net cash resources) were limited to three months average expenditures in compliance with cash management requirements. There was no oversight, review, or monitoring of the cash balances.

The School Corporation's cash balance (net cash resources) exceeded the 3 months average expenditures by an average of \$31,993 and \$57,758, per month, in fiscal year 2015-2016 and fiscal year 2016-2017, respectively.

Context

The lack of controls was a systemic problem throughout the audit period. The cash balances (net cash resources) of the School Lunch fund was greater than the three months average expenditures for all 24 months during the audit period.

Criteria

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) states in part:

". . . the School Food Authority shall, with respect to participating schools under its jurisdiction:

. . .

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (iv) 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 designed or implemented an effective internal control system that would have ensured compliance with the cash management requirements.

Effect

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

Views of Responsible Officials

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

FINDING 2017-002

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment
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): FY2016, FY2017
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Condition

Procurement

The School Corporation had not established effective controls to ensure that the purchasing method used complied with 2 CFR 200.320.

The School Corporation did not always retain price or rate quotes from an adequate number of sources for purchases of goods or services exceeding \$3,500, which fell under the small purchase procedures.

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Suspension and Debarment

The School Corporation had not established an effective internal control system to ensure compliance with suspension and debarment requirements.

The School Corporation did not perform any procedures to verify that two vendors were not suspended or debarred from participation in federal programs before entering into a contract.

Context

This was a systemic problem throughout the audit period.

Criteria

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. . . ."

- (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. . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

You do this by:

- (a) Checking the SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the procurement and suspension and debarment requirements.

Effect

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

Views of Responsible Officials

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

FINDING 2017-003

Subject: Child Nutrition Cluster - Reporting
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 2016, FY 2017
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Reporting
Audit Findings: Material Weakness, Other Matter

Repeat Finding

This is a repeat finding from the immediately prior year. The prior year finding numbers were 2015-003 and 2015-008.

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with reporting requirements related to the Child Nutrition Cluster. The Food Services Director completed the monthly Sponsor Claims Forms, the Annual Financial Report, and the School Food Service Authority (SFA) Verification Collection Reports for both years. There were no segregation of duties, such as an oversight, review, or approval process to ensure that the required reports were accurately prepared.

The School Corporation filed the required NSLP Annual Financial Report (AFR) for both years under audit. However, the Income Total reported for fiscal year 2017 did not agree to the income per the School Corporation's ledger and records. Total expenses for both years did not agree to the expenses, per the School Corporation's ledger and records. Additionally, the beginning and ending fiscal year 2016 balances did not agree to the fund balances shown in the ledger.

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Context

This was a systemic problem as two AFRs were filed during the audit period but amounts reported did not agree to the School Corporation's ledgers. The cash and investment balance was corrected by the end of the audit period.

Criteria

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 200.302(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 set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . .
- (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

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 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.

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls and comply with the grant agreement and the reporting compliance requirements.

Views of Responsible Officials

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

FINDING 2017-004

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 Number and Year (or Other Identifying Number): FY2016
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Paid Lunch Equity
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior year. The prior year finding number 2015-003.

Condition

The School Corporation had not designed or implemented adequate policies and procedures to ensure the accuracy of the paid lunch equity calculations. The Food Service Director completed the calculations without a documented oversight or review process.

Context

The lack of controls was a systemic issue during fiscal year 2016. Beginning in fiscal year 2016, the Assistant Superintendent of Schools reviewed the paid lunch equity calculation.

Criteria

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 developed or implemented a system of internal controls to ensure compliance with the grant agreement and the compliance requirement listed above.

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system places 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 also allow noncompliance with the compliance requirement and allow 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 to ensure compliance with the grant agreement and compliance requirement listed above.

Views of Responsible Officials

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

FINDING 2017-005

Subject: Title I Grants to Local Educational Agencies - Special Tests and Provisions - Annual Report Card, High School Graduation Rates
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 Number): FY2016, FY2017
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Annual Report Card, High School Graduation Rates
Audit Findings: Material Weakness, Other Matter

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 Special Tests and Provisions - Annual Report Card, High School Graduation Rates compliance requirement. Supporting documentation was not consistently maintained for the students who were removed from the graduation cohort.

Context

For one of the four students selected to be examined who were removed from the graduation cohort, evidence of oversight and review was not provided and the required supporting documentation was not maintained.

MITCHELL COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Criteria

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)(1)(ii)(B) states in part:

"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. . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

Effect

The failure to establish an effective internal control system placed the School Corporation in noncompliance with the grant agreement and the Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

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 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, which is part of this report.

MITCHELL COMMUNITY SCHOOLS

SCHOOL FOOD SERVICES

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Mitchell, Indiana 47446

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Fax 812-849-5368

Dr. Steve E. Phillips
Superintendent

Phillip Storm
Asst. Superintendent

Alda L. McIntosh
Director of Food Services

Finding 2017-001 Corrective Action Plan

The school corporation established an internal control, including segregation of duties, that ensured compliance with the cash management requirements. This control is in place and has been operating since July 1, 2017. See attached spreadsheet.

Responsible officials: Food Service Director and Corporation Treasurer

Effective date: July 1, 2017

Finding 2017-002 Corrective Action Plan

In order to verify that the people/company with whom Mitchell Community Schools (MCS) intends to do business with are not excluded or disqualified, MCS corporation's management will establish an internal control to ensure compliance with the Procurement and Suspension and Debarment requirement. See attached spreadsheet.

Responsible officials: Food Service Director and Superintendent or Asst. Superintendent

Effective date: July 1, 2018

Finding 2017-003 Corrective Action Plan

The Annual Financial Report was reconciled beginning July 1, 2017. Internal controls have been implemented to ensure compliance with the reporting requirements. See attached spreadsheet.

Responsible officials: Food Service Director and Corporation Treasurer and Asst. Superintendent

Effective date: July 1, 2017

Finding 2017-004 Corrective Action Plan

The Paid Lunch Equity calculations are reviewed and documented by the Asst. Superintendent. See attached spreadsheet.

Responsible officials: Food Service Director and Asst. Superintendent

Effective date: May 2016 for SY 2016-17.

Contact: Alda McIntosh

812-849-3663



2017-001 - Tread & FSD
 aware of
 total balance
 AVAILABLE balance

(Linnie)

Cafeteria

CASH BALANCE					Monthly
Date : School Year		<u>2017-18</u>			
Previous year expenditures		\$ SEE ATTACHED			
Divide by 10 months					
Target monthly balance		\$ RANGE BETWEEN \$182,644.80 to \$217,724.31			
Date	Balance	PPFT	Available Balance	FSD	Treasurer
July	\$ 251,921.36	\$ 3544.98	\$ 248,376.38	adm	MP
Aug	\$ 253,976.82	\$ 8,207.91	\$ 245,768.91	adm	MP
Sept	\$ 208,861.42	\$ 27,642.81	\$ 181,218.61	adm	MP
Oct	\$ 222,463.06	\$ 6,671.79	\$ 215,791.27	adm	MP
Nov	\$ 219,150.09	\$ 7,148.53	\$ 212,001.56	adm	MP
Dec	\$ 206,795.88	\$ 6,617.42	\$ 200,178.46	adm	MP
Jan	\$ 219,509.40	\$ 6,720.21	\$ 212,789.19	adm	MP
Feb	\$ 226,993.75	\$ 7,164.77	\$ 219,828.98	adm	MP
Mar	\$ 220,116.49	\$ 7,340.50	\$ 212,775.99	adm	MP
Apr	\$ 212,546.03	\$ 6,365.50	\$ 206,180.53	adm	MP
May	\$ 216,165.71	\$ 2,988.60	\$ 213,177.11	adm	MP
JUNE	\$ 207,097.82	\$ 2,988.60	\$ 204,109.22	adm	MP

~~2018~~ →

This figure lowered with
 A \$20K purchase in July 2018.
 (DESCON
 couldn't
 apply till
 kids went out of
 school)
 - adm

ANNUAL FINANCIAL REPORT

Annual before Sept 1

(AFR)

Date : School Year for SY 2016-17

AFR Filed date

Filed by FSD

Reviewed by

Asst Super

Date received

by Asst. Super

8/7/17

Alda Zmitchal

RCS

8-7-17

*Approved By TINA HERZOG 11/8/2017

FINDING

2017-003

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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BOARD OF TRUSTEES

Cynthia L. Brooking

Steve Burton

Crystal D. Mikels

Patrick Redman

Christopher S. Shaw

Mitchell Community Schools Corrective Action Plan for Audit Fall, 2018

Finding 2017-005:

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 Special Tests and Provisions - Annual Report Card, High School Graduation Rates compliance requirement. Supporting documentation was not consistently maintained for the students who were removed from the graduation cohort.

Recommendation:

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

Corrective Action Plan:

The High School Principal or designee will list each student who indicates that they are transferring as a drop out in the Harmony database until such time as proper documentation arrives from the receiving school as a transfer. Only at that time will the Harmony database be changed to reflect the transfer.

The High School Principal will direct the high school counselors to serve as a double check each student listed as a drop out or a transfer to insure proper documentation and will correct any issues.

Anticipated Completion Date:

Already addressed and the corrective action plan is in place. This was implemented July 1, 2018 with the new HS Principal.

Contact person:

Phil Storm



812-849-4481

MITCHELL COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on November 13, 2018, 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; Alda L. McIntosh, Food Services Director; and Michael Wilcox, incoming Superintendent of Schools.