

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MILAN COMMUNITY SCHOOLS

RIPLEY COUNTY, INDIANA

July 1, 2014 to June 30, 2016



**FILED**  
01/11/2019



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Gretchen Berger	07-01-14 to 06-30-19
Superintendent of Schools	Paul Ketcham Jane Rogers	07-01-13 to 12-31-16 01-01-17 to 06-30-21
President of the School Board	Timothy Tuttle Gregory Lewis Jason Honeycutt Ted Amberger Douglas Norman	01-01-14 to 12-31-14 01-01-15 to 12-31-15 01-01-16 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 MILAN COMMUNITY SCHOOLS, RIPLEY COUNTY, INDIANA

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

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 26, 2018

MILAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS

***FINDING 2016-001***

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

*Repeat Finding*

A similar finding was reported in the immediately prior audit entitled, *FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING*.

*Condition*

There were the following deficiencies in the internal control system of the School Corporation related to financial transactions and reporting.

1. **Lack of Segregation of Duties:** The School Corporation had not separated incompatible activities related to receipts and payroll disbursements. The School Corporation did not provide evidence of a review or approval process to ensure that material misstatements would be prevented, or detected and corrected, in a timely manner.
2. **Monitoring of Controls:** The School Corporation had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting would have required the School Corporation to monitor and assess the quality of the system of internal control.

*Context*

The lack of internal controls was a systemic issue throughout the audit period.

*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. . . ."

MILAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

*Cause*

Management had not established a proper system of internal control over receipts and payroll disbursements.

*Effect*

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

*Recommendation*

We recommended that the School Corporation's management establish effective controls, including segregation of duties, to ensure the accuracy of receipts and payroll disbursements reported in the 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 2016-002***

Subject: Preparation of the Schedule of Expenditures of Federal Awards

Audit Findings: Material Weakness, Noncompliance

*Repeat Finding*

A similar finding was reported in the immediately prior audit entitled, *FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING*.

*Condition*

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors over the federal award information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the School Corporation's Schedule of Expenditures of Federal Awards (SEFA).

MILAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Context*

The SEFA presented for audit contained the following errors:

1. The Special Education\_Grants to States (CFDA #84.027) were understated by \$279,578 and \$263,142 for fiscal year 2015 and fiscal year 2016, respectively.
2. The Special Education\_Preschool Grants (CFDA #84.173) were overstated by \$1,000 for fiscal year 2016.
3. The National School Lunch Program (CFDA #10.555) was understated by \$38,302 and \$36,922 for fiscal year 2015 and fiscal year 2016, respectively.
4. The Title I Grants to Local Educational Agencies (CFDA #84.010) were overstated by \$25,000 for fiscal year 2015.
5. The Supporting Effective Instruction State Grants (CFDA #84.367) were understated by \$36,236 for fiscal year 2015.

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

*Criteria*

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

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

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

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

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § \_\_\_\_\_.310. . . ."

MILAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

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 controls that would have ensured proper reporting of the SEFA.

*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.

MILAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***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): SY 14-15, SY 15-16

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Eligibility, Procurement and Suspension and Debarment, Program Income, Reporting, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP), Special Tests and Provisions - School Food Accounts, Special Tests and Provisions - Paid Lunch Equity

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 listed above.

*Activities Allowed or Unallowed and Allowable Costs/Cost Principles*

Payroll disbursements were paid for each person from the program with no evidence of an independent oversight, review, or approval process, to ensure the accuracy of the payroll disbursements.

*Cash Management*

One employee was responsible for reviewing the three month average expenditure for the Child Nutrition Program with no evidence of an independent oversight, review, or approval process, to ensure the accuracy of the calculation.

*Eligibility*

The Food Service Director is the sole person responsible for making the determination on the Free and Reduced Lunch Applications. There was no evidence of an oversight, review, or approval process, to ensure the accuracy of the determination.

*Procurement*

The School Corporation utilized a purchasing cooperative to obtain bids on their behalf for all food service items. There was no evidence of an oversight, review, or approval process, to ensure compliance for items bid by the purchasing cooperative.

*Suspension and Debarment*

The School Corporation utilized a purchasing cooperative that was responsible for verifying a vendor was not suspended or debarred before entering into a covered transaction. There was no evidence of an oversight, review, or approval process by the School Corporation, to ensure the vendor was not suspended or debarred.

MILAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Program Income*

The Treasurer is responsible for running reports and transferring money from the Prepaid Account to the School Lunch Fund. There was no evidence of an oversight, review, or approval process, to ensure the amounts being transferred were accurate.

*Reporting*

The Treasurer is responsible for preparing and submitting the Reimbursement Requests and the Annual Financial Report. There was no evidence of an oversight, review, or approval process by the School Corporation, to ensure the accuracy of the reports prior to submission.

*Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)*

The Food Service Director was responsible for performing the verification of free and reduced price applications. There was no evidence of an oversight, review, or approval process, to ensure the accuracy of the determination.

*Special Tests and Provisions - School Food Account*

There was no evidence of an oversight, review, or approval process, to ensure the amounts recorded in the school food account were accurate.

*Special Tests and Provisions - Paid Lunch Equity*

One employee had sole responsibility for the preparation of the paid lunch equity calculation. There was no evidence of an oversight, review, or approval process, to ensure the accuracy of the numbers used in the calculation.

*Context*

The lack of properly designed and implemented 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:

MILAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

(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 to ensure compliance with the compliance requirements listed above.

*Effect*

The failure to establish an effective internal control system could have enabled material noncompliance to go undetected with the compliance requirements listed above.

*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 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.



# MILAN COMMUNITY SCHOOLS

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## CORRECTIVE ACTION PLAN

### ***FINDING 2016-001***

Contact Person Responsible for Corrective Action: Jane Rogers & Gretchen Berger  
Contact Phone Number: 812-654-2365

Views of Responsible Official: We concur with the finding.

#### Description of Corrective Action Plan:

The Corporation Treasurer will consult with the Deputy Treasurer on a weekly basis to review and initial the financial transactions for receipts and payroll disbursements. The Superintendent will also inspect and initial these financial documents and provide further consultation as needed.

Anticipated Completion Date: Superintendent began initialing documents for 2017-18.  
Deputy Treasurer will begin initialing December 2018.

### ***FINDING 2016-002***

Contact Person Responsible for Corrective Action: Jane Rogers & Gretchen Berger  
Contact Phone Number: 812-654-2365

Views of Responsible Official: We concur with the finding.

#### Description of Corrective Action Plan:

The Corporation Treasurer is going to begin assigning different fund numbers for each year the Federal grant is received. This will allow for amounts receipted and disbursed to show on separate lines for the SEFA report. The Corporation Treasurer will verify amounts reported for special education with the ROD Secretary/Treasurer. The Superintendent and/or Deputy Treasurer will review the SEFA report prior to submission.

Anticipated Completion Date: January 2019 for SEFA Report due August 2019.

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**FINDING 2016-003**

Contact Person Responsible for Corrective Action: Jane Rogers & Gretchen Berger  
Contact Phone Number: 812-654-2365

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Activities Allowed or Unallowed and Allowable Costs/Cost Principles:

Payroll disbursements are made by the Corporation Treasurer. The Food Service Director will review and initial the payroll distribution detail report each month.

Cash Management:

Corporation Treasurer will calculate the 3-month average expenditure and the FSD will review and initial the calculation.

Eligibility:

The FSD will make the initial determination for the free and reduced lunch applications. The Cafeteria Manager, Corporation Treasurer or Superintendent will review to make sure the correct information and determination is input into the computer system.

Procurement:

The Superintendent will review the purchasing cooperative bid procedure for the food service items and inform the School Board of such when they approve participation each year.

Suspension and Debarment:

The Superintendent will review the suspension and debarment forms submitted by the purchasing cooperative on behalf of the successful bidders for food service items.

Program Income:

The Corporation Treasurer will make the transfer from the 8400 prepaid account to the 0800 school lunch fund for actual sales. The FSD will review and initial this transfer report.

Reporting:

The Corporation Treasurer will submit the monthly reimbursement request and the annual financial report each year. The FSD will review and initial the monthly report and the annual report.

Special Tests & Provisions – Verification of Free & Reduced Price Applications (NSLP):

The FSD will complete the 3% verification of these applications each year and submit the report. The Cafeteria Manager, Corporation Treasurer or Building Principal will review and initial this report.

Special Tests & Provisions – School Food Account:

The Corporation Treasurer posts all financial transactions to 0800 school lunch fund account.



MILAN COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on November 26, 2018, with Gretchen Berger, Treasurer; Jane Rogers, Superintendent of Schools; and Douglas Norman, President of School Board.