

**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, 2016 to June 30, 2018



**FILED**  
03/21/2019



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Federal Findings:	
Finding 2018-001	
Preparation of the Schedule of Expenditures of Federal Awards .....	4-5
Finding 2018-002	
Child Nutrition Cluster - Internal Controls .....	6-7
Finding 2018-003	
Child Nutrition Cluster - Cash Management .....	7-8
Corrective Action Plan.....	9-10
Audit Result and Comment:	
Public Works Contract .....	11
Exit Conference.....	12

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kelly Dillon	07-01-16 to 06-30-19
Superintendent of Schools	Dr. William E. Roberson Dr. Kirk Freeman	07-01-16 to 06-30-18 07-01-18 to 06-30-19
President of the School Board	Scott Everett Jack Elliott Chris Williams Tom Kennedy	07-01-16 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18 01-01-19 to 12-31-19



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2016 to June 30, 2018. 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 Result and Comment 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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, were not verified for accuracy.

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

February 14, 2019

MONROE-GREGG SCHOOL DISTRICT  
FEDERAL FINDINGS

***FINDING 2018-001***

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

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-001.

*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 was understated by \$80,250 and \$59,847 for the school years ended June 30, 2017 and 2018, respectively.
2. The Medical Assistance Program was understated by \$26,033 for the school year ended June 30, 2017.

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. . . ."

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. . . ."

MONROE-GREGG SCHOOL DISTRICT  
FEDERAL FINDINGS  
(Continued)

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*

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.

*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.

MONROE-GREGG SCHOOL DISTRICT  
FEDERAL FINDINGS  
(Continued)

***FINDING 2018-002***

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): FY2017, FY2018  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirements: Procurement and Suspension and Debarment, Reporting  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat of Finding 2016-003 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 following compliance requirements:

*Procurement*

The School Corporation did not have procedures in place to ensure three quotes were obtained prior to the purchase of items identified as small purchases. As of January 2018, the School Corporation began to get quotes for small purchases.

*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 related to the procurement requirements was an issue that existed until January 2018. The lack of properly designed and implemented controls related to Reporting was a systemic issue that occurred 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). . . ."

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 to ensure compliance with the compliance requirements listed above.

*Effect*

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements listed above.

*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 2018-003**

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): FY2017, FY2018  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Cash Management  
Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-002.

*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 net cash resources in the School Lunch fund to ensure that the net cash resources did not exceed three months average expenditures.

*Context*

The lack of controls was a systemic issue throughout the audit period. The School Corporation's School Lunch fund net cash resources exceeded the three months average expenditures during the entire audit period.

MONROE-GREGG SCHOOL DISTRICT  
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). . . ."

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:  
. . .

(iv) Limit its net cash resource 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 noncompliance 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.

# Monroe-Gregg Schools

135 S. Chestnut Street  
Monrovia, IN 46157  
Phone (317) 996-3720 x1  
Fax (317) 996-2977



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## CORRECTIVE ACTION PLAN

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**FINDING 2018-001** (Auditor Assigned Reference Number)  
Contact Person Responsible for Corrective Action: Kelly Dillon  
Contact Phone Number: 317-996-3720 x 1003

Views of Responsible Official: Monroe-Gregg School District concurs with finding 2018-001

Description of Corrective Action Plan: The Corporation Treasurer will obtain the Commodity report from the Food Service Director and report on the SEFA report.

The Medicaid Assistance Fund will be added to the SEFA report

The Corporation Treasurer shall continue to implement and improve on our current cross checking with the Deputy Treasurer to help insure reporting accuracy.

Anticipated Completion Date: Beginning with the 2019 report

**FINDING 2018-002** (Auditor Assigned Reference Number)  
Contact Person Responsible for Corrective Action: Kelly Dillon  
Contact Phone Number: 317-996-3720 x 1003

Views of Responsible Official: Monroe-Gregg School District concurs with finding 2018-002

Description of Corrective Action Plan: Beginning January 2018 the Monroe-Gregg School District began getting three quotes for small purchases.

Anticipated Completion Date: January 2018

**FINDING 2018-003** (Auditor Assigned Reference Number)  
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 2018-003

Description of Corrective Action Plan: The Corporation Treasurer will review the month end expenditures, revenue and cash balance with the Food Service Director in order to monitor cash balance and the need to address spending.

Anticipated Completion Date: January 2019

  
\_\_\_\_\_  
(Signature)  
  
Corporation Treasurer  
\_\_\_\_\_  
(Title)  
  
January 29, 2019  
\_\_\_\_\_  
(Date)

MONROE-GREGG SCHOOL DISTRICT  
AUDIT RESULT AND COMMENT

***PUBLIC WORKS CONTRACT***

This is a partial repeat finding from the immediately prior Reports B46276 and B50165, 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. There were additional change orders during the current audit period; however, the School Corporation was unable to provide supporting documentation.

Additionally, the School Corporation approved public works contracts for the Athletic Concession Facility and the Auditorium projects during the audit period. The School Corporation failed to retain and provide for audit the bid documents, construction contracts, or change orders for these projects.

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.

The board shall not be required to pay interest on the amount of the retainage that it holds under this section."

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."

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

MONROE-GREGG SCHOOL DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on February 14, 2019, with Dr. Kirk Freeman, Superintendent of Schools; Kelly Dillon, Treasurer; Christy Carter, Deputy Treasurer; Carol Dirlam, Food Service Director; Misty Hodge, State Reporting; Jack Elliott, Vice President of the School Board; and Tom Kennedy (via conference call), President of the School Board.