

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, 2016 to June 30, 2018



FILED
07/02/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Gretchen Berger	07-01-16 to 06-30-19
Superintendent of Schools	Paul Ketcham	07-01-16 to 12-31-16
	Jane Rogers	01-01-17 to 06-30-21
President of the School Board	Jason Honeycutt	01-01-16 to 12-31-16
	Ted Amberger	01-01-17 to 12-31-17
	Douglas Norman	01-01-18 to 12-31-18
	Timothy Tuttle	01-01-19 to 12-31-19



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, 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/.

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

May 21, 2019

MILAN COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2018-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

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

Condition

There were several 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. The Treasurer issued receipts, posted receipts, and deposited collections without evidence of an oversight, 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 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 of the School Corporation had not established a proper system of internal control over receipts.

Effect

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

Recommendation

We recommended that the School Corporation's management establish a system of internal controls, including segregation of duties, related to financial transactions and reporting of receipts.

Views of Responsible Officials

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

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): SY 16-17, SY 17-18

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: 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

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-003.

MILAN COMMUNITY SCHOOLS
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 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, and Special Tests and Provisions - Paid Lunch Equity compliance requirements.

Cash Management

One employee was responsible for reviewing the three month average expenditure for the Child Nutrition Program with no evidence of an 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 of eligibility on the free and reduced lunch applications. There was no evidence of an oversight, review, or approval process to ensure the accuracy of the eligibility determinations.

Procurement

The School Corporation utilized a purchasing cooperative to obtain bids on its 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.

Program Income

The Treasurer is responsible for running reports and transferring money from the Prepaid Meals fund 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.

MILAN COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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 (National School Lunch Program only)

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 controls was a systemic issue 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). . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the compliance requirements listed above.

Effect

The failure to establish an effective internal control system, which would include segregation of duties, placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements listed above. A lack of segregation of duties within an internal control system could have allowed material noncompliance with the compliance requirements, and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, review, and approval over the activities of the programs.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to the grant agreement and the compliance requirements listed above.

MILAN COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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 2018-001

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. Timing between audits didn't allow for implementation of the plan.

Description of Corrective Action Plan:

The Corporation Treasurer will consult with the Deputy Treasurer and/or Superintendent on a monthly basis to review and initial the financial transactions for receipts. The Superintendent will also provide further consultation as needed.

Anticipated Completion Date: 2019-20 school year

FINDING 2018-002

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. Timing between audits didn't allow for implementation of the plan.

Description of Corrective Action Plan:

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.

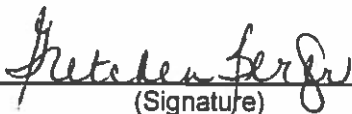
Special Tests & Provisions – School Food Account:

The Corporation Treasurer posts all financial transactions to 0800 school lunch fund account. The FSD will meet with the Corporation Treasurer each month to review and initial all financial transactions made to 0800.

Special Tests & Provisions – Paid Lunch Equity:

The Corporation Treasurer and FSD will prepare the paid lunch equity calculation report. The Superintendent will review and initial this calculation.

Anticipated Completion Date: 2019-20 school year



(Signature)

Treasurer

(Title)

5-21-19

(Date)

MILAN COMMUNITY SCHOOLS
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

Several funds included an overdrawn cash balance at June 30, 2017 and 2018. The following table shows a list of those funds:

Fund	Amount Overdrawn as of June 30,	
	2017	2018
Textbook Rental	\$ 119,140	\$ 179,270
MES	-	1,905
MHS	-	15,818
Miscellaneous Programs	51,979	48,749
QZAB	25,931	25,931
Payroll Clearing Funds	7,301	11,536

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

MILAN COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on May 21, 2019, with Gretchen Berger, Treasurer; Jane Rogers, Superintendent of Schools; and Timothy Tuttle, President of the School Board.