

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MICHIGAN CITY AREA SCHOOLS

LAPORTE COUNTY, INDIANA

July 1, 2017 to June 30, 2019



FILED
02/18/2020

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Audit Results and Comments:	
Financial Transactions and Reporting	4-5
Appropriations.....	5
Certification and Training on Internal Control Standards	6
Approval of Transfers	6-7
Negative Receipts and Disbursements	7
Exit Conference.....	8

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Lance E. Werner	01-01-17 to 12-31-20
Superintendent of Schools	Dr. Barbara Eason-Watkins	01-01-17 to 12-31-20
President of the School Board	Donald J. Dulaney Marty M. Corley	01-01-17 to 12-31-19 01-01-20 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE MICHIGAN CITY AREA SCHOOLS, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the Michigan City Area Schools (School Corporation), for the period from July 1, 2017 to June 30, 2019. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement Audit Report of the School Corporation, which provides our opinion on the School Corporation's financial statement. This report may be found at www.in.gov/sboa/.

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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

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

February 4, 2020

MICHIGAN CITY AREA SCHOOLS
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in the prior Report B50147, entitled *FINDING 2017-001*.

Condition and Context

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not separated incompatible activities related to cash and investments, receipts, payroll disbursements, and reporting.

Cash and Investments

The School Corporation had a control in place over cash and investments; however, the control was not effective. The control did not ensure that all bank accounts were reconciled or that a combined bank reconciliation of all accounts was performed and agreed to the financial statement. Noncompliance occurred and was not detected.

The School Corporation did not prepare a monthly reconciliation of the Solar Project bank account. In addition, a combined reconciliation of all bank accounts and School Corporation funds was not performed.

In 2018, the School Lunch fund became part of the School Corporation's official records. The Food Service Director reviewed the School Lunch bank reconciliation prepared by the food service finance assistant. There was no review of the reconciliation by the School Corporation to ensure that it agreed with the School Corporation's financial software.

The Clearing Account - Food Service Prepaid Collections fund (fund 8400) was not reconciled to the total of the individual students' meal accounts on a monthly basis. As of June 30, 2018 and 2019, the reported balance in the financial statement exceeded the total of the individual meal accounts by \$7,663 and \$6,758, respectively.

Receipts

Receipts were recorded in the School Corporation's financial system without oversight or review.

Payroll Disbursements

Payroll distribution reports were printed and provided to the Deputy Treasurer for review; however, there was no documentation of a review.

Average Daily Membership Reporting

There was a lack of control over Average Daily Membership (ADM) Reporting. The ADM count was submitted to the Indiana Department of Education without oversight or review.

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:

MICHIGAN CITY AREA SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

"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. . . ."

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

When a student puts money into their individual meal account, it 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 money is in the student's individual account, the balance should not be included in Fund 800 School Lunch. A school should set up a clearing account with the fund number of 8400 Prepaid School Lunch Accounts, which is included in Chapter 4 of the State Board of Accounts Uniform Compliance Guidelines for Indiana Public School Corporations. When a student brings in a deposit the receipt should be recorded to fund 8400 using receipt account 1630 Special Functions. After the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 Other Food Services and receipt this into fund 800 using the Food Services receipt accounts 1611-1623 at the time established in a written school policy to ensure accurate monthly reporting. At this point the receipts are considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis it is required that the balance of the 8400 fund be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, February 2019)

APPROPRIATIONS

The same comment also appeared in the prior Report B50147.

Condition and Context

The General fund recorded disbursements in excess budgeted appropriations of \$789,147 and \$547,205 for the 2017 and 2018 calendar years, respectively.

Criteria

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

MICHIGAN CITY AREA SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

CERTIFICATION AND TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

We were unable to verify that 19 of the 20 newly hired employees tested had received the internal control standards training. The School Corporation was unable to provide documentation that the employees had received the internal control training.

The School Corporation did adopt internal control standards as required by Indiana Code. The School Corporation certified in the Indiana Gateway for Government Units financial reporting system that they had trained on those internal control standards, even though there was no documentation that newly hired employees received the training.

Criteria

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

APPROVAL OF TRANSFERS

Condition and Context

During fiscal years 2017-2018 and 2018-2019, the School Corporation completed transfers in the amounts of \$1,830,828 and \$6,604,269, respectively, which were not included on the claims docket and were not approved by the governing board and fiscal officer.

Criteria

Indiana Code 5-11-10-2 states in part:

"(a) Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer.

MICHIGAN CITY AREA SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

(b) The state board of accounts shall prescribe a form which will permit claims from two (2) or more claimants to be listed on a single document and, when such list is signed by members of the governing body showing the claims and amounts allowed each claimant and the total claimed and allowed as listed on such document, it shall not be necessary for the members to sign each claim. . . ."

NEGATIVE RECEIPTS AND DISBURSEMENTS

Condition and Context

The School Corporation recorded transfers and corrections between funds as negative receipts and disbursements.

Criteria

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The corrections of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

MICHIGAN CITY AREA SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on February 4, 2020, with Lance E. Werner, Treasurer; Dr. Barbara Eason-Watkins, Superintendent of Schools; Thomas R. Dombkowski, Secretary of the School Board; Wendell McCollum, Associate Superintendent of Schools; and Brenda Runnels, Deputy Treasurer.