

STATE BOARD OF ACCOUNTS
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INDIANAPOLIS, INDIANA 46204-2769

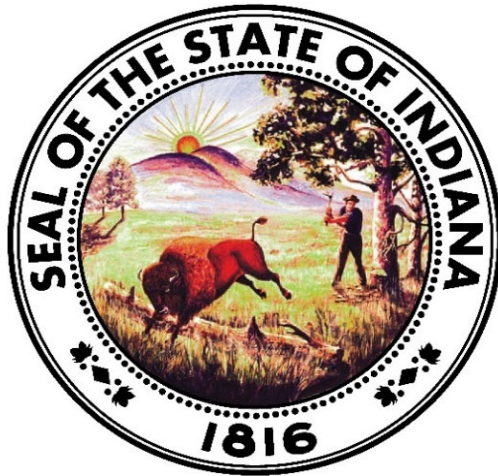
FEDERAL COMPLIANCE AUDIT REPORT

OF

MILAN COMMUNITY SCHOOLS

RIPLEY COUNTY, INDIANA

July 1, 2020 to June 30, 2022



FILED
03/28/2023

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|---|--|
| Treasurer | Gretchen Berger | 07-01-20 to 06-30-23 |
| Superintendent of Schools | Jane Rogers | 07-01-20 to 06-30-23 |
| President of the School Board | Gregory Lewis Douglas Norman Edward Amberger Gregory Lewis | 07-01-20 to 12-31-20 01-01-21 to 12-31-21 01-01-22 to 12-31-22 01-01-23 to 06-30-23 |



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF THE MILAN COMMUNITY SCHOOLS, RIPLEY COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Milan Community Schools (School Corporation), for the period of July 1, 2020 to June 30, 2022, and the related notes to the financial statement, which collectively comprise the School Corporation's financial statement and have issued our report thereon dated March 16, 2023, wherein we noted the School Corporation followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the School Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School Corporation's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, as described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001.

Milan Community Schools' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the School Corporation's response to findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statement, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth Kelley, CPA, CFE
Deputy State Examiner

March 16, 2023



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

TO: THE OFFICIALS OF THE MILAN COMMUNITY SCHOOLS, RIPLEY COUNTY, INDIANA

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the Milan Community Schools' (School Corporation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the period of July 1, 2020 to June 30, 2022. The School Corporation's major federal program is identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the period of July 1, 2020 to June 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the School Corporation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School Corporation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the School Corporation's federal programs.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School Corporation's compliance based on our audit. Reasonable assurance is a high level of assurance, but is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School Corporation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School Corporation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2022-003. Our opinion on the major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the School Corporation's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The School Corporation's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2022-002 and 2022-003, to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards require the auditor to perform limited procedures on the School Corporation's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The School Corporation's response was not subjected to the other auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statement of the School Corporation, as of and for the period of July 1, 2020 to June 30, 2022, and the related notes to the financial statement. We issued our report thereon dated March 16, 2023, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with accounting principles generally accepted in the United States of America, and an unmodified opinion was issued regarding the presentation in accordance with the regulatory basis of accounting. Our audit was performed for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.



Beth Kelley, CPA, CFE
Deputy State Examiner

March 16, 2023

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the School Corporation. The schedule and notes are presented as intended by the School Corporation.

MILAN COMMUNITY SCHOOLS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended June 30, 2021 and 2022

| Federal Grantor Agency Cluster Title/Program Title/Project Title | Pass-Through Entity or Direct Grant | Assistance Listings Number | Pass-Through Entity (or Other) Identifying Number | Passed Through to Subrecipient 06-30-21 | Total Federal Awards Expended 06-30-21 | Passed Through to Subrecipient 06-30-22 | Total Federal Awards Expended 06-30-22 |
|---|-------------------------------------|----------------------------|---|---|--|---|--|
| Department of Agriculture | | | | | | | |
| Child Nutrition Cluster | | | | | | | |
| School Breakfast Program | Indiana Department of Education | 10.553 | | | | | |
| School Breakfast | | | FY 20-21 | \$ - | \$ 100,141 | \$ - | \$ - |
| School Breakfast | | | FY 21-22 | - | - | - | 105,859 |
| COVID-19 - School Breakfast Program | Indiana Department of Education | 10.553 | | | | | |
| School Breakfast | | | FY 20-21 | - | 14,414 | - | - |
| Total - School Breakfast Program | | | | - | 114,555 | - | 105,859 |
| National School Lunch Program | Indiana Department of Education | 10.555 | | | | | |
| School Lunch | | | FY 20-21 | - | 313,347 | - | - |
| School Lunch - Commodities | | | FY 20-21 | - | 62,012 | - | - |
| School Lunch | | | FY 21-22 | - | - | - | 508,899 |
| School Lunch - Commodities | | | FY 21-22 | - | - | - | 75,037 |
| Subtotal - National School Lunch Program | | | | - | 375,359 | - | 583,936 |
| COVID-19 - National School Lunch Program | Indiana Department of Education | 10.555 | | | | | |
| School Lunch | | | FY 20-21 | - | 61,574 | - | - |
| School Lunch - SNP Emergency | | | FY 20-21 | - | - | - | 28,460 |
| Total - National School Lunch Program | | | | - | 436,933 | - | 612,396 |
| COVID-19 - Summer Food Service for Children | Indiana Department of Education | 10.559 | | | | | |
| School Lunch - Summer Food | | | FY 20-21 | - | - | - | 9,607 |
| Total - Child Nutrition Cluster | | | | - | 551,488 | - | 727,862 |
| COVID-19 - Pandemic EBT Administrative Costs | Indiana Department of Education | 10.649 | | | | | |
| School Lunch - P-EBT | | | FY 20-21 | - | - | - | 614 |
| Total - Department of Agriculture | | | | - | 551,488 | - | 728,476 |
| Department of Education | | | | | | | |
| Special Education Cluster (IDEA) | | | | | | | |
| Special Education Grants to States | | | | | | | |
| Federal Part B 611 Grant - FY2020 | Indiana Department of Education | 84.027 | 20611-048-PN01 | - | 3,184 | - | - |
| Federal Part B 611 Grant - FY2021 | | | 21611-048-PN01 | - | 241,209 | - | - |
| Federal IDEA ARP 611 Grant - FY2022 | | | 22611-048-ARP | - | - | - | 520 |
| Federal Part B 611 Grant - FY2022 | | | 22611-048-PN01 | - | - | - | 277,692 |
| Total - Special Education Grants to States | | | | - | 244,393 | - | 278,212 |
| Special Education Preschool Grants | Indiana Department of Education | 84.173 | | | | | |
| Federal PS 619 Grant - FY2021 | | | 21619-048-PN01 | - | 155 | - | - |
| Total - Special Education Cluster (IDEA) | | | | - | 244,548 | - | 278,212 |

MILAN COMMUNITY SCHOOLS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended June 30, 2021 and 2022

| Federal Grantor Agency Cluster Title/Program Title/Project Title | Pass-Through Entity or Direct Grant | Assistance Listings Number | Pass-Through Entity (or Other) Identifying Number | Passed Through to Subrecipient 06-30-21 | Total Federal Awards Expended 06-30-21 | Passed Through to Subrecipient 06-30-22 | Total Federal Awards Expended 06-30-22 |
|--|---|----------------------------------|--|---|---|---|---|
| Title I Grants to Local Educational Agencies | Indiana Department of Education | 84.010 | | | | | |
| Title 1 - FY2020 | | | S010A190014 | - | - | - | 1,511 |
| Title 1 - FY2021 | | | S010A200014 | - | 44,893 | - | - |
| Title 1 - FY2021 | | | S010A200014 | - | - | - | 81,533 |
| Title 1 - FY2022 | | | S010A210014 | - | - | - | 108,184 |
| Total - Title I Grants to Local Educational Agencies | | | | - | 44,893 | - | 191,228 |
| Supporting Effective Instruction State Grants SEI - Title IIA - FY2020 | Indiana Department of Education | 84.367 | S367A200013 | - | - | - | 28,944 |
| Student Support and Academic Enrichment Program SSAE - Title IV Part A - FY2020 | Indiana Department of Education | 84.424 | S424A200015 | - | 10,000 | - | - |
| COVID-19 - Education Stabilization Fund | Indiana Department of Education | 84.425 | | | | | |
| GEER | | 84.425C | S425C200018 | - | - | - | 35,115 |
| CARES I - FY2020 | | 84.425D | S425D200013 | - | - | - | 113,880 |
| Total - COVID-19 - Education Stabilization Fund | | | | - | - | - | 148,995 |
| Total - Department of Education | | | | - | 299,441 | - | 647,379 |
| Department of Health and Human Services | | | | | | | |
| Medicaid Cluster | | | | | | | |
| Medical Assistance Program | Indiana Department of Education | 93.778 | | | | | |
| Indiana MAC - FY20-21 | | | FY 20-21 | - | 16,468 | - | - |
| Indiana MAC - FY21-22 | | | FY 21-22 | - | - | - | 9,319 |
| Medical Assistance Program | Indiana Family Social Services Administration | 93.778 | | | | | |
| IEP Services - FY20-21 | | | FY 20-21 | - | 13,857 | - | - |
| IEP Services - FY21-22 | | | FY 21-22 | - | - | - | 9,748 |
| Total - Medical Assistance Program | | | | - | 30,325 | - | 19,067 |
| Total - Medicaid Cluster | | | | - | 30,325 | - | 19,067 |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance Project Aware | Indiana Department of Education | 93.243 | FY20-21 | - | - | - | 59,968 |
| Total - Department of Health and Human Services | | | | - | 30,325 | - | 79,035 |
| Total federal awards expended | | | | \$ - | \$ 881,254 | \$ - | \$ 1,454,890 |

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

MILAN COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the School Corporation under programs of the federal government for the years ended June 30, 2021 and 2022. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the School Corporation, it is not intended to and does not present the financial position of the School Corporation.

The Uniform Guidance requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$750,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1-25), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

B. Other Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

MILAN COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Note 2. Indirect Cost Rate

The School Corporation has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3. Ripley-Ohio-Dearborn (ROD) Special Education Cooperative

The School Corporation is a member of the Ripley-Ohio-Dearborn (ROD) Special Education Cooperative (Cooperative). As a result, some of the activity for the Special Education Cluster (IDEA) that is presented on the SEFA is not presented as receipts and disbursements in the financial statement for the School Corporation. This activity is presented in the financial statement of the Cooperative's fiscal agent.

Note 4. GEER I Fiscal Agent

The School Corporation was a participant in a joint application with other Local Education Agencies (LEAs) to receive GEER I funding from the Education Stabilization Fund through the Indiana Department of Education (IDOE). The School Corporation serves as the fiscal agent for the grant. As a result, some of the activity for the GEER award that is presented as receipts and disbursements on the financial statement is not presented as federal awards expended on the SEFA for the School Corporation. This activity is reported on the SEFAs of each participating LEA as appropriate.

MILAN COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

| | |
|--|---|
| Type of auditor's report issued: | Adverse as to GAAP; Unmodified as to Regulatory Basis |
| Internal control over financial reporting: | |
| Material weaknesses identified? | yes |
| Significant deficiencies identified? | none reported |
| Noncompliance material to financial statement noted? | yes |

Federal Awards:

| | |
|--|---------------|
| Internal control over major program: | |
| Material weaknesses identified? | yes |
| Significant deficiencies identified? | none reported |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | yes |

Identification of the Major Program and type of auditor's report issued on compliance for it:

| <u>Name of Federal Program or Cluster</u> | <u>Opinion Issued</u> |
|--|-----------------------|
| Child Nutrition Cluster | Unmodified |
| Dollar threshold used to distinguish between Type A and Type B programs: \$750,000 | |
| Auditee qualified as low-risk auditee? | no |

Section II - Financial Statement Findings

FINDING 2022-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2020-001.

Condition and Context

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

MILAN COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Receipts

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.

Financial Close and Reporting

The School Corporation implemented internal controls over financial close and reporting, but they were not effective. The Treasurer input the School Corporation's financial information into the Annual Financial Report (AFR) in the Indiana Gateway for Government Units financial reporting system and the Superintendent of Schools reviewed and approved it prior to submission, but material errors were not identified and corrected. The Payroll Clearing fund was omitted from the AFR, resulting in receipts and disbursements being understated in the amounts of \$3,666,184 and \$3,668,846, respectively, for the audit period.

Monitoring of Controls

The School Corporation had no process to identify or communicate corrective actions to improve internal controls. Effective internal controls over financial reporting requires the School Corporation to monitor and assess the quality of the system of internal control. 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. . . ."

"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. . . .

MILAN COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Management remediates identified issues. . . ."

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

"The state examiner shall require from every audited entity 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](#)."

Cause

Management of the School Corporation had not established a proper system of internal controls over financial transactions and reporting.

Effect

The failure to establish a system of internal controls over financial transactions and reporting enabled material misstatements or irregularities to occur and remain undetected.

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2022-002

Subject: Child Nutrition Cluster - Reporting
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, COVID-19 - School Breakfast Program, National School Lunch Program, COVID-19 - National School Lunch Program, COVID-19 - Summer Food Service for Children
Assistance Listings Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY 20-21, FY 21-22
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Reporting
Audit Finding: Material Weakness

Condition and Context

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 Reporting compliance requirement.

The School Corporation did not implement internal controls to ensure that the monthly reimbursement requests were accurate and submitted timely. The Treasurer prepared the monthly reimbursement requests and submitted the requests without evidence of an oversight, review, or approval process to ensure the requests were accurate.

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

MILAN COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(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). . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the grant agreement and the Reporting compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls related to the grant agreement and the Reporting compliance requirement.

Views of Responsible Officials

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

FINDING 2022-003

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, COVID-19 - School Breakfast Program, National School Lunch Program, COVID-19 - National School Lunch Program, COVID-19 - Summer Food Service for Children

Assistance Listings Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 20-21, FY 21-22

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

MILAN COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Condition and Context

An effective internal control system was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Procurement

The School Corporation did not properly design and implement internal controls to ensure that procurement requirements for purchases of food which exceeded the simplified acquisition threshold of \$150,000 were followed. The School Corporation did not have internal controls in place to ensure that price or rate quotes for purchases of milk, produce, or food exceeding \$10,000 from an adequate number of sources were obtained, which fell under the small purchase procedures.

Suspension and Debarment

There were no internal controls in place to ensure that vendors were not suspended or debarred from participation in federal programs. The School Corporation did not perform procedures to verify that vendors paid with federal grant monies were not suspended or debarred from participation in federal programs before entering into a covered transaction. As a result, one of the two vendors tested for FY 20-21, and two of the three vendors tested for FY 21-22, did not include evidence the School Corporation had verified that the vendors were not suspended or debarred.

The lack of internal controls and noncompliance for suspension and debarment were systemic issues 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 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 SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

MILAN COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Cause

Management had not developed a system of internal controls that would have ensured compliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective system of internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement could result in the loss of future federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls to ensure compliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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

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AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the School Corporation. The documents are presented as intended by the School Corporation.



MILAN COMMUNITY SCHOOLS

412 EAST CARR STREET
MILAN, INDIANA 47031
Tel (812) 654-2365 Fax (812) 654-2441

Jane E. Rogers
Superintendent

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2020-001

Fiscal year in which the finding initially occurred: 2018

Status of Audit Finding: Corrective action is still ongoing.

FINDING 2020-002

Fiscal year in which the finding initially occurred: 2020

Status of Audit Finding: Corrective action has been completed.

Proud of Our Past ~ Focused on Our Future



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Jane E. Rogers
Superintendent

CORRECTIVE ACTION PLAN

FINDING 2022-001

Contact Person Responsible for Corrective Action: 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 have the Deputy Treasurer or Superintendent review and initial all financial transactions for receipts (deposit slips, receipts, revenue reports).

The Corporation Treasurer will review the upload from our software system to make sure the payroll clearing fund is included for the Gateway AFR.

Anticipated Completion Date: 3/31/2023 for receipts and 8/31/2023 for the AFR

FINDING 2022-002

Contact Person Responsible for Corrective Action: 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 have the Food Service Director review and initial the monthly reimbursement request submitted to SNP.

Anticipated Completion Date: 3/31/2023

FINDING 2022-003

Contact Person Responsible for Corrective Action: 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 and Food Service Director will review and initial the price quotes that are received for small purchases.

The Corporation Treasurer and Food Service Director will review and initial documentation that vendors paid with federal grant monies were not suspended or debarred from participation in the program.

Anticipated Completion Date: 8/31/2023

OTHER REPORTS

In addition to this report, other reports may have been issued for the School Corporation. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.