

**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, 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



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of Milan Community Schools (School Corporation), for the period from July 1, 2020 to June 30, 2022. 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 opinions on the School Corporation's financial statement. This report may be found at [www.in.gov/sboa](http://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.

Beth Kelley, CPA, CFE  
Deputy State Examiner

March 16, 2023

MILAN COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

A similar comment appeared in prior Report B56929, entitled *INTERNAL CONTROL DEFICIENCIES OVER RECEIPTS*.

*Condition and Context*

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

*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 had not established effective internal controls over the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system which was the source of the School Corporation's Annual Financial Report (AFR).

The School Corporation did not properly review the financial information prepared and submitted in Gateway. Although the Treasurer input the financial information into Gateway and the Superintendent of Schools reviewed and approved it prior to submission, the internal control was not effect and did not detect and allow correction of errors prior to submission.

Due to the lack of effective internal controls the Payroll Clearing fund was omitted from the AFR, which understated receipts and disbursements by \$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 controls. Effective internal controls over financial reporting requires the School Corporation to monitor and assess the quality of the system of internal control.

*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.

MILAN COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

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 . . . .

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](#)."

## **TRAINING ON INTERNAL CONTROL STANDARDS**

### *Condition and Context*

The School Corporation did not provide the required training on internal control standards to all of the appropriate personnel during the audit period. The administration office staff and cafeteria employees received training; however, teaching staff had not received the training.

### *Criteria*

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

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

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

## **CERTIFICATION ON INTERNAL CONTROL STANDARDS**

### *Condition and Context*

The Treasurer certified in the Indiana Gateway for Government Units financial reporting system that all personnel defined by IC 5-11-1-27(c) received training concerning the internal control standards adopted by the School Corporation; however, required teaching staff had not received the training.

MILAN COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Criteria*

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](#)."

**MONTHLY AND ANNUAL UPLOADS**

The same comment also appeared in prior Report B56929, entitled *FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS*.

*Condition and Context*

The files and governmental unit information that are required to be uploaded monthly include the bank reconcilements, approved School Board minutes and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

Annual upload requirements include the year-end bank statement, year-end outstanding check list, year-end investments, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report.

The School Corporation did not upload any of the monthly or annually required engagement files to the Indiana Gateway for Government Units financial reporting system during the audit period.

*Criteria*

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data process and save audit costs for our clients. . . .

The following files and governmental unit information are required to be uploaded monthly by all units except as noted:

- Bank Reconcilements, Bank Statements, and Outstanding Check Lists
- Approved Board Minutes, please see the user guide for more information and examples
- Funds Ledger, summarizing total receipts, disbursements, and beginning and ending balances by fund . . .

The following files and governmental unit information are required to be uploaded annually . . .

- Year-end Investment Statements
- Detail of Receipts for the year
- Detail of Disbursements for the year
- Annual Vendor History Report
- Annual Payroll History Report, without social security numbers

MILAN COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

- Annual Funds Ledger, summarizing year-to-date total receipts, year-to-date disbursements, and beginning and ending balances by fund
- Additionally, for Schools only: School Lunch Prepaid Account Balance Report as of June 30, Approved Salary Schedule for Noncertified Employees and Amendments . . .
- Optional: Excel Data Capture/Data Dump (in lieu of Detail of Receipts and Disbursements)  
. . .

(Amended State Examiner Directive 2018-1)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for School Corporations of Indiana, Chapter 1)

### **AVERAGE DAILY MEMBERSHIP**

#### *Condition and Context*

There were deficiencies noted in the internal controls over reporting of the Average Daily Membership (ADM). ADM information is compiled and input by the Technology Director and reviewed and certified by the Superintendent of Schools and the Treasurer; however, the internal controls were deemed not effective.

The building level officials (Principal, Assistant Principal, etc.) did not certify the ADM in the form of a written certification to the School Corporation Central Office for three of the four count dates during the audit period. The building level officials are responsible for reporting ADM to the School Corporation Central Office; therefore, the ADM reported to the School Corporation Central Office was not properly certified prior to the Superintendent of Schools verifying the ADM count and submitting to the Indiana Department of Education.

Additionally, the School Corporation did not establish proper internal controls to ensure that students were enrolled correctly and were a resident of Indiana. The School Corporation has a policy for Proof of Residency. This policy states that proof of Indiana residency for each student must be maintained in the student's electronic or hard copy file. Proof of residency was not provided for all students selected for testing.

#### *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. . . .

MILAN COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

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. . . ."

Officials shall maintain records (enrollment card, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

The building level official (Principal, Assistant Principal, etc.) is responsible for reporting ADM to the School Corporation Central Office, must provide a written certification of ADM to properly document responsibility. The certification must at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

IDOE Memo dated August 27, 2020 - Verification of Residency for Membership, states in part: ". . . School corporations and charter schools must maintain proof of Indiana residency for each student in the student's electronic or hard copy file. . . ."

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

## **ANNUAL FINANCIAL REPORT**

### *Condition and Context*

Financial and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The following errors were identified with the information the School Corporation entered into its AFRs for the audit period:

- The School Corporation failed to properly review the financial information submitted in its AFRs. As a result, the following errors were noted in its AFRs for the audit period:
  - The Payroll Clearing Fund transactions and balances were not included in the totals reported in its AFRs. This resulted in beginning cash and investment balances, receipts, and disbursements, being understated by \$2,271, \$1,771,785, and \$1774,056, respectively, for fiscal year 2020-2021, and receipts, disbursements being understated by \$1,894,399 and \$1,894,790, respectively, and the ending cash and investment balances being overstated by \$391 for fiscal year 2021-2022.

Audit adjustments were proposed, accepted by the School Corporation, and made to the Financial Statement and the corresponding Combining Schedules presented as Required Supplementary Information.

- The School Corporation failed to properly review the leases and debt information presented in its AFRs. As a result, the following errors were noted:

MILAN COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

- Annual lease payments reported in Gateway were understated by \$168,000.
- Three leases were reported in Gateway as other long term debt instead of capital leases, which resulted in the ending principal balance being overstated by \$11,945,000, and principal and interest due within one year being overstated by \$280,000.

Audit adjustments were proposed, accepted by the School Corporation, and made to the Schedule of Leases and Debt presented as Other Information.

*Criteria*

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](#)."

MILAN COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on March 16, 2023, with Gretchen Berger, Treasurer; Jane Rogers, Superintendent of Schools; and Gregory Lewis, President of the School Board.