

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
HANCOCK COUNTY, INDIANA

July 1, 2011 to June 30, 2013



FILED
03/24/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kaitlyn Veach	07-01-11 to 06-30-14
Executive Director	Karen Niemeier	07-01-11 to 06-30-14
President of the School Board	William Riggs Randy Harris	07-01-11 to 06-30-12 07-01-12 to 06-30-14



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE HANCOCK MADISON SHELBY
EDUCATIONAL SERVICES, HANCOCK COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Hancock Madison Shelby Educational Services (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2011 to June 30, 2013, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School Corporation's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the School Corporation prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the School Corporation for the period of July 1, 2011 to June 30, 2013.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the School Corporation for the period of July 1, 2011 to June 30, 2013, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 22, 2014, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, 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 taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.


Paul D. Joyce, CPA
State Examiner

January 22, 2014



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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 HANCOCK MADISON SHELBY
EDUCATIONAL SERVICES, HANCOCK 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 Hancock Madison Shelby Educational Services (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2011 to June 30, 2013, and the related notes to the financial statement, and have issued our report thereon dated January 22, 2014, 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.

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) to determine the 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.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001 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)

Compliance and Other Matters

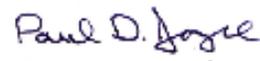
As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hancock Madison Shelby Educational Services' Response to Findings

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.


Paul D. Joyce, CPA
State Examiner

January 22, 2014

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the School Corporation. The financial statement and notes are presented as intended by the School Corporation.

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HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended June 30, 2012 and 2013

	Cash and Investments 07-01-11	Receipts	Disbursements	Cash and Investments 06-30-12	Receipts	Disbursements	Cash and Investments 06-30-13
Joint Services and Supply - Special Education Cooperative	\$ -	\$ 7,246,528	\$ 4,948,176	\$ 2,298,352	\$ 6,100,284	\$ 6,339,992	\$ 2,058,644
Alternative Education	-	59,835	38,015	21,820	-	21,820	-
Special Education Preschool	-	1,172,338	842,036	330,302	792,583	717,354	405,531
Special Education Capital Projects	-	855,120	257,364	597,756	332,147	253,582	676,321
Alternative Education	-	29,761	-	29,761	10,320	1,792	38,289
McDonald's Donation	-	499	499	-	-	-	-
Read Well Grant FY2012	-	2,769	2,769	-	-	-	-
iPad Grant FY2012	-	2,148	2,148	-	-	-	-
UMC Autism Grant - South Madison	-	1,168	1,168	-	-	-	-
2012 Middle School McDonald's	-	-	-	-	480	402	78
We Can Read Too Grant FY2012	-	-	-	-	3,000	659	2,341
Wish Upon a Star Grant FY2012	-	-	-	-	370	370	-
Rubio iPad Donations	-	-	-	-	1,080	1,030	50
Connections Landscaping	-	-	-	-	85	-	85
Medicaid Reimbursement	-	1,568	1,568	-	-	-	-
IDEA Preschool FY2012 - Proj 45712-027-PN01	-	162,377	170,751	(8,374)	52,771	42,124	2,273
IDEA Preschool FY2013 - Proj 45713-027-PN01	-	-	-	-	165,819	173,893	(8,074)
IDEA FY2012 - Proj 14212-027-PN01	-	3,167,388	3,382,184	(214,796)	745,397	535,269	(4,668)
IDEA FY2013 - Proj 14213-027-PN01	-	-	-	-	3,100,682	3,255,848	(155,166)
IDEA FY2010 - Proj 14210-027-PN01	-	52,972	52,972	-	-	-	-
IDEA FY2011 - Proj 14211-027-PN01	-	749,953	627,726	122,227	-	122,227	-
IDEA Preschool FY2010 - Proj 45710-027-PN01	-	28,395	28,395	-	-	-	-
IDEA Preschool FY2011 - Proj 45711-027-PN01	-	13,740	12,901	839	-	839	-
Special Education - Part B	-	504,149	504,149	-	-	-	-
Special Education - Part B - Preschool	-	6,233	6,233	-	-	-	-
Payroll Funds	-	2,106,816	2,055,892	50,924	2,504,116	2,514,932	40,108
Totals	\$ -	\$ 16,163,757	\$ 12,934,946	\$ 3,228,811	\$ 13,809,134	\$ 13,982,133	\$ 3,055,812

The notes to the financial statement are an integral part of this statement.

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The accompanying financial statement presents the financial information for the School Corporation.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Local sources which include taxes, revenue from local governmental units other than school corporations, transfer tuition, transportation fees, investment income, food services, School Corporation activities, revenue from community services activities, and other revenue from local sources.

State sources include distributions from the State of Indiana and are to be used by the School Corporation for various purposes. Included in state sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENT
(Continued)

Federal sources include distributions from the federal government and are to be used by the School Corporation for various purposes. Included in federal sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

Other receipts which include amounts received from various sources which include return of petty cash, return of cash change, insurance claims for losses, sale of securities, and other receipts not listed in another category above.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Instruction which includes outflows for regular programs, special programs, adult and continuing education programs, summer school programs, enrichment programs, remediation, and payments to other governmental units.

Support services which include outflows for support services related to students, instruction, general administration, and school administration. It also includes outflows for central services, operation and maintenance of plant services, and student transportation.

F. Fund Accounting

Separate funds are established, maintained, and reported by the School Corporation. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the School Corporation. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the School Corporation in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the School Corporation submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year.

Note 3. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENT
(Continued)

State statutes authorize the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 4. Risk Management

The School Corporation may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the School Corporation to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 5. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENT
(Continued)

B. Teachers' Retirement Fund

Plan Description

The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the TRF plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 286-3544

Funding Policy and Annual Pension Cost

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation also contributes to additional pension plan unique to the School Corporation. Information regarding these plans may be obtained from the School Corporation.

Note 6. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of the funds being set up for reimbursable grants. The reimbursements for expenditures made by the School Corporation were not received by June 30, 2012 and 2013.

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the School Corporation's Financial Reports can be found on the Indiana Department of Education website: <http://mustang.doe.state.in.us/TRENDS/fin.cfm>. This website is maintained by the Indiana Department of Education. More current financial information is available from the School Corporation Treasurer's Office.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Financial Reports of the School Corporation which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the School Corporation. It is presented as intended by the School Corporation.

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HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012

	Joint Services and Supply Special Education Cooperative	Alternative Education	Special Education Preschool	Special Education Capital Projects	Alternative Education	McDonald's Donation	Read Well Grant FY2012
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Local sources	7,240,116	59,835	1,172,338	855,120	20,670	499	2,769
State sources	-	-	-	-	9,091	-	-
Federal sources	-	-	-	-	-	-	-
Other	6,412	-	-	-	-	-	-
Total receipts	<u>7,246,528</u>	<u>59,835</u>	<u>1,172,338</u>	<u>855,120</u>	<u>29,761</u>	<u>499</u>	<u>2,769</u>
Disbursements:							
Current:							
Instruction	3,622,733	38,287	451,762	-	-	499	2,769
Support services	1,325,443	(272)	390,274	257,364	-	-	-
Total disbursements	<u>4,948,176</u>	<u>38,015</u>	<u>842,036</u>	<u>257,364</u>	<u>-</u>	<u>499</u>	<u>2,769</u>
Excess (deficiency) of receipts over disbursements	<u>2,298,352</u>	<u>21,820</u>	<u>330,302</u>	<u>597,756</u>	<u>29,761</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 2,298,352</u>	<u>\$ 21,820</u>	<u>\$ 330,302</u>	<u>\$ 597,756</u>	<u>\$ 29,761</u>	<u>\$ -</u>	<u>\$ -</u>

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012
 (Continued)

	iPad Grant FY2012	UMC Autism Grant - South Madison	Medicaid Reimbursement	IDEA Preschool FY2012 - Proj 45712-027-PN01	IDEA FY2012 - Proj 14212-027-PN01	IDEA FY2010 - Proj 14210-027-PN01	IDEA FY2011 - Proj 14211-027-PN01
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Local sources	2,148	1,168	1,568	-	-	-	-
State sources	-	-	-	-	-	-	-
Federal sources	-	-	-	162,377	3,167,388	52,972	749,953
Other	-	-	-	-	-	-	-
Total receipts	<u>2,148</u>	<u>1,168</u>	<u>1,568</u>	<u>162,377</u>	<u>3,167,388</u>	<u>52,972</u>	<u>749,953</u>
Disbursements:							
Current:							
Instruction	-	-	1,568	53,022	872,831	50,195	152,701
Support services	<u>2,148</u>	<u>1,168</u>	-	<u>117,729</u>	<u>2,509,353</u>	<u>2,777</u>	<u>475,025</u>
Total disbursements	<u>2,148</u>	<u>1,168</u>	<u>1,568</u>	<u>170,751</u>	<u>3,382,184</u>	<u>52,972</u>	<u>627,726</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,374)</u>	<u>(214,796)</u>	<u>-</u>	<u>122,227</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,374)</u>	<u>\$ (214,796)</u>	<u>\$ -</u>	<u>\$ 122,227</u>

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012
 (Continued)

	IDEA Preschool FY2010 - Proj 45710-027-PN01	IDEA Preschool FY2011 - Proj 45711-027-PN01	Special Education Part B	Special Education Part B Preschool	Payroll Funds	Totals
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Local sources	14,033	-	504,149	6,233	-	9,880,646
State sources	-	-	-	-	-	9,091
Federal sources	14,362	13,740	-	-	-	4,160,792
Other	-	-	-	-	2,106,816	2,113,228
Total receipts	<u>28,395</u>	<u>13,740</u>	<u>504,149</u>	<u>6,233</u>	<u>2,106,816</u>	<u>16,163,757</u>
Disbursements:						
Current:						
Instruction	-	(2,318)	497,270	6,233	-	5,747,552
Support services	<u>28,395</u>	<u>15,219</u>	<u>6,879</u>	<u>-</u>	<u>2,055,892</u>	<u>7,187,394</u>
Total disbursements	<u>28,395</u>	<u>12,901</u>	<u>504,149</u>	<u>6,233</u>	<u>2,055,892</u>	<u>12,934,946</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>839</u>	<u>-</u>	<u>-</u>	<u>50,924</u>	<u>3,228,811</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 839</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,924</u>	<u>\$ 3,228,811</u>

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2013

	Joint Services and Supply Special Education Cooperative	Alternative Education	Special Education Preschool	Special Education Capital Projects	Alternative Education	2012 Middle School McDonald's	We Can Read Too Grant FY2012	Wish Upon a Star Grant FY2012	Rubio iPad Donations
Cash and investments - beginning	\$ 2,298,352	\$ 21,820	\$ 330,302	\$ 597,756	\$ 29,761	\$ -	\$ -	\$ -	\$ -
Receipts:									
Local sources	6,100,284	-	792,583	332,147	-	480	3,000	370	1,080
State sources	-	-	-	-	10,320	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Total receipts	<u>6,100,284</u>	<u>-</u>	<u>792,583</u>	<u>332,147</u>	<u>10,320</u>	<u>480</u>	<u>3,000</u>	<u>370</u>	<u>1,080</u>
Disbursements:									
Current:									
Instruction	4,333,357	21,820	495,149	-	1,792	402	659	370	-
Support services	<u>2,006,635</u>	<u>-</u>	<u>222,205</u>	<u>253,582</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,030</u>
Total disbursements	<u>6,339,992</u>	<u>21,820</u>	<u>717,354</u>	<u>253,582</u>	<u>1,792</u>	<u>402</u>	<u>659</u>	<u>370</u>	<u>1,030</u>
Excess (deficiency) of receipts over disbursements	<u>(239,708)</u>	<u>(21,820)</u>	<u>75,229</u>	<u>78,565</u>	<u>8,528</u>	<u>78</u>	<u>2,341</u>	<u>-</u>	<u>50</u>
Cash and investments - ending	<u>\$ 2,058,644</u>	<u>\$ -</u>	<u>\$ 405,531</u>	<u>\$ 676,321</u>	<u>\$ 38,289</u>	<u>\$ 78</u>	<u>\$ 2,341</u>	<u>\$ -</u>	<u>\$ 50</u>

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2013
 (Continued)

	Connections Landscaping	IDEA Preschool FY2012 - Proj 45712-027-PN01	IDEA Preschool FY2013 - Proj 45713-027-PN01	IDEA FY2012 - Proj 14212-027-PN01	IDEA FY2013 - Proj 14213-027-PN01	IDEA FY2011 - Proj 14211-027-PN01	IDEA Preschool FY2011 - Proj 45711-027-PN01	Payroll Funds	Totals
Cash and investments - beginning	\$ -	\$ (8,374)	\$ -	\$ (214,796)	\$ -	\$ 122,227	\$ 839	\$ 50,924	\$ 3,228,811
Receipts:									
Local sources	85	-	-	-	-	-	-	-	7,230,029
State sources	-	-	-	-	-	-	-	-	10,320
Federal sources	-	52,771	165,819	745,397	3,100,682	-	-	2,504,116	6,568,785
Total receipts	85	52,771	165,819	745,397	3,100,682	-	-	2,504,116	13,809,134
Disbursements:									
Current:									
Instruction	-	15,458	50,700	177,910	1,021,366	19,531	839	-	6,139,353
Support services	-	26,666	123,193	357,359	2,234,482	102,696	-	2,514,932	7,842,780
Total disbursements	-	42,124	173,893	535,269	3,255,848	122,227	839	2,514,932	13,982,133
Excess (deficiency) of receipts over disbursements	85	10,647	(8,074)	210,128	(155,166)	(122,227)	(839)	(10,816)	(172,999)
Cash and investments - ending	\$ 85	\$ 2,273	\$ (8,074)	\$ (4,668)	\$ (155,166)	\$ -	\$ -	\$ 40,108	\$ 3,055,812

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
SCHEDULE OF PAYABLES AND RECEIVABLES
June 30, 2013

<u>School Corporation</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	<u>\$ 163,666.36</u>	<u>\$ 165,635.96</u>

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
SCHEDULE OF CAPITAL ASSETS
June 30, 2013

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	<u>Ending Balance</u>
Governmental activities:	
Land	\$ 72,300
Buildings	<u>509,200</u>
Total capital assets	<u>\$ 581,500</u>

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
AUDIT RESULT AND COMMENT

RECEIPT ISSUANCE

Based on information provided during the audit, receipts were not issued at the time of collection. Per inquiry with the Treasurer, individual receipts were only issued when customers requested receipts; otherwise, receipts were issued and recorded when the deposits were prepared and ready to take to the bank. According to inquiries, receipts and deposits were prepared daily during high collection periods and at least weekly during normal business operations. However, based on the documentation available for audit, we were not able to determine how many days between the actual receipt of monies and the issuance and recording of receipts for the receipts tested.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE HANCOCK MADISON SHELBY
EDUCATIONAL SERVICES, HANCOCK COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Hancock Madison Shelby Educational Services' (School Corporation) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the period of July 1, 2011 to June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the School Corporation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the School Corporation's compliance.

Basis for Qualified Opinion on Special Education Cluster

As described in items 2013-002, 2013-003, and 2013-004 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Availability, and Subrecipient Monitoring that are applicable to its Special Education Cluster. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Qualified Opinion on Special Education Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, 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 Special Education Cluster for the period of July 1, 2011 to June 30, 2013.

Other Matters

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.

Report on Internal Control Over Compliance

Management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified 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 described in the accompanying Schedule of Findings and Questioned Costs as items 2013-002, 2013-003, and 2013-004 to be material weaknesses.

The School Corporation's response to the internal control over compliance 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 EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

January 22, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

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HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Years Ended June 30, 2012 and 2013

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-12	Total Federal Awards Expended 06-30-13
Department of Education					
Special Education Cluster					
Special Education - Grants to States	Indiana Department of Education	84.027	14210-027-PN01	\$ 52,972	\$ -
	Indiana Department of Education		14211-027-PN01	749,953	-
	Indiana Department of Education		14212-027-PN01	3,167,388	747,670
	Indiana Department of Education		14213-027-PN01	-	<u>3,100,682</u>
Total - Special Education - Grants to States				<u>3,970,313</u>	<u>3,848,352</u>
Special Education - Preschool Grants	Greenfield-Central Community School Corporation	84.173	45710-027-PN01	14,033	-
	Indiana Department of Education		45710-027-PN01	14,362	-
	Indiana Department of Education		45711-027-PN01	13,740	-
	Indiana Department of Education		45712-027-PN01	162,377	50,498
	Indiana Department of Education		45713-027-PN01	-	<u>165,819</u>
Total - Special Education - Preschool Grants				<u>204,512</u>	<u>216,317</u>
ARRA - Special Education - Grants to Schools, Recovery Act	Greenfield-Central Community School Corporation	84.391	33310-027-SN01	<u>504,149</u>	-
ARRA - Special Education - Preschool Grants, Recovery Act	Greenfield-Central Community School Corporation	84.392	44410-027-SN01	<u>6,233</u>	-
Total - Special Education Cluster				<u>4,685,207</u>	<u>4,064,669</u>
Total - Department of Education				<u>4,685,207</u>	<u>4,064,669</u>
Total federal awards expended				<u>\$ 4,685,207</u>	<u>\$ 4,064,669</u>

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

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Hancock Madison Shelby Education Service Center (School Corporation) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the School Corporation provided federal awards to subrecipients as follows for the years ended June 30, 2012, and 2013:

Program Title	Federal CFDA Number	2012	2013
Special Education - Grants to States	84.027	\$ 287,969	\$ -
Special Education - Preschool Grants	84.173	15,563	-
ARRA - Special Education - Grants to States, Recovery Act	84.391	406,642	-

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
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?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

Name of Federal Program or Cluster

Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the School Corporation to reduce risks to the achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. During the audit period, there were two people in the accounting office performing all duties. The Treasurer was responsible for receipting and depositing funds, processing vendor claims, and reconciling the monthly bank statements. The Payroll Coordinator was responsible for all steps in the payroll processing procedures. There was no oversight by another person with any of the activities listed.

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2. Monitoring of Controls: Effective internal control over financial reporting requires the School Board to monitor and assess the quality of the School Corporation's system of internal control. The School Board has not performed either an ongoing or separate evaluation of their system of internal controls. Additionally, the School Corporation has no process to identify or communicate corrective actions to improve controls.

The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Additionally, the failure to exercise management oversight responsibility places the School Corporation at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Section III – Federal Award Findings and Questioned Costs

**FINDING 2013-002 - ACTIVITIES ALLOWED/UNALLOWED
AND ALLOWABLE COSTS/COST PRINCIPLES**

Federal Agency: Department of Education

Federal Program: Special Education - Grants to States

CFDA Number: 84.027

Federal Award Number and Year (or Other Identifying Number): 14210-027-PN01

Pass-Through Entity: Indiana Department of Education

The School Corporation disbursed, and was subsequently reimbursed by the Indiana Department of Education (IDOE), \$9,500.00 from the Special Education - Grants to States program for items that were not allowable under the federal provisions for this grant and, therefore, considered a questioned cost. The School Corporation's expense was in the form of a payment directly to a participating nonpublic school as reimbursement for iPads the nonpublic school had purchased instead of a payment directly to the vendor of the iPads.

The payment for iPads was allowable under the School Corporation's grant application approved by the IDOE. However, the federal provisions do not authorize direct payments to nonpublic schools. The School Corporation must administer and retain control over the funds and, therefore, may not provide or reimburse program funds directly to nonpublic schools. The School Corporation may only pay third parties directly for services received by the participating nonpublic schools.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

20 USC 6320(d)(1) states in part: "The control of funds provided under this part, and title to materials, equipment, and property purchased with such funds, shall be in a public agency, and a public agency shall administer such funds, materials, equipment, and property."

Noncompliance of the grant agreements or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation obtain an adequate understanding of grant requirements and develop internal controls to ensure compliance with those Activities Allowed and Allowable Costs requirements.

FINDING 2013-003 - PERIOD OF AVAILABILITY

Federal Agency: Department of Education

Federal Programs: Special Education - Grants to States, Special Education - Preschool Grants

CFDA Number: 84.027, 84.173

Federal Award Number and Year (or Other Identifying Number): 14210-027-PN01, 14211-027-PN01,
45710-027-PN01

Pass-Through Entity: Indiana Department of Education

Federal Program: Special Education - Preschool Grants, ARRA -
Special Education - Grants to Schools, Recovery Act

CFDA Number: 84.173, 84.391

Federal Award Number and Year (or Other Identifying Number): 45710-027-PN01, 33310-027-SN01

Pass-Through Entity: Greenfield-Central Community School Corporation

The School Corporation charged items to the grant funds that were obligated outside of the period of availability. We selected a sample of transactions that were charged to grant funds after the period of availability to test. Of those transactions tested, 80 percent were obligated outside the period of availability, totaling \$5,268.51. The amount charged to the grants outside of the period of availability was considered to be a questioned cost. According to 34 CFR section 80.3, the term obligated means: "the amounts of orders placed, contracts and subawards awarded, goods and services received, and similar transactions during a given period that will require payment by the non-federal entity during the same or a future period."

Seven of the eight transactions that were obligated after the period of availability had purchase order dates within the period; however, the order dates on the vendor invoices were outside of the period. One of the eight transactions that was obligated after the period of availability had the purchase order date and order date on the vendor invoices outside of the period of availability.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

34 CFR 80.23(a) states:

"General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period."

Noncompliance of the grant agreements or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation obtain an adequate understanding of grant requirements and develop internal controls to ensure compliance with the Period of Availability requirements.

FINDING 2013-004 - SUBRECIPIENT MONITORING

Federal Agency: Department of Education

Federal Programs: Special Education - Grants to States, Special Education - Preschool Grants

CFDA Number: 84.027, 84.173

Federal Award Number and Year (or Other Identifying Number): 14210-027-PN01, 14211-027-PN01,
45710-027-PN01

Pass-Through Entity: Indiana Department of Education

Federal Program: ARRA - Special Education - Grants to Schools, Recovery Act

CFDA Number: 84.391

Federal Award Number and Year (or Other Identifying Number): 33310-027-SN01

Pass-Through Entity: Greenfield-Central Community School Corporation

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Subrecipient Monitoring requirements that have a direct and material effect to the programs. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of programs.

The School Corporation did not have adequate knowledge of the Subrecipient Monitoring requirements. Therefore, proper internal controls were not in place to monitor its subrecipients. The lack of knowledge of this program requirement was considered to be a material weakness in internal controls over Subrecipient Monitoring compliance requirements.

Due to the internal control weakness described above, the School Corporation failed to properly monitor their subrecipients which were considered noncompliance with the Subrecipient Monitoring compliance requirements.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

OMB Circular A-133, Subpart D, section .400 (d) states:

"Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$300,000 (*\$500,000 for fiscal years ending after December 31, 2003*) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

We recommended that the School Corporation obtain an adequate understanding of grant requirements and develop internal controls to ensure compliance with those Activities Allowed and Allowable Costs Requirements.



Serving the students of:
Eastern Hancock
Greenfield-Central
Mt. Vernon
Northwestern
South Madison
Southern Hancock

January 20, 2014

CORRECTIVE ACTION PLAN

Finding 2013-001-Internal controls over financial transactions and reporting

Auditee Contact Person: Karen Niemeier
Title of Contact person: Executive Director
Completion Date: Corrected Action began prior to Exit Conference

1. Lack of Segregation of Duties

Hancock Madison Shelby Educational Services was a two person business office. A payroll specialist was hired in July of 2013 bringing HMSES to a three (3) person business office. HMSES is currently training this payroll specialist so we can revise business office staff duties in order to have more internal controls.

2. Monitoring of Controls

This has been rectified. The Governing Board approved the payroll specialist position based on the needs presented within the business office due to the need for more internal controls. Budgetary constraints and unknowns due to being a new organization were the reasons for not hiring additional staff initially.

Finding 2013-002-Activities allowed/unallowed and allowable costs/cost principles

Federal Agency: Department of Education
Federal Program: Special Education_Grants to States
CFDA Number: 84.027
Federal Award Number and Year (or Other Identifying Number): 14210-027-PN01
Pass-through Entity: Indiana Department of Education

Auditee Contact Person: Karen Niemeier
Title of Contact person: Executive Director
Completion Date: Corrected Action implemented prior to Exit Conference

This was a one-time incident. Zion Lutheran is a private school which HMSES provides services to students identified with special education needs. Initially HMSES had a purchase order completed for the iPads for Zion. Zion expressed they wanted to include other items within this purchase request. In the meantime their treasurer submitted and paid for the entire order. HMSES became aware of these actions after the fact and opted to reimburse Zion for the iPads for the special education students. Zion has been made aware this type of reimbursement will not occur again.

Finding 2013-003-Period of Availability

Federal Agency: Department of Education
Federal Program: Special Education Cluster
CFDA Number: 84.027 and 84.173
Federal Award Number and Year (or Other Identifying Number): 14210-027-PN01, 14211-027-PN01, and 45710-027-PN01
Pass-through Entity: Indiana Department of Education

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Southern Hancock*

CFDA Number: 84.173 and 84.391
Federal Award Number and Year (or Other Identifying Number): 45710-027-PN01 and 33310-027-SN01
Pass-through Entity: Greenfield-Central Community School Corporation

Auditee Contact Person: Karen Niemeier
Title of Contact person: Executive Director
Completion Date: Corrected Action implemented prior to Exit Conference

HMSES will make a personal cut off six weeks prior to the end of the grant period. This will allow all money to be expended prior to the end of the grant period.

Finding 2013-004-Internal controls over compliance requirement that have a direct and material effect to subrecipient monitoring

Federal Agency: Department of Education
Federal Program: Special Education Cluster
CFDA Number: 84.027 and 84.173
Federal Award Number and Year (or Other Identifying Number): 14210-027-PN01, 14211-027-PN01, and 45711-027-PN01
Pass-through Entity: Indiana Department of Education

CFDA Number: 84.391
Federal Award Number and Year (or Other Identifying Number): 33310-027-SN01
Pass-through Entity: Greenfield-Central Community School Corporation

Auditee Contact Person: Karen Niemeier
Title of Contact person: Executive Director
Completion Date: Corrected Action implemented prior to Exit Conference

Greenfield-Central Community School Corporation is no longer the LEA and therefore there should no longer be any confusion as to which entity would perform subrecipient monitoring duties.

Hancock Madison Shelby Educational Services was a two person business office. A payroll specialist was hired in July of 2013 bringing HMSES to a three (3) person business office. HMSES is currently training this payroll specialist so we can revise business office staff duties in order to have more internal controls.

Any future disbursements of Federal money to the school corporations within the Interlocal will require thorough documentation of all expenditures before reimbursement is made.

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES
EXIT CONFERENCE

The contents of this report were discussed on January 22, 2014, with Karen Niemeier, Executive Director; Kaitlyn Veach, Treasurer; and Randy Harris, President of the School Board.