

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SOUTH MADISON COMMUNITY SCHOOL CORPORATION

MADISON COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
04/24/2015

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|-------------------------------------|--|
| Treasurer | Penny Myers | 07-01-12 to 06-30-15 |
| Superintendent of Schools | Joseph Buck | 07-01-12 to 06-30-15 |
| President of the School Board | Christopher Boots William Hutton | 01-01-12 to 12-31-14 01-01-15 to 12-31-15 |



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TO: THE OFFICIALS OF THE SOUTH MADISON COMMUNITY
SCHOOL CORPORATION, MADISON COUNTY, INDIANA

This report is supplemental to our audit report of the South Madison Community School Corporation (School Corporation), for the period from July 1, 2012 to June 30, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit 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 Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

February 16, 2014

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2014-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The SEFA was prepared by the Treasurer of the School Corporation and no subsequent review was performed by another person.

The School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: federal grants totaling \$1,244,978 for FY 2012-13 and \$868,764 for FY 2013-14 were not included; \$25,934 was included twice in FY 2013-14. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

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)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

***FINDING 2014-002 - INTERNAL CONTROL AND COMPLIANCE
OVER EQUIPMENT AND REAL PROPERTY MANAGEMENT***

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program and National School Lunch Program
CFDA Number: 10.553 and 10.555
Federal Award Number and Year (or Other Identifying Number): 2012-13 and 2013-14
Pass-Through Entity: Indiana Department of Education

The School Corporation does not properly maintain records that identify equipment and other property acquired with federal monies. The inventory prepared by the Food Service Director did not list purchase date or price. It was not possible to trace the equipment purchased to the equipment and property records. Equipment purchases during the period represented 6.29 percent of grant expenditures.

34 CFR 80.32(d) states in part:

- "(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property."

Failure to maintain detailed and accurate equipment and property records could result in assets being lost, stolen, misappropriated, or disposed of improperly and not detected within a reasonable time.

We recommended that the School Corporation maintain accurate detailed equipment and property records. Also, any assets acquired with federal funds must be designated as such so that they are not disposed of improperly.

FINDING 2014-003 - INTERNAL CONTROL OVER ELIGIBILITY

Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Number and Year (or Other Identifying Number): FY 2012-13 and FY 2013-14
Pass-Through Entity: Indiana Department of Education

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 following compliance requirement: Eligibility.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The internal controls established at the School Corporation failed to correct errors on the eligible schools summary page of the 2013 Title I application. Furthermore, inadequate documentation was retained to support the poverty numbers reported on the eligible schools summary for both the 2012-13 and 2013-14 grant application.

The failure to establish an effective internal control system places the school 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 the program.

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 compliance requirement of a federal program will be prevented, or 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 program. 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.

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."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements 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 the compliance requirement listed above.

FINDING 2014-004 - SPECIAL TESTS AND PROVISIONS - PARTICIPATION OF PRIVATE SCHOOL CHILDREN

Federal Agency: U.S. Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Number and Year (or Other Identifying Number): FY 2011-12, FY 2012-13, FY 2013-14

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system over compliance with Special Tests and Provisions for the Participation of Private School Children. The failure to establish an effective internal control system places the School Corporation at risk of material noncompliance. The School Corporation did not conduct consultations with private school officials to determine the kind of educational services to provide to eligible private school children regarding Title I Local Educational Grants requirements.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(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."

20 USC 7881(c)(1) states in part:

"To ensure timely and meaningful consultation, a State educational agency, local educational agency, educational service agency, consortium of those agencies, or entity shall consult with appropriate private school officials during the design and development of the programs under this chapter, on issues such as—

- (A) how the children's needs will be identified;
- (B) what services will be offered;
- (C) how, where, and by whom the services will be provided;
- (D) how the services will be assessed and how the results of the assessment will be used to improve those services;
- (E) the size and scope of the equitable services to be provided to the eligible private school children, teachers, and other educational personnel and the amount of funds available for those services; and
- (F) how and when the agency, consortium, or entity will make decisions about the delivery of services, including a thorough consideration and analysis of the views of the private school officials on the provision of contract services through potential third-party providers."

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 establish controls to ensure all grant requirements are complied with and to conduct consultations with private school officials to ensure private school children receive any educational services needed.



BOARD OF SCHOOL TRUSTEES

- Terry L. Auker
- Chris J. Boots
- Richard C. Evans
- William L. Hutton
- Amy S. McGinnis
- Joel P. Sandefur
- Kaye L. Wolverton

CORRECTIVE ACTION PLAN

FINDING 2014-001 PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

At this time, South Madison Community School Corporation has implemented internal controls to help ensure accurate reporting of federal funds on the Schedule of Expenditures of Federal Awards.

South Madison Community School Corporation is currently making every effort to comply with the federal compliance requirements.

ADMINISTRATION

- Joseph A. Buck
Superintendent
- Sandra K. Hudson
Assistant Superintendent
- Laura M. Miller
Director of Instruction & Staff Development
- Kenneth S. McCarty
Business & Operations Manager

[Handwritten Signature]

 Signature and Title *Corporation Treasurer*

2/18/15

 Date

BOARD OF SCHOOL TRUSTEES

Terry L. Auker
Chris J. Boots
Richard C. Evans
William L. Hutton
Amy S. McGinnis
Joel P. Sandefur
Marilea A. Wyatt

ADMINISTRATION

Joseph A. Buck
Superintendent

Sandra K. Hudson
Assistant Superintendent

Laura M. Miller
Director of Instruction & Staff Development

Mark W. Matlock
Director of Support Services

Kenneth S. McCarty
Business Manager

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www.smadison.k12.in.us

CORRECTIVE ACTION PLAN

FINDING 2014-002 - Internal control and compliance over equipment and real property management

Federal Agency: Department of Agriculture
Federal Program: Child Nutrition Cluster
CFDA Number: 10.555
Federal Award Number and Year (or Other Identifying Number): 2012-13 and 2013-14
Pass-Through Entity: Indiana Department of Education

The School Corporation does not properly maintain records that identify equipment and other property acquired with federal monies. The inventory prepared by the food service director did not list purchase date or price so it was not possible to trace equipment purchased during the audit period to the inventory. Equipment purchases during the audit period represent 6.29% of grant expenditures.

34 CFR 80.32 (d) states in part:

"(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years."

Failure to maintain detailed and accurate equipment and property records and to reconcile physical inventory could result in assets being lost, stolen, misappropriated, or disposed of improperly and not detected within a reasonable time.

We recommend that School Corporation design and properly monitor procedures that would ensure accurate detailed fixed asset records are maintained and that inventories of property and equipment are conducted at least once every two years and reconciled to the detailed capital asset ledger. Any significant differences should be investigated and the appropriate adjustments made to the records. Also any assets acquired with federal funds must be designated as such so that they are not disposed of improperly.

South Madison Community School Corporation will maintain an inventory list that includes all information on current list, plus purchase date or price and which items are purchased with Federal monies. We will update this inventory annually and add or show records of deletion.



Signature and Title

2/19/15

Date



**BOARD OF
SCHOOL TRUSTEES**

Terry L. Auker
Chris J. Boots
Richard C. Evans
William L. Hutton
Amy S. McGinnis
Joel P. Sandefur
Kaye L. Wolverton

ADMINISTRATION

Joseph A. Buck
Superintendent

Sandra K. Hudson
Assistant Superintendent

Laura M. Miller
*Director of Instruction &
Staff Development*

Kenneth S. McCarty
*Business & Operations
Manager*

CORRECTIVE ACTION PLAN

FINDING 2014-003 Internal Control Over Eligibility

Federal Agency: U.S. Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Number & Yr: FY2012-13 and FY2013-14

The statement that “the school corporation failed to detect errors on the eligible schools summary page of the 2013 Title I application” is not correct. South Madison Community School Corporation did detect enrollment errors in the 2013 application and responded with phone calls, emails, the submission of documents, and a conference call with the Indiana Department of Education, which included a Title I Coordinator from Indiana DOE. The enrollment numbers were not in the district’s favor and were 432 below the actual, as reported on the Real Time Report. The numbers are populated by the Indiana Department of Education and the school corporation was informed the numbers cannot be changed.

Regarding the finding that “inadequate documentation was retained to support the poverty numbers reported on the eligible schools summary,” the district learned in the conference call with Indiana DOE that the Title I district poverty percentages are determined by the federal government based on household income and the number of children determined to be in poverty in our school district. This creates a discrepancy for the school corporation, as Transfer Tuition students who are poverty students are not included in the district’s census numbers. In short, the districts of legal settlement for these transfer tuition students receive Title I funding for these students (if they are poverty students), not the receiving school - South Madison.

The school corporation will consult with the Title I department of the Indiana Department of Education to determine how the school corporation can improve its internal controls in regards to this finding. South Madison Community School Corporation is currently making every effort to comply with the grant agreements and federal compliance requirements.

Sandra K. Hudson

Signature and Title

2-18-2015

Date



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ADMINISTRATION

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Sandra K. Hudson
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Laura M. Miller
*Director of Instruction &
Staff Development*

Kenneth S. McCarty
*Business & Operations
Manager*

CORRECTIVE ACTION PLAN

FINDING 2014-004 Special Tests and Provisions – Participation of Private School Children

Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010

Federal Award Number & Yr: FY2011-12, FY2012-13, FY2013-14

The reason the school corporation did not fulfill the requirements for participation of private school children is due to the district’s Indiana Title I Applications, which stated, “there are no non-public schools in your district.” Since the Title I Application did not delineate that the school corporation was obligated to seek out students with legal settlement in its district who attended non-public schools, the school corporation did not understand that it had an obligation in this regard.

To correct this finding, the school corporation has obtained the federal guidance document; the grant manager has attended a workshop on the topic; and the school corporation will begin the process this school year of identifying eligible students who attend non-public schools.

South Madison Community School Corporation is currently making every effort to comply with the grant agreements and federal compliance requirements.

Sandra K. Hudson

Signature and Title

2-18-2015

Date

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

PREPAID SCHOOL LUNCH

Prepaid lunch receipts were not placed in Fund 8400 Prepaid Lunch, but were instead accounted for in a separate line item in the school lunch fund. When the money was spent, a negative entry was made to the line item and it was added to the correct line item. A balance of prepaid lunches was not maintained on the general ledger.

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). Subsidiary records by student should be routinely reconciled to the cash balance and at month end. The School Food Prescribed Forms and any approved computerized forms will be required to be maintained in the following manner to accurately account for prepaid items. (The School Administrator, September 2008)

COMPENSATION AND BENEFITS

Compensation and benefits of salaries for lay coaches and band staff and stipends for School Board members were paid to 43 (2012-2013) and 41 (2013-2014) employees, respectively, whom were not included in the payroll system, but were instead issued 1099s. The compensation paid to these employees was \$198,375 and was approved by the School Board.

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

School Officials did not present sufficient detailed student records of the individual schools' counts to support the Average Daily Membership claimed by the School Corporation. We were unable to determine if the number of students claimed was accurate.

Indiana Code 5-15-6-3(f) states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Officials shall maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM.

The building level official (Principal, Assistant Principal, etc.) is responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should 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 8)

SOUTH MADISON



COMMUNITY SCHOOL CORPORATION

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Terry L. Auker
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OFFICIAL RESPONSE TO THE RESULTS AND COMMENTS

Unit Examined: South Madison Community School Corporation

Period Examined: 7-1-2012 to 6-30-2014

Date of Conference: February 18, 2015

Prepaid School Lunch:

South Madison Community School Corporation is currently following the Prepaid School Lunch procedures but accounting for the funds in a separate line item within Fund 0800-School Lunch Fund.

A plan has been implemented to resolve this comment by establishing a clearing account in Fund 8400-Prepaid Lunch as of July 1, 2015. This account will be routinely reconciled to the cash balance at the end of each month. This will comply with state and federal requirements.


ADMINISTRATION

Joseph A. Buck
Superintendent

Sandra K. Hudson
Assistant Superintendent

Laura M. Miller
Director of Instruction & Staff Development

Kenneth S. McCarty
Business & Operations Manager


Signature and Title

2/20/15
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OFFICIAL RESPONSE TO THE RESULTS AND COMMENTS

Unit Examined: South Madison Community School Corporation

Period Examined: 7-1-2012 to 6-30-2014

Date of Conference: February 18, 2015

Compensation and Benefits:

South Madison Community School Corporation has implemented a plan of action to resolve the comment in reference to compensation and benefits for lay coaches, band staff and school board members.

Beginning June 1, 2015 the above mentioned will be paid through the payroll system and W-2's will be issued to these employees. This will comply with state and federal reporting requirements.

ADMINISTRATION

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Superintendent

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*Business & Operations
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OFFICIAL RESPONSE TO THE RESULTS AND COMMENTS

Unit Examined: South Madison Community School Corporation

Period Examined: 7-1-2012 to 6-30-2014

Date of Conference: February 18, 2015

Average Daily Membership (ADM)-Lack of Records:

As of February 2015, South Madison Community School Corporation implemented procedures to resolve the above comment.

The building level administrator will provide a written and signed certification of their building ADM to the Corporation Central Office in February and September of each year. The certification will include a statement detailing the student names and location to substantiate the ADM claim. This will comply with state and federal requirements.

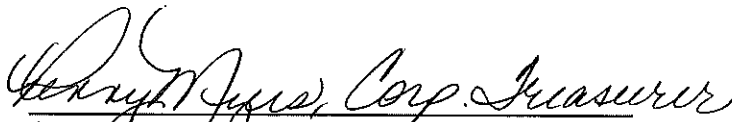
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SOUTH MADISON COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 16, 2015, with Joseph Buck, Superintendent of Schools; Sandra Hutton, Assistant Superintendent of Schools; Kenneth McCarty, Business Manager; Penny Myers, Treasurer; and William Hutton, President of the School Board.