

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MADISON CONSOLIDATED SCHOOLS

JEFFERSON COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
07/15/2016

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2014-001 - Internal Controls over Financial Transactions and Reporting.....	4
Finding 2014-002 - Preparation of the Schedule of Expenditures of Federal Awards	4-5
Finding 2014-003 - Cash Management, Level of Effort, Period of Availability, and Reporting.....	6-7
Finding 2014-004 - Procurement and Suspension and Debarment, Program Income Reporting, Special Tests and Provisions, and Eligibility.	7-8
Finding 2014-005 - Cash Management.....	9
Corrective Action Plan.....	10-11
Audit Results and Comments:	
Reconciliation of Prepaid Food Accounts.....	12
Overdrawn Cash Balances.....	12
Educational Fees	12
Public Works Project	12
Exit Conference	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Charlene O'Connell (Vacant) Danica Houze	07-01-12 to 08-15-13 08-16-13 to 08-19-13 08-20-13 to 12-31-16
Superintendent of Schools	Dr. Ginger Studebaker-Bolinger	07-01-12 to 06-30-18
President of the School Board	Carl G. Schaum Todd S. Bass Joyce Imel	01-01-12 to 12-31-12 01-01-13 to 12-31-14 01-01-15 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

TO: THE OFFICIALS OF THE MADISON CONSOLIDATED SCHOOLS, JEFFERSON COUNTY, INDIANA

This report is supplemental to our audit report of the Madison Consolidated Schools (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

April 14, 2016

MADISON CONSOLIDATED SCHOOLS
FEDERAL FINDINGS

FINDING 2014-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

There was a deficiency in the internal control system of the School Corporation related to financial transactions and reporting.

Lack of Segregation of Duties

The School Corporation had not separated incompatible activities related to cash and investments and receipts. During the audit period, the Treasurer was primarily responsible for reconciling the funds ledger to the depository balance, issuing receipts, depositing receipts into the depository, and recording receipts in the financial accounting system.

The failure to establish these controls could have enabled material misstatements or irregularities to remain undetected. Control activities should have been implemented to reduce the risk of errors in financial reporting.

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)

FINDING 2014-002 - 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 Treasurer was primarily responsible for preparing the SEFA. There was no evidence that the information was reviewed or approved by another individual.

The School Corporation should have had 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, there were the following errors:

1. Expenditures for the School Breakfast Program (CFDA: 10.553), were understated by \$302,787.
2. Expenditures for the National School Lunch Program (CFDA: 10.555), were overstated by \$583,874.
3. Expenditures for the Education Jobs fund (CFDA: 84.410), were understated by \$161,778.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

MADISON CONSOLIDATED SCHOOLS
FEDERAL FINDINGS
(Continued)

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.
- (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."

MADISON CONSOLIDATED SCHOOLS
FEDERAL FINDINGS
(Continued)

***FINDING 2014-003 - CASH MANAGEMENT, LEVEL OF EFFORT,
PERIOD OF AVAILABILITY, AND REPORTING***

Federal Agency: Department of Education

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

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14211-038-PN01; 14212-038-PN01;
14213-038-PN01; 14214-038-PN01;
99914-157-TA01; A58-3-13DL-416;
45711-038-PN01; 45712-038-PN01;
45713-038-PN01

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Cash Management, Level of Effort, Period of Availability, and Reporting.

The School Corporation designated Madison Area Educational Special Services Unit (MAESSU) as the fiscal agent to receive and manage the funding of the Special Education programs. There were the following deficiencies in the internal control system.

Cash Management

Requests for Reimbursement were prepared by MAESSU's Business Manager. There was no control in place to ensure that expenditures were paid prior to requesting reimbursement.

Level of Effort

The School Corporation's Treasurer prepared and submitted Maintenance of Effort (MOE) calculations to the fiscal agent. There was no control in place to ensure the MOE calculations were accurate.

Period of Availability

MAESSU's Business Manager monitored expenditures for compliance with Period of Availability requirements. There was no control in place to ensure expenditures were incurred within the period of availability.

Reporting

The Requests for Reimbursement and Final Expenditure Reports are prepared and submitted by MAESSU's Business Manager. There was no control in place to ensure that the Requests for Reimbursements and Final Expenditure Reports were accurate prior to submission.

The failure to establish an effective internal control system placed 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 have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

MADISON CONSOLIDATED SCHOOLS
FEDERAL FINDINGS
(Continued)

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 have enabled material noncompliance to go undetected. Noncompliance with 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 compliance requirements listed above.

FINDING 2014-004 - PROCUREMENT AND SUSPENSION AND DEBARMENT, PROGRAM INCOME, REPORTING, SPECIAL TESTS AND PROVISIONS, AND ELIGIBILITY

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555,

Federal Award Numbers and Years (or Other Identifying Numbers): 13-3995, 14-3995

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Procurement and Suspension and Debarment, Program Income, Reporting, Special Tests and Provisions, and Eligibility.

Procurement and Suspension and Debarment

One employee was responsible for collecting from vendors certification that they were not suspended or debarred. There was no control in place to ensure that certifications from the vendors were collected.

Program Income

There was not adequate segregation of duties, such as an oversight, review, or approval process to ensure that program income was charged at the approved rate and properly recorded into the School Lunch fund.

MADISON CONSOLIDATED SCHOOLS
FEDERAL FINDINGS
(Continued)

Reporting

The Sponsor Claims (claims for reimbursement), Annual Financial Reports, and Verification Summary Reports were prepared and submitted by the Food Service Director. There was no control in place to ensure reports were accurate prior to submission.

Special Tests and Provisions - Paid Lunch Equity

The annual calculation for paid lunch equity was prepared by the Food Service Director. There was no control in place to ensure the calculation was accurate.

Eligibility

The Food Service Director was solely responsible for inputting all paper applications into the computer software system that determines eligibility. In addition, the applicable federal income eligibility guidelines were uploaded every year by the lunch software provider; however, there was no documentation that the eligibility guidelines entered were verified as accurate prior to the software making eligibility determinations for all applicants. An oversight or review process had not been established to ensure accurate eligibility determinations.

The failure to establish an effective internal control system placed 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 have also allowed noncompliance with compliance requirements and allowed 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 have enabled material noncompliance to go undetected. Noncompliance with 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 requirements listed above.

MADISON CONSOLIDATED SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2014-005 - CASH MANAGEMENT

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): 13-3995, 14-3995

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Cash Management compliance requirement. The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements.

The School Lunch fund balance exceeded the average expenditures for 3 months for all 24 months of the audit period. The average expenditures for 3 months for the fiscal year ending June 30, 2013, was \$173,085. The cash balance exceeded the average expenditures for 3 months between \$1,363,397 and \$1,712,251 each month. The average expenditures for 3 months for the fiscal year ending June 30, 2014, was \$174,966. The cash balance exceeded the average expenditures for 3 months between \$1,588,766 and \$1,871,540 each month.

Noncompliance with the Cash Management requirements occurred due to lack of effective internal control procedures to ensure compliance.

An internal control system 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.

7 CFR 210.14(b) states: "*Net Cash Resources*. The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its non profit school food servi . . . "

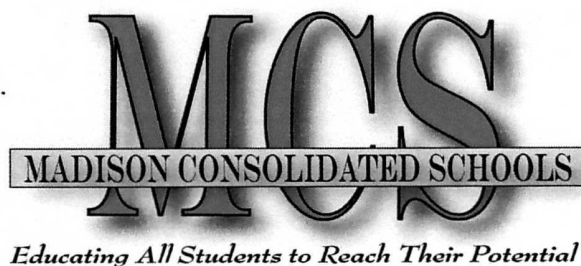
OMB Circular A133, Subpart C, section .300 states in part:

"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 enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement 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 Cash Management requirement of the program.

Ginger Studebaker-Bolinger, Ph.D.
Superintendent



2421 Wilson Avenue
Madison, IN 47250
Phone: 812-274-8001

CORRECTIVE ACTION PLAN
Audit Period July 1, 2012 through June 30, 2014

FINDING 2014-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: Bonnie Hensler, Director of Finance & Human Resources
Contact Phone Number: (812) 274-8001

Description of Corrective Action Plan:

During the audit period the Treasurer was responsible for reconciling the funds ledger to the depository balance, issuing receipts, depositing receipts into the depository, and recording receipts in the financial accounting system. The Deputy Treasurer will prepare the deposits for the depository and record receipts in the financial accounting system. The Treasurer will be responsible for reviewing prepared deposits for the depository, depositing receipts into the depository, and signing off on receipts recorded into the financial accounting system.

The Treasurer is also responsible for reconciling the funds ledger to the depository balance monthly and the Director of Finance reviews and approves. This procedure was implemented January of 2015.

Anticipated Completion Date: June 30, 2016

FINDING 2014-002 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: Bonnie Hensler, Director of Finance & Human Resources
Contact Phone Number: (812) 274-8001

Description of Corrective Action Plan:

The SEFA was prepared with the amount of expenditures from each federal award. In the future, amounts recorded will be the amount reimbursed per the award. The Treasurer will prepare the SEFA with accurate information and the Director of Finance will review and sign off on the SEFA.

Anticipated Completion Date: June 30, 2016

FINDING 2014-003 - CASH MANAGEMENT, LEVEL OF EFFORT, PERIOD OF AVAILABILITY, AND REPORTING

Contact Person Responsible for Corrective Action: Bonnie Hensler, Director of Finance & Human Resources
Contact Phone Number: (812) 274-8001

Description of Corrective Action Plan:

During the audit period, Madison Consolidated Schools was a member of the Madison Area Education Special Service Unit (MAESSU). MAESSU was the fiscal agent designated to receive and manage funding of the Special Education Programs and grants. On July 1, 2014 Madison Consolidated Schools

separated from MASESSU. Madison Consolidated Schools currently provides a greater level of internal control and segregation of duties for the administration of the programs. The Treasurer will prepare and submit the request for reimbursement, Maintenance of Effort Calculations, and the Period of Availability after review by the Director of Finance. The quarterly and final expenditure reports are prepared by the Treasurer and are reviewed by the Director of Special Education prior to submission.

Anticipated Completion Date: Current

FINDING 2014-004 – PROCUREMENT AND SUSPENSION AND DEBARMENT, PROGRAM INCOME, REPORTING, SPECIAL TEST AND PROVISIONS, ELIGIBILITY

Contact Person Responsible for Corrective Action: Judy Brooks, Food Service Coordinator
Contact Phone Number: (812) 274-8001

Description of Corrective Action Plan:

A part-time Food Service Accounting Clerk will be hired to prepare eligibility determination for students, procurement, income, reporting, and paid lunch equity. The Food Service Coordinator will be responsible for the review of the food service clerk's work and verifying accuracy and compliance in accordance with applicable regulations. The addition of a part-time food service clerk will allow for proper segregation of duties and internal control.

Anticipated Completion Date: June 30, 2016

FINDING 2014-005 – CASH MANAGEMENT

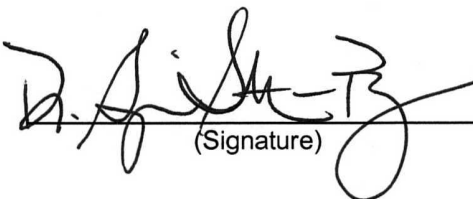
Contact Person Responsible for Corrective Action: Judy Brooks, Food Service Coordinator
Contact Phone Number: (812) 274-8001

Description of Corrective Action Plan:

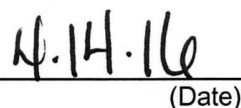
The food service program will work to reduce the current cash balance by hiring additional staff, purchase new equipment, serve a wider variety of fresh foods, and serve breakfast to all students free of charge. Several of these initiatives have already commenced and will continue to grow, thus reducing the cash balance in accordance with applicable regulations.

The Food Service Director will be responsible for monitor cash projections in the future and reporting to the Director of Finance for review.

Anticipated Completion Date: June 30, 2017


(Signature)

Superintendent
(Title)


(Date)

MADISON CONSOLIDATED SCHOOLS
AUDIT RESULTS AND COMMENTS

RECONCILIATION OF PREPAID FOOD ACCOUNTS

Reconciliations of the students' individual Prepaid Food account balances to the Prepaid Food fund were not performed. As of June 30, 2014, the students' individual Prepaid Food account balances exceeded the balance in the Prepaid Food fund by \$8,326.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OVERDRAWN CASH BALANCES

The financial statement presented in the Financial Statement and Federal Single Audit Report included the following funds with overdrawn cash balances as of June 30, 2013 and 2014:

Fund	Amount Overdrawn June 30, 2013	Amount Overdrawn June 30, 2014
Textbook Rental	\$ -	\$ 283,402
Child Care Program	-	18,215
Extra-Curricular Activities	2,972	556

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

EDUCATIONAL FEES

The School Corporation charged educational fees. The School Corporation did not obtain written guidance from their Attorney concerning whether the fees were appropriate in regards to the Constitutional provisions.

The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

PUBLIC WORKS PROJECT

The School Corporation entered into a contract in the amount of \$1,356,000 for the renovation of the pool. A performance bond was not presented for audit.

Indiana Code 36-1-12-14(e) states in part:

"Except as provided by subsections (i) and (h), the contractor shall furnish the board with a performance bond equal to the contract price. If acceptable to the board, the performance bond may provide for incremental bonding in the form of multiple or chronological bonds that, when taken as a whole, equal the contract price. The surety on the performance bond may not be released until one (1) year after the date of the board's final settlement with the contractor."

MADISON CONSOLIDATED SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on April 14, 2016, with Bonnie Hensler, Director of Finance; Danica Houze, Treasurer; Dr. Ginger Studebaker-Bolinger, Superintendent of Schools; Joyce Imel, President of the School Board; and Amanda Conover, Deputy Treasurer.