

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MONROE-GREGG SCHOOL DISTRICT

MORGAN COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
05/06/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kelly Dillon	07-01-12 to 06-30-16
Superintendent of Schools	Julie Wood Dr. William Roberson	07-01-12 to 12-31-12 01-01-13 to 12-31-16
President of the School Board	Scott Everett Jack Elliot Tim Pridemore Scott Everett	07-01-12 to 12-31-12 01-01-13 to 12-31-13 01-01-14 to 12-31-14 01-01-15 to 12-31-16



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TO: THE OFFICIALS OF THE MONROE-GREGG SCHOOL DISTRICT, MORGAN COUNTY, INDIANA

This report is supplemental to our audit report of the Monroe-Gregg School District (School District), 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 District. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School District, which provides our opinions on the School District'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, incorporated within this report, was not verified for accuracy.

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

March 2, 2016

MONROE-GREGG SCHOOL DISTRICT
FEDERAL FINDINGS

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

The School District 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 School District 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:

The School District did not report any federal expenditures for the 2012-2013 school year. For the 2013-2014 school year, the School District did not report any amounts for the Child Nutrition Cluster or the Medicaid Cluster, and incorrect amounts for the Special Education Cluster. The School District understated expenditures on the SEFA in the amounts of \$890,782 and \$380,916 for the school years 2012-2013 and 2013-2014, respectively.

Audit adjustments were proposed, accepted by the School District, 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.

MONROE-GREGG SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

- (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."

FINDING 2014-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted deficiencies in the internal control system of the School District related to financial transactions and reporting. The School District does not have adequate controls in place over payroll transactions. Payroll transactions were approved by the Treasurer and the School Board in total by fund but there were not controls in place to ensure that individual payroll transactions were posted to the correct fund.

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 2014-003 - ALLOWABLE COSTS

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Number and Year (or Other Identifying Number): FY 2013, FY 2014
Pass-Through Entity: Indiana Department of Education

Federal Agency: U.S. Department of Education
Federal Program: Special Education - Grants to States, Special Education - Preschool Grants
CFDA Number: 84.027, 84.173
Federal Award Number and Year (or Other Identifying Number): 14211-63-PN01, 14212-63-PN01,
14213-63-PN01, 14214-63-PN01
Pass-Through Entity: Indiana Department of Education

Management of the School District has not established an effective internal control system related to the grant agreement and the Allowable Costs compliance requirements. There were no controls in place to ensure that the required time and effort certifications were completed and maintained.

MONROE-GREGG SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

The School District was required to maintain time and effort documentation for all full and part-time employees paid from the Special Education and the Child Nutrition programs. The School District could not provide time and effort reports for the audit period.

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-87, Attachment B, section (8)(h) states in part:

- "(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.
- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency."

The failure to establish internal controls 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 District.

We recommended that the School District's management establish controls related to the grant agreement and compliance requirements listed above. In addition, we recommended the School District comply with the Allowable Costs compliance requirement.

FINDING 2014-004 - CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Number and Year (or Other Identifying Number): FY 2013, FY 2014
Pass-Through Entity: Indiana Department of Education

Management of the School District has not established an effective internal control system related to the grant agreement and Cash Management compliance requirements. The School District was not in compliance with the requirements of Cash Management.

The School District is required to limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service. In 13 of the 24 months of the audit period, the School District's School Lunch fund cash balance exceeded the three months' average expenditures.

MONROE-GREGG SCHOOL DISTRICT
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."

7 CFR 210.14(b) Resource Management states in part:

"The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with §210.19(a)."

The failure to establish internal controls enabled 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 District.

We recommended that the School District's management establish controls related to the grant agreement and compliance requirements listed above. In addition, we recommended the School District comply with the Cash Management requirement.

FINDING 2014-005 - SPECIAL TESTS AND PROVISIONS - VERIFICATION OF FREE AND REDUCED PRICE APPLICATIONS

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Number and Year (or Other Identifying Number): FY 2013, FY 2014
Pass-Through Entity: Indiana Department of Education

Management of the School District has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Price Applications compliance requirement.

The School District did not complete the verifications of free and reduced applications for the school food program for the 2012-2013 and 2013-2014 school years.

The failure to establish an effective internal control system places the school district at risk of non-compliance 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 programs.

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 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.

MONROE-GREGG SCHOOL DISTRICT
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."

7 CFR 245.6a - Verification requirements states in part:

"(c) Verification requirement—(1) General. The local educational agency must verify eligibility of children in a sample of household applications approved for free and reduced price meal benefits for that school year.

(e) Activities prior to household notification—(1) Confirmation of a household's initial eligibility.
(i) Prior to conducting any other verification activity, an individual, other than the individual who made the initial eligibility determination, shall review for accuracy each approved application selected for verification to ensure that the initial determination was correct. If the initial determination was correct, the local educational agency shall verify the approved application. If the initial determination was incorrect, the local educational agency must:

(A) If the eligibility status changes from reduced price to free, make the increased benefits immediately available and notify the household of the change in benefits; the local educational agency will then verify the application;

(B) If the eligibility status changes from free to reduced price, first verify the application and then notify the household of the correct eligibility status after verification is completed and, if required, send the household a notice of adverse action in accordance with paragraph (j) of this section; or

(C) If the eligibility status changes from free or reduced price to paid, send the household a notice of adverse action in accordance with paragraph (j) of this section and do not conduct verification on this application and select a similar application (for example, another error-prone application) to replace it."

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the School District.

We recommended that the School District's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above. In addition, we recommended the School District comply with the Special Test and Provision - Verification of Free and Reduced Price Application compliance requirement.

FINDING 2014-006 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: U.S. Department of Agriculture

Federal Program: School Breakfast Program, National School Lunch Program

CFDA Number: 10.553, 10.555

Federal Award Number and Year (or Other Identifying Number): FY 2013, FY 2014

Pass-Through Entity: Indiana Department of Education

MONROE-GREGG SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

Management of the School District has not established an effective internal control system related to the grant agreement and the Equipment and Real Property Management compliance requirement.

The School District did not maintain property records of assets purchased with federal funds or documentation of disposal of assets purchased from federal funds.

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."

7 CFR 3016.32(d)(1) 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."

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the School District.

We recommended that the School District's management establish controls, related to the grant agreement and compliance requirements listed above. In addition, we recommended the School District comply with the Equipment and Real Property Management compliance requirement.

Monroe-Gregg Schools

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CORRECTIVE ACTION PLAN

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

Contact Person Responsible for Corrective Action: KELLY DILLON

Contact Phone Number: 317-996-3720 X1003

Description of Corrective Action Plan:

- Prevent, detect or correct errors of the Schedule of Expenditures of Federal Awards (SEFA) – **Response:** Corporation Treasurer shall submit and ensure all Federal Awards are included on the Annual Financial Report through Gateway.

FINDING 2014-002 INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: KELLY DILLON

Contact Phone Number: 317-996-3720 X1003

Description of Corrective Action Plan:

- Evidence of approval of a detailed payroll transaction listing by school officials – **Response:** Corporation Treasurer will instruct Deputy Treasurer/Payroll to provide a detailed payroll distribution report by employee and fund after each payroll to the Corporation Treasurer for Board of Trustees approval. This list will be filed with the monthly Board Meeting Minutes (binder) in the Administration Office.

FINDING 2014-003 ALLOWABLE COST

Federal Agency: United States Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553 and 10.555
Federal Award Number and Year: FY 2013 and FY 2014
Pass-Through Entity: Indiana Department of Education

Federal Agency: United States Department of Agriculture
Federal Program: Special Education – Grants to States, Special Education – Preschool Grants
CFDA Number: 84.027 and 84.173
Federal Award Number and Year: 14211-63-PN01; 14212-63-PN01; 14213-63-PN01; 14214-63-PN01

Pass-Through Entity: Indiana Department of Education

Description of Corrective Action Plan:

- Allowable costs compliance requirement for maintaining time and effort certifications – **Response:** Corporation Treasurer will correspond and provide the Semi-Annual Certification Activity Report for Employees Working on a Single Cost Objective to all Directors of Major Federal Grants (Title I, Title II Part A, Child Nutrition, and Special Education). This report will be filed with the Corporation Treasurers perspective Grant files. Likewise, the Cafeteria Director will maintain their file.

FINDING 2014-004 CASH MANAGEMENT

Federal Agency: United States Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553 and 10.555
Federal Award Number and Year: FY 2013 and FY 2014
Pass-Through Entity: Indiana Department of Education

Description of Corrective Action Plan:

- Thirteen out of the twenty four month period the district exceeded the three month average expenditures – **Response:** Corporation Treasurer will correspond with Taher and the Cafeteria Director to monitor the cash balance so that it does not exceed the three month average expenditures. However, if a large piece of equipment is to be purchased and staff raises/benefits are needed for future expenses those projections will be included in the average until the need is met.

FINDING 2014-005 SPECIAL TESTS AND PROVISIONS-VERIFICATION OF FREE AND REDUCED PRICE APPLICATIONS

Federal Agency: United States Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553 and 10.555
Federal Award Number and Year: FY 2013 and FY 2014
Pass-Through Entity: Indiana Department of Education

Description of Corrective Action Plan:

- Verification of free and reduced price applications – **Response:** The Cafeteria Director has secured all verification applications and corresponding paperwork and has included them with all annual free and reduced applications.

FINDING 2014-006 EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: United States Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553 and 10.555
Federal Award Number and Year: FY 2013 and FY 2014
Pass-Through Entity: Indiana Department of Education

Description of Corrective Action Plan:

- Maintaining documentation of assets purchased with federal funds, or documentation of disposal of assets purchased from federal funds. **Response** – Corporation Treasurer will correspond and provide the Cafeteria Director an excel spreadsheet that will allow her/him to keep an asset inventory of new equipment purchased with federal dollars. The spreadsheet will include year, description and dollar amount purchased. It will also include any equipment that has been taken out of our inventory. It will include year, description of equipment, reason taken out of inventory and how it was disposed of. Example: sold, scrapped or dumpster.

Anticipated Completion Date:

All finding (1-6) will take action immediately



(Signature)

Corporation Treasurer

(Title)

February 22, 2016

(Date)

MONROE-GREGG SCHOOL DISTRICT
AUDIT RESULTS AND COMMENTS

AVERAGE DAILY MEMBERSHIP (ADM) - INCORRECT REPORTING TO THE STATE

The information presented for audit indicated enrollment reported to the state was incorrect for the school year ending June 30, 2013.

The second enrollment count date for school year 2013 was February 3, 2013. The difference between the count reported on the ADM and the verified figures are shown below:

<u>School Year</u>	<u>Grade</u>	<u>Reported on Form Number 30</u>	<u>Enrollment Figures</u>	<u>Difference</u>
2014	Kindergarten	53.5	53.5	0
2014	1 through 12	1380	1388	8

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

PUBLIC WORKS CONTRACT

A public works contract was awarded to Dirt Works, Inc., for \$650,000. Retainage was not withheld from payments to the contractor and placed in an escrow account.

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

"A board that enters into a contract for public work, and a contractor who subcontracts parts of that contract, shall include in their respective contracts provisions for the retainage of portions of payments by the board to contractors, by contractors to subcontractors, and for the payment of subcontractors. At the discretion of the contractor, the retainage shall be held by the board or shall be placed in an escrow account with a bank, savings and loan institution, or the state as the escrow agent. The escrow agent shall be selected by mutual agreement between board and contractor or contractor and subcontractor under a written agreement among the bank or savings and loan institution and:

- (1) the board and the contractor; or
- (2) the subcontractor and the contractor."

MONROE-GREGG SCHOOL DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on March 2, 2016, with Dr. William Roberson, Superintendent of Schools; Kelly Dillon, Treasurer; and Carol Dirlam, Food Service Director.