

**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, 2014 to June 30, 2016



**FILED**  
08/07/2018



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Penny Myers	01-01-14 to 12-31-18
Superintendent of Schools	Joseph Buck	07-01-14 to 06-30-19
President of the School Board	Christopher Boots William Hutton Richard Evans Amy McGinnis	01-01-14 to 12-31-14 01-01-15 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18



**STATE OF INDIANA**  
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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, 2014 to June 30, 2016. It has been provided as a separate report so that the reader may easily identify any Federal Findings 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/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report.

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

July 5, 2018

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS

***FINDING 2016-001***

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Findings: Material Weakness, Noncompliance

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2014-001.

*Condition*

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 School Corporation had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the School Corporation's SEFA. The Treasurer prepared the federal award information entered into Gateway without a control in place to prevent, or detect and correct, errors prior to submission.

*Context*

The SEFA presented for audit contained the following errors:

1. The Child Nutrition Cluster was understated by \$58,942 and \$107,508 for the periods ending June 30, 2015 and 2016, respectively. Included in the Child Nutrition Cluster understatement was the omission of the National School Lunch Program Commodities.
2. The Special Education Preschool Grants amount was understated by \$47,022 for the period ending June 30, 2015.
3. The Special Education Cluster (IDEA) passed through to subrecipient amounts were overstated by \$945,272 for the period ending June 30, 2015.
4. The Title I Grants to Local Educational Agencies expenditures were allocated incorrectly between grant programs for the period ending June 30, 2015 and 2016.
5. Not all CFDA numbers, program names, grants, and pass-through identifying numbers were correct or listed.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA.

*Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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 § \_\_\_\_ .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."

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

*Effect*

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Context*.

*Recommendation*

We recommended that the School Corporation's management establish controls related to the preparation of the SEFA.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-002**

Subject: Financial Transactions and Reporting  
Audit Finding: Material Weakness

*Condition*

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. There was a lack of adequate segregation of duties as the School Corporation had not separated incompatible activities related to cash and investments and receipts.

1. Cash and Investments: Monthly reconcilements were adequately detailed and summarized but were prepared by one individual without a proper system of oversight or review.
2. Receipts: One individual prepared the deposit slip for all receipts and compared the total on the deposit slip to the corresponding receipt edit. There was no evidence of a proper oversight, review, or approval process.

*Context*

The lack of controls was a systemic issue, which occurred throughout the audit period.

*Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

*Cause*

Management of the School Corporation had not established a proper system of internal controls that segregated key functions.

*Effect*

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the School Corporation's management establish a system of internal controls, including segregation of duties, related to financial transactions and reporting related to cash and investments and receipts.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-003**

Subject: Child Nutrition Cluster - Cash Management, Procurement  
and Suspension and Debarment, and Program Income

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch  
Program, Special Milk Program for Children,  
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.556, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014-2015, FY 2015-2016

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Procurement and Suspension  
and Debarment, Program Income

Audit Finding: Material Weakness

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Cash Management, Procurement and Suspension and Debarment, and Program Income compliance requirements.

*Cash Management (School Breakfast Program and National School Lunch Program only)*

The School Corporation had not established procedures to monitor the School Lunch fund monthly cash balances (net cash resources) to ensure that it was limited to the three months average expenditures. A review process was not established to document the monitoring of the cash balances (net cash resources).

*Procurement and Suspension and Debarment*

This compliance requirement was primarily handled by the Central Indiana Educational Service Center (CIESC). The School Corporation had a control in place in which any vendor recommended by CIESC was to be approved by the School Board; however, the recommended vendors were not approved by the School Board. The lack of review and approval indicated that there was not an effective control over procurement and suspension and debarment.

*Program Income*

The School Corporation had not established an effective internal control over verifying the proper determination and recording of program income. The School Corporation did not provide evidence of a review of the daily cafeteria sales reports for all of its schools to ensure that all program income was properly determined and recorded in the School Corporation ledger.

The School Corporation had not established an effective internal control over verifying the transfers from Clearing Account Number 8400 to School Lunch Fund Account Number 800 were accurate.

*Context*

The lack of controls was a systemic issue, which occurred throughout the audit period.

*Criteria*

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. . . ."

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with the Cash Management, Procurement and Suspension and Debarment, and Program Income compliance requirements.

*Effect*

The failure to establish an effective internal control system, which would have included segregation of duties, placed the School Corporation at risk of noncompliance with the grant agreement and the Cash Management, Procurement and Suspension and Debarment, and Program Income compliance requirements.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Cash Management, Procurement and Suspension and Debarment, and Program Income compliance requirements.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2016-004***

Subject: Child Nutrition Cluster - Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program, Special Milk Program for Children, Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.556, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014-2015, FY 2015-2016

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Eligibility, Reporting, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)

Audit Findings: Material Weakness, Modified Opinion

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

It could not be determined if the School Corporation complied with the requirements of Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP). The School Corporation failed to retain applications for free and reduced price school meals and supporting documentation of the applications selected for the verification of free and reduced price school meals for preparation of the School Food Authority (SFA) Verification Collection Report for the school year 2014-2015. Due to the lack of maintaining records, the requirements for the Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) could not be verified.

*Context*

The lack of controls occurred during the 2014-2015 school year. Records were not available to determine compliance with the Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) requirements for the 2014-2015 school year.

*Criteria*

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. . . ."

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

7 CFR 3016.20(b)(2) states:

"*Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

7 CFR 3016.42 states in part:

"(a) *Applicability.*

- (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are:
  - (i) Required to be maintained by the terms of this part, program regulations or the grant agreement, or
  - (ii) Otherwise reasonably considered as pertinent to program regulations or the grant agreement. . . .

(b) *Length of retention period.*

- (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section. . . ."

2 CFR 200.302(b)(3) states:

"Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with the Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

*Effect*

The failure to retain and provide appropriate supporting documentation prevented the determination of the School Corporation's compliance with the Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure appropriate supporting documentation will be retained and provided for audit relating to the grant agreement and the Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Applications (NSLP) compliance requirements.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-005**

Subject: Child Nutrition Cluster - Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program, Special Milk Program for Children, Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.556, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014-2015, FY 2015-2016

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Modified Opinion

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

Effective controls were not in place to ensure that only applicable employees were paid from program funds. The School Corporation paid \$42,628 of central office salaries/wages that were allocated to the school lunch based on fixed percentages. There was no supporting documentation to indicate how these amounts were determined.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Context*

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period.

*Criteria*

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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

OMB Circular A-87, Attachment A, Part C states in part:

"1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular. . . .
- j. Be adequately documented. . . ."

OMB Circular A-87, Attachment B, Section 8h(4) states in part:

"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. Such documentary support will be required where employees work on:

- a. More than one Federal award,
- b. A Federal award and a non-Federal award, . . ."

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

2 CFR 200.403 states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items. . . .
- (g) Be adequately documented. . . ."

2 CFR 200.430(i) states in part:

"Standards for Documentation of Personnel Expenses (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; . . .
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS); . . .
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

*Effect*

The failure to establish an effective internal control system placed the School Corporation in non-compliance with the grant agreement and the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

*Questioned Costs*

The \$42,628 of the central office salaries/wages allocated to the School Lunch fund was considered questioned costs.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-006**

Subject: Child Nutrition Cluster - Equipment and Real Property Management

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,  
Special Milk Program for Children, Summer Food Service  
Program for Children

CFDA Numbers: 10.553, 10.555, 10.556, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014-2015, FY 2015-2016

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Equipment and Real Property Management

Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2014-002.

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with the grant agreement and the equipment requirements of the Equipment and Real Property Management compliance requirement.

The School Corporation's property records did not contain the acquisition date and cost of the equipment.

*Context*

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period.

*Criteria*

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. . . ."

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

7 CFR 3016.32(d) states in part:

*"Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (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 CFR 200.313(d) states in part:

*"Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

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

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with the equipment requirements of the Equipment and Real Property Management compliance requirement.

*Effect*

The failure to establish an effective internal control system placed the School Corporation in non-compliance with the grant agreement and the equipment requirements of the Equipment and Real Property Management compliance requirement.

*Questioned Costs*

There were no questioned costs identified.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the equipment requirements of the Equipment and Real Property Management compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-007**

Subject: Special Education Cluster (IDEA) - Level of Effort - Maintenance of Effort

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): 99914-027-TA01, 14214-027-PN01,  
45714-027-PN01, 14215-027-PN01,  
45715-027-PN01, 14216-027-PN01,  
45716-027-PN01, 14213-027-PN01,  
45713-027-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Matching, Level of Effort, Earmarking

Audit Findings: Material Weakness, Modified Opinion

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Matching, Level of Effort, and Earmarking compliance requirement.

Supporting documentation, such as the expenditure ledger detail of the amounts shown on the Maintenance of Effort portion of the fiscal year 2016 and 2017 grant applications was not provided for audit. Expenditure totals shown on the fiscal year 2017 grant application for particular years did not agree with the totals shown for the same years on the prior fiscal year 2016 grant application.

*Context*

The lack of controls was a systematic issue, which occurred throughout the audit period. Additionally, the lack of supporting documentation prevented the determination of the School Corporation's compliance with the compliance requirement.

*Criteria*

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. . . ."

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 74.53(b) states in part:

"Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Secretary. . . ."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

34 CFR 80.20 states in part:

"(a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. . . ."

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

2 CFR 200.302 states in part:

"(a) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. . . .

(b) The financial management system of each non-Federal entity must provide for the following (see also §§ 200.333 Retention requirements for records, 200.334 Requests for transfer of records, 200.335 Methods for collection, transmission and storage of information, 200.336 Access to records, and 200.337 Restrictions on public access to records): . . .

(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . .

(3) Records that identify adequately the source and application of funds for federally-funded activities. . . ."

34 CFR 76.702 states: "A State and a subgrantee shall use fiscal control and funding accounting procedures that insure proper disbursement of and accounting for Federal funds."

34 CFR 76.731 states: "A State and a subgrantee shall keep records to show its compliance with program requirements."

34 CFR 299.5(a) states:

"*General.* An LEA receiving funds under an applicable program listed in paragraph (b) of this section may receive its full allocation of funds only if the SEA finds that either the combined fiscal effort per student or the aggregate expenditures of State and local funds with respect to the provision of free public education in the LEA for the preceding fiscal year was not less than 90 percent of the combined fiscal effort per student or the aggregate expenditures for the second preceding fiscal year."

*Cause*

Management had not developed a system of internal controls that would have ensured supporting documentation was maintained and provided for audit relating to the Matching, Level of Effort, and Earmarking compliance requirement.

*Effect*

The failure to maintain and provide supporting documentation prevented the determination of compliance with the grant agreement and the Matching, Level of Effort, and Earmarking compliance requirement.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure supporting documentation will be maintained and provided for audit relating to the grant agreement and the Matching, Level of Effort, and Earmarking compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-008**

Subject: Special Education Cluster (IDEA) - 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): 99914-027-TA01, 14214-027-PN01,  
45714-027-PN01, 14215-027-PN01,  
45715-027-PN01, 14216-027-PN01,  
45716-027-PN01, 14213-027-PN01,  
45713-027-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Modified Opinion

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with the requirements related to the grant agreement and the Reporting compliance requirement.

There was no approval process involving another individual at the School Corporation to ensure the Data Collection Reports were accurate for fiscal years 2015 and 2016.

The following issues were noted relating to the reporting requirements:

1. Quarterly Proportionate Share Monitoring Report for July 1, 2013 to September 30, 2015: Supporting documentation was not provided for audit of the Proportionate Share of Actual Expenses for the 611 Allocation presented on this report, nor the December 1, 2012 Child Count for the 619 Allocation presented on this report.
2. Quarterly Proportionate Share Monitoring Report for October 1, 2014 to December 31, 2014: Supporting documentation was not provided for audit of the December 1, 2012 Child Count for the 619 Allocation presented on this report.
3. Child Count Report for fiscal year 2016 Period 2: Supporting documentation was presented for audit; however, some child counts tested by exceptionalities or grade did not agree with the final submitted report.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

4. Data Collections Reports for fiscal years 2015 and 2016: Supporting documentation such as a student listing was not provided for audit for either report.

*Context*

The lack of controls was a systemic issue, which occurred throughout the audit period. Additionally, the lack of supporting documentation prevented the determination of the School Corporation's compliance with the compliance requirement.

*Criteria*

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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 74.53(b) states in part:

"Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Secretary. . . ."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

34 CFR 80.20 states in part:

"(a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
  - (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- (b) The financial management systems of other grantees and subgrantees must meet the following standards:
- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
  - (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. . . ."

2 CFR 200.302 states in part:

"(a) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. . . .

(b) The financial management system of each non-Federal entity must provide for the following (see also §§ 200.333 Retention requirements for records, 200.334 Requests for transfer of records, 200.335 Methods for collection, transmission and storage of information, 200.336 Access to records, and 200.337 Restrictions on public access to records): . . .

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . .
- (3) Records that identify adequately the source and application of funds for federally-funded activities. . . ."

34 CFR 76.731 states: "A State and a subgrantee shall keep records to show its compliance with program requirements."

*Cause*

Management had not developed a system of internal controls that would have ensured supporting documentation was maintained and provided for audit relating to the Reporting compliance requirement.

*Effect*

The failure to maintain and provide supporting documentation prevented the determination of compliance with the grant agreement and the Reporting compliance requirement.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure supporting documentation will be maintained and provided for audit relating to the Reporting compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-009**

Subject: Special Education Cluster (IDEA) - Cash Management, Procurement  
and Suspension and Debarment, 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): 99914-027-TA01, 14214-027-PN01,  
45714-027-PN01, 14215-027-PN01,  
45715-027-PN01, 14216-027-PN01,  
45716-027-PN01, 14213-027-PN01,  
45713-027-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Procurement and Suspension  
and Debarment, Reporting

Audit Finding: Material Weakness

*Condition*

The School Corporation was a member school corporation of the Hancock Madison Shelby Educational Services Cooperative (Cooperative). The member school corporations of the Cooperative had determined that it was beneficial to pool their resources to provide special education services to those in need. The Cooperative designated a fiscal agent, who was responsible for the accounting records of the Cooperative. During the 2015-2016 school year, the fiscal agent of the Cooperative spent the federal money on behalf of the School Corporation and other member school corporations. The grant agreements for the federal programs were between the Indiana Department of Education and each member school corporation of the Cooperative. The School Corporation was ultimately responsible for compliance with the compliance requirements.

An effective internal control system was not in place at the School Corporation for the 2015-2016 school year in order to ensure compliance with requirements related to the grant agreement and the Cash Management, Procurement and Suspension and Debarment, and Reporting compliance requirements.

*Cash Management*

The School Corporation had not designed or implemented adequate policies and procedures to ensure that compliance requirements for cash management were properly charged to the applicable federal grants. Reimbursement requests were prepared and submitted by the Treasurer with no review or oversight.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Procurement*

The School Corporation had not designed or implemented adequate policies and procedures to ensure that there was proper segregation of duties regarding procurement. The Treasurer prepared claims for payment and paid the claims with no review or oversight.

*Reporting*

The School Corporation had not designed or implemented adequate policies and procedures to ensure that there was a proper segregation of duties regarding reporting. Reimbursement requests and Final Expenditure Reports were prepared and submitted by the Treasurer with no review or oversight.

*Context*

The lack of controls was a systemic issue, which occurred throughout the audit period.

*Criteria*

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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with the Cash Management, Procurement and Suspension and Debarment, and Reporting compliance requirements.

*Effect*

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the Cash Management, Procurement and Suspension and Debarment, and Reporting compliance requirements.

*Questioned Costs*

There were no questioned costs identified.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Cash Management, Procurement and Suspension and Debarment, and Reporting compliance requirements.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-010**

Subject: Special Education Cluster (IDEA) - Activities Allowed  
or Unallowed, Allowable Costs/Cost Principles

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): 99914-027-TA01, 14214-027-PN01,  
45714-027-PN01, 14215-027-PN01,  
45715-027-PN01, 14216-027-PN01,  
45716-027-PN01, 14213-027-PN01,  
45713-027-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

*Condition*

The School Corporation was a member school corporation of the Hancock Madison Shelby Educational Services Cooperative (Cooperative). The member school corporations of the Cooperative had determined that it was beneficial to pool their resources to provide special education services to those in need. The Cooperative designated a fiscal agent, who was responsible for the accounting records of the Cooperative. During the 2015-2016 school year, the fiscal agent of the Cooperative spent the federal money on behalf of the School Corporation and other member school corporations. The grant agreements for the federal programs were between the Indiana Department of Education and each member school corporation of the Cooperative. The School Corporation was ultimately responsible for compliance with the compliance requirements.

An effective internal control system was not in place at the School Corporation for the 2015-2016 school year in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

*Activities Allowed or Unallowed*

The Treasurer prepared claims for payment and paid the claims prior to review or approval by any other individual or school board member.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Allowable Costs/Cost Principles*

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the required Semi-Annual Certifications or other documentation of personnel expenses were reviewed and approved by the employee's supervisor and retained for audit. No Semi-Annual Certifications or other documentation of personnel expenses were presented for the period of July 1, 2015 to December 31, 2015. Semi-Annual Certifications provided during the audit period were not always approved by the Executive Director of the School Corporation Council.

*Context*

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period.

*Criteria*

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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

OMB Circular A-87, Attachment B, section 8(h)(3) states:

"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 semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

2 CFR 200.430(i) states in part:

"*Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS); . . .
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which allocated using different allocation bases; or an unallowable activity and a direct or indirect costs activity. . . ."

34 CFR 300.202 states:

"(a) *General.* Amounts provided to the LEA under Part B of the ACT—

- (1) Must be expended in accordance with the applicable provisions of this part;
- (2) Must be used only to pay the excess costs of providing special education and related services to children with disabilities, consistent with paragraph (b) of this section; and
- (3) Must be used to supplement State, local, and other Federal funds and not to supplant those funds.

(b) *Excess cost requirement—*

(1) *General.*

(i) The excess cost requirement prevents an LEA from using funds provided under Part B of the Act to pay for all of the costs directly attributable to the education of a child with a disability, subject to paragraph (b)(1)(ii) of this section.

(ii) The excess cost requirement does not prevent an LEA from using Part B funds to pay for all of the costs directly attributable to the education of a child with a disability in any of the ages 3, 4, 5, 18, 19, 20, or 21, if no local or State funds are available for nondisabled children of these ages. However, the LEA must comply with the nonsupplanting and other requirements of this part in providing the education and services for these children.

(2) (i) An LEA meets the excess cost requirement if it has spent at least a minimum average amount for the education of its children with disabilities before funds under Part B of the Act are used.

(iii) The amount described in paragraph (b)(2)(i) of this section is determined in accordance with the definition of *excess costs* in § 300.16. That amount may not include capital outlay or debt service.

(3) If two or more LEAs jointly establish eligibility in accordance with § 300.223, the minimum average amount is the average of the combined minimum average amounts determined in accordance with the definition of *excess costs* in § 300.16 in those agencies for elementary or secondary school students, as the case may be."

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

*Effect*

The failure to establish an effective internal control system, which would have included segregation of duties, placed the School Corporation in noncompliance with the grant agreement and the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**BOARD OF SCHOOL TRUSTEES**

Chris J. Boots  
 Mark Brizendine  
 Richard C. Evans  
 William Hutton  
 Amy S. McGinnis  
 Joel P. Sandefur  
 Kaye Wolverton

**ADMINISTRATION**

Joseph A. Buck  
*Superintendent*

Dr. Mark J. Hall  
*Assistant Superintendent for Secondary Curriculum, Instruction and College & Career Readiness*

Dr. Laura M. Miller  
*Assistant Superintendent for Elementary Curriculum and Instruction*

Kenneth S. McCarty  
*Business & Operations Manager*

Lynn Mellinger  
*Director of Special Education*

**CORRECTIVE ACTION PLAN**

**FINDING 2016-001 FINANCIAL STATEMENT FINDING**

**Contact Person Responsible for Corrective Action:**

Ken McCarty, Business and Penny Myers Corporation Treasurer

**Contact Phone Number:**

765-778-2152 extension 1003 or 1005

**Contact Email:**

[kmccarty@smcsc.com](mailto:kmccarty@smcsc.com)  
[pmyers@smcsc.com](mailto:pmyers@smcsc.com)

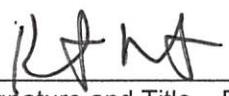
**Description of Corrective Action Plan:**

As of July 1, 2018, South Madison Community School Corporation has set in place the following:

The Schedule of Expenditures of Federal Awards (SEFA) is prepared by the Corporation Treasurer using actual receipts and expenditures from the Form 9 – Biannual Financial Report for the Federal Awards. The Director of School Nutrition will provide the Corporation Treasurer with the receipts and expenditures for the National School Lunch Program using the CND-1 report along with any non-cash assistance. The Special Education Federal Awards are administered by Hamilton Boone Madison – Special Service Cooperative, therefore the receipts and expenditures will be provided to the Corporation Treasurer by the Special Education Cooperative.

The SEFA report is then reviewed by the Business Manager with an authorization signature/initial and date before being submitted into the Gateway Program by the Corporation Treasurer.

South Madison Community School Corporation will make every effort to comply with the federal compliance requirements. The Corporation Treasurer and Director School Nutrition have obtained additional guidance from the State Board of Accounts Field Examiner, in reference to the preparation of the SEFA. Due to the timing of the 2014-2015 and 2015-2016 audit period, the implementation of this corrective action plan will not be carried out during the next audit period of 2016-2017 and 2017-2018.

  
 Signature and Title Business Manager  
 7/3/18  
 Date

  
 Signature and Title Corporation Treasurer  
 7/3/18  
 Date

# SOUTH MADISON



## COMMUNITY SCHOOL CORPORATION

203 SOUTH HERITAGE WAY ♦ PENDLETON IN 46064 ♦ (765) 778-2152 ♦ (317) 485-4478 ♦ (765) 642-5661 ♦ (765) 778-8207-FAX

### BOARD OF SCHOOL TRUSTEES

Chris J. Boots  
Mark Brizendine  
Richard C. Evans  
William Hutton  
Amy S. McGinnis  
Joel P. Sandefur  
Kaye Wolverton

### ADMINISTRATION

Joseph A. Buck  
*Superintendent*

Dr. Mark J. Hall  
*Assistant Superintendent for Secondary Curriculum, Instruction and College & Career Readiness*

Dr. Laura M. Miller  
*Assistant Superintendent for Elementary Curriculum and Instruction*

Kenneth S. McCarty  
*Business & Operations Manager*

Lynn Mellinger  
*Director of Special Education*

### CORRECTIVE ACTION PLAN

#### FINDING 2016-002 FINANCIAL TRANSACTIONS AND REPORTING

##### Contact Person Responsible for Corrective Action:

Ken McCarty, Business and Penny Myers Corporation Treasurer  
**Contact Phone Number:** 765-778-2152 extension 1003 or 1005  
**Contact Email:** [kmccarty@smcsc.com](mailto:kmccarty@smcsc.com) and/or [pmyers@smcsc.com](mailto:pmyers@smcsc.com)

##### Views of Responsible Official:

###### Cash and Investments:

The monthly reconcilements are prepared by the Corporation Treasurer then reviewed by the Business Manager who then prepares a detailed spreadsheet of the monthly expenditures and revenue.

###### Receipts:

Daily/Weekly/Monthly deposit slips are prepared by the following individuals: Corporation Treasurer, Business Manager, Cafeteria Managers, Director of School Nutrition-Catering, Nutrition Services Administrative Assistant, Kids Connection-Director and Site Leaders, Secretary to the Superintendent-Facility Rentals and Non Resident Fees, Benefits/Insurance-Retiree Insurance Premiums.

Receipts are entered into the financial software system and balanced to the receipt edit by the Secretary to the Superintendent then reviewed for accuracy and posted to the financial software system by the Corporation Treasurer.

##### Description of Corrective Action Plan:

As of July 1, 2018, monthly reconcilements will be prepared by the Corporation Treasurer and reviewed by the Business Manager or Superintendent with two (2) authorization signatures/initials and date showing dual oversight, review and approval of the monthly reconciliation. The Business Manager will prepare a detail spreadsheet of the monthly expenditures and revenue with two (2) authorization signatures/initials and date showing dual oversight, review and approval of the monthly reconciliation.

As of July 1, 2018, all deposit slips will be required to have two (2) authorization signatures/initials and date showing dual oversight, review and approval. The segregation of duties will continue with the Secretary to the Superintendent entering the receipts and balancing to the receipt edit then reviewed for accuracy by the Corporation Treasurer or Business Manager with two (2) authorization signatures/initials and date showing dual oversight, review and approval of the receipts edit.

As of July 1, 2018, South Madison Community School Corporation will make every effort to adhere to the standards set forth in the Uniform Internal Control Standards manual for Indiana Political Subdivisions. Due to the timing of the 2014-2015 and 2015-2016 audit period, the implementation of this corrective action plan will not be carried out during the next audit period of 2016-2017 and 2017-2018.

  
Signature and Title Business Manager

7/2/18  
Date

  
Signature and Title Corporation Treasurer

7/2/18  
Date

**BOARD OF  
SCHOOL TRUSTEES**

Chris J. Boots  
Mark Brizendine  
Richard C. Evans  
William Hutton  
Amy S. McGinnis  
Joel P. Sandefur  
Kaye Wolverton

July 2, 2018

Finding: 2016-003  
Fiscal Year: FY 2014-2015, FY 2015-2016  
Pass-Through Entity: Indiana Department of Education  
Contact Person: Lindsey Hill, Director of Nutrition Services  
Contact Phone: 765-778-2152 ext. 1015  
Contact Email: [lhill@smcsc.com](mailto:lhill@smcsc.com)

**CORRECTIVE ACTION PLAN**

Anticipated date of completion: 9/30/18

**Cash Management:**

- Director of Nutrition Services currently audits monthly that Nutrition Services records match the actual SMCSC financial records as recorded by SMCSC Treasurer in order to ensure all revenue and expenditure transactions are accounted for and recorded properly. Monitoring the cash balance for accuracy is already a part of this process. Director of Nutrition Services will add a formula to calculate how the monthly cash balance compares to 3 month average expenditures and a place to initial to show this process of comparison has been completed.

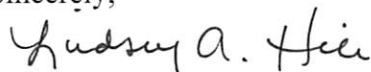
**Procurement and Suspension and Debarment:**

- Director of Nutrition Services currently monitors that CIESC has proper documentation for recommended vendors' procurement suspension and debarment. In future school years, SMCSC will get school board approval for the annual CIESC contract, which outlines which awarded contracts SMCSC will be participating in.

**Program Income:**

- SMCSC currently reviews the daily sales as part of the monthly reconciliation process to communicate transfers from 8400 to 0800. Both the Director of Nutrition Services and Treasurer review all transactions to verify that the transfers are accurate. SMCSC will ensure that two initials are added to these documents to show this process was reviewed properly.

Sincerely,



Lindsey A. Hill, R.D.  
Director of Nutrition Services  
South Madison Community School Corporation

**ADMINISTRATION**

Joseph A. Buck  
*Superintendent*

Dr. Mark J. Hall  
*Assistant Superintendent for  
Secondary Curriculum,  
Instruction and College &  
Career Readiness*

Dr. Laura M. Miller  
*Assistant Superintendent for  
Elementary Curriculum and  
Instruction*

Kenneth S. McCarty  
*Business & Operations  
Manager*

Lynn Mellinger  
*Director of Special  
Education*

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Chris J. Boots  
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William Hutton  
Amy S. McGinnis  
Joel P. Sandefur  
Kaye Wolverton

July 2, 2018

Finding: 2016-004  
Fiscal Year: FY 2014-2015, FY 2015-2016  
Pass-Through Entity: Indiana Department of Education  
Contact Person: Lindsey Hill, Director of Nutrition Services  
Contact Phone: 765-778-2152 ext. 1015  
Contact Email: [lhill@smcsc.com](mailto:lhill@smcsc.com)

**CORRECTIVE ACTION PLAN**

Maintenance of Records

- SMCSC will ensure proper internal controls are in place as of July 1, 2018 to ensure that records are not destroyed that are within the period of time for required record-keeping.

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Sincerely,



Lindsey A. Hill, R.D.  
Director of Nutrition Services  
South Madison Community School Corporation

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*Director of Special Education*

July 2, 2018

Response to Audit Finding

Finding: 2016-005  
Fiscal Year: FY 2014-2015, FY 2015-2016  
Pass-Through Entity: Indiana Department of Education  
Contact Person: Lindsey Hill, Director of Nutrition Services  
Contact Phone: 765-778-2152 ext. 1015  
Contact Email: [lhill@smcsc.com](mailto:lhill@smcsc.com)

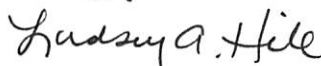
**CORRECTIVE ACTION PLAN**

Anticipated date of completion: 12/31/18

Central Office Salaries/Wages and Allowable Costs

- SMCSC will maintain time and material records (for Business Manager and Technology) that includes each the following requirements:
  - The amount of funds under the grant or subgrant
  - How the State or subgrantee uses the funds
  - The total cost of the project
  - The share of that cost provided from other sources
  - Other records to facilitate an effective audit

Sincerely,



Lindsey A. Hill, R.D.  
Director of Nutrition Services  
South Madison Community School Corporation

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*Business & Operations  
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*Director of Special  
Education*

July 2, 2018

Finding: 2016-006  
Fiscal Year: FY 2014-2015, FY 2015-2016  
Pass-Through Entity: Indiana Department of Education  
Contact Person: Lindsey Hill, Director of Nutrition Services  
Contact Phone: 765-778-2152 ext. 1015  
Contact Email: [lhill@smcsc.com](mailto:lhill@smcsc.com)

**CORRECTIVE ACTION PLAN**

Anticipated date of completion: 10/31/18

South Madison Community School Corporation (SMCSC) keeps a digital inventory list of all food service equipment. The following actions will be taken:

- The digital inventory list will add columns for acquisition date and cost of the equipment. These columns will be completed for all current inventory to the best of our knowledge.
- SMCSC Nutrition Services will create an SOP related to the management of equipment inventory which will address the following:
  - Annual audits to inventory list
  - Updates to inventory list with removals and additions as they occur

Sincerely,



Lindsey A. Hill, R.D.  
Director of Nutrition Services  
South Madison Community School Corporation



203 SOUTH HERITAGE WAY ♦ PENDLETON IN 46064 ♦ (765) 778-2152 ♦ (317) 485-4478 ♦ (765) 642-5661 ♦ (765) 778-8207-FAX

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### CORRECTIVE ACTION PLAN

#### FINDING 2016-007 SPECIAL EDUCATION CLUSTER

#### Contact Person Responsible for Corrective Action:

Ken McCarty, Business and Penny Myers Corporation Treasurer

#### Contact Phone Number:

765-778-2152 extension 1003 or 1005

#### Contact Email:

[kmccarty@smcsc.com](mailto:kmccarty@smcsc.com)

[pmyers@smcsc.com](mailto:pmyers@smcsc.com)

#### Views of Responsible Official:

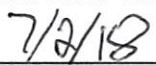
After the field work was complete State Board of Accounts Field Examiner requested additional documentation in reference to the MOE. Additional information was provided with detail; therefore, we dispute that information was not provided. The Field Examiner did not feel the information provided was conclusive enough to remove the finding. After the information was provided we do not feel we were given the opportunity for additional communication, review and explanation of the information provided.

#### Description of Corrective Action Plan:

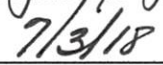
Due to the transition from Hancock Madison Shelby Educational Services to Hamilton Boone Madison Special Service Cooperative, SMCSC was required for one year, to apply for the FY17 Special Education Grant and Special Education Preschool Grant. The application was completed with the guidance of HBM's director and the Indiana Department of Education. Future, Special Education Grant applications will be administered by HBM with the oversight of SMCSC.

South Madison Community School Corporation will make every effort to comply with the federal compliance requirements. Due to the timing of the 2014-2015 and 2015-2016 audit period, the implementation of this corrective action plan will not be carried out during the next audit period of 2016-2017 and 2017-2018.

  
Signature and Title Business Manager

  
Date

  
Signature and Title Corporation Treasurer

  
Date

### ADMINISTRATION

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*Superintendent*

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*Assistant Superintendent for Secondary Curriculum, Instruction and College & Career Readiness*

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*Director of Special Education*

### CORRECTIVE ACTION PLAN

#### FINDING 2016-008 SPECIAL EDUCATION CLUSTER-REPORTING

#### Contact Person Responsible for Corrective Action:

Ken McCarty, Business and Penny Myers Corporation Treasurer

#### Contact Phone Number:

765-778-2152 extension 1003 or 1005

#### Contact Email:

[kmccarty@smcsc.com](mailto:kmccarty@smcsc.com)

[pmyers@smcsc.com](mailto:pmyers@smcsc.com)

#### Description of Corrective Action Plan:

During the audit period the Special Education cluster was administered by the Hancock Madison Shelby Educational Services – Cooperative. As of July 1, 2017, Hancock Madison Shelby Educational Services dissolved their operations and services. Thereafter, South Madison Community School Corporation entered into an agreement with Hamilton Boone Madison (HBM) Special Service Cooperation to provide Special Education services and support.

SMCSC will provide additional oversight in reference to the compliance of the Data Collection Reporting.

South Madison Community School Corporation will make every effort to comply with the federal compliance requirements. Due to the timing of the 2014-2015 and 2015-2016 audit period, the implementation of this corrective action plan may not be carried out during the next audit period of 2016-2017 and 2017-2018.

  
Signature and Title Business Manager

7/3/18  
Date

  
Signature and Title Corporation Treasurer

7/3/18  
Date

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**CORRECTIVE ACTION PLAN**

**FINDING 2016-009 FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Contact Person Responsible for Corrective Action:**

Ken McCarty, Business and Penny Myers Corporation Treasurer

**Contact Phone Number:**

765-778-2152 extension 1003 or 1005

**Contact Email:**

[kmccarty@smcsc.com](mailto:kmccarty@smcsc.com)

[pmyers@smcsc.com](mailto:pmyers@smcsc.com)

**Description of Corrective Action Plan:**

During the audit period the Special Education cluster was administered by the Hancock Madison Shelby Educational Services – Cooperative. As of July 1, 2017, Hancock Madison Shelby Educational Services dissolved their operations and services. Thereafter, South Madison Community School Corporation entered into an agreement with Hamilton Boone Madison (HBM) Special Service Cooperation to provide Special Education services and support for the Part B 611 and Part B 619- Early Childhood Federal Grants. HBM 's services are monitored closely by their long term director, who will provide correspondence to SMCSC Superintendent, Business Manager and Corporation Treasurer.

South Madison Community School Corporation will make every effort to comply with the federal compliance requirements. Due to the timing of the 2014-2015 and 2015-2016 audit period, the implementation of this corrective action plan may not be carried out during the next audit period of 2016-2017 and 2017-2018.

  
Signature and Title Business Manager

7/3/18  
Date

  
Signature and Title Corporation Treasurer

7/3/18  
Date



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*Director of Special Education*

**CORRECTIVE ACTION PLAN**

**FINDING 2016-010 FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Contact Person Responsible for Corrective Action:**

Ken McCarty, Business and Penny Myers Corporation Treasurer

**Contact Phone Number:**

765-778-2152 extension 1003 or 1005

**Contact Email:**

[kmccarty@smcsc.com](mailto:kmccarty@smcsc.com)

[pmyers@smcsc.com](mailto:pmyers@smcsc.com)

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South Madison Community School Corporation will make every effort to comply with the federal compliance requirements. Due to the timing of the 2014-2015 and 2015-2016 audit period, the implementation of this corrective action plan may not be carried out during the next audit period of 2016-2017 and 2017-2018.

 Business Manager  
Signature and Title

7/3/18  
Date

 Corporation Treasurer  
Signature and Title

7/3/18  
Date

SOUTH MADISON COMMUNITY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on July 5, 2018, with Joseph Buck, Superintendent of Schools; Mark Hall, Assistant Superintendent of Schools; Penny Myers, Treasurer; Kenneth McCarty, Business Manager; William Hutton, Vice President of the School Board; Mark Brizendine, School Board member; Kaye Wolverton, School Board member; and Lindsey Hill, Director of Nutrition.