

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MADISON-GRANT UNITED SCHOOL CORPORATION

GRANT COUNTY, INDIANA

July 1, 2019 to June 30, 2021



FILED

06/28/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Shaela Smith Bengamin Mann	07-01-19 to 06-30-21 07-01-21 to 06-30-22
Superintendent of Schools	Dr. Scott Deetz	07-01-19 to 06-30-22
President of the School Board	Mary Jo Brunt	07-01-19 to 06-30-22



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TO: THE OFFICIALS OF THE MADISON-GRANT UNITED SCHOOL CORPORATION, GRANT COUNTY, INDIANA

This report is supplemental to our audit report of the Madison-Grant United School Corporation (School Corporation), for the period from July 1, 2019 to June 30, 2021. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement. This report may be found at www.in.gov/sboa/.

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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE
Deputy State Examiner

May 26, 2022

MADISON-GRANT UNITED SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were deficiencies in the internal control system of the School Corporation related to cash and investments, receipts, disbursements, financial account balances, and reporting.

Cash and Investments

The School Corporation did not include the construction activity for the Solar Panel Construction project in its financial records. Additionally, the activity of the construction funds held at First Merchants Private Wealth Advisors (Bank) in the name of the School Corporation was not reconciled.

Depository reconciliations of the bank account balance to the financial statement fund balances were attempted monthly; however, the reconciliations did not balance after the School Corporation changed to a new software system in October 2020. Bank reconciliations from the new software system were provided for audit, but the section which documented the final comparison of the reconciled bank account balances to the total financial statement fund balances was not printed. If this section was not printed or saved at the time of preparation, it could not be retrieved at a later date. As of June 30, 2021, there was an unidentified difference between the reconciled bank account balances and the financial statement fund balances of \$36,055.

Receipts

The School Corporation did not have internal controls, which would include segregation of duties, over receipts. One employee was responsible for keying receipts into the accounting software with no oversight or review. Additionally, deposits were made by a different employee with no review or oversight.

Disbursements

The School Corporation did not have internal controls, which would include segregation of duties, over employer benefit disbursements. Employer benefit disbursements were paid without evidence of review and approval by an individual not involved in the original disbursement process.

Financial Account Balances and Reporting

The internal control in place over the Form 9 and Annual Financial Report (AFR) was not effective in preventing, or detecting and correcting, errors. The Form 9's were uploaded to the Indiana Department of Education; however, there was no review after upload. Additionally, the AFR, which was the source of the financial statement, was prepared and uploaded to the Indiana Gateway for Government Units financial reporting system with no evidence of a review.

The construction project financial activity within the Construction - Solar Panel Project fund was not reported in the School Corporation's Form 9 or the AFR. This resulted in the understatement of reported beginning cash and investments, receipts, and disbursements.

MADISON-GRANT UNITED SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

The School Corporation included the Clearing - Payroll fund and Clearing - Prepaid Food fund in the financial records. However, this activity was not included on the Form 9's or the AFRs. This resulted in the financial statement being materially understated for receipts, disbursements, and cash and investments balance.

Due to the lack of effective internal controls, the financial statement contained the following errors:

1. Solar Panel Project fund beginning cash and investments balance was understated by \$28,426. Receipts and disbursements were understated by \$218 and \$28,644, respectively, for fiscal year 2019-2020.
2. Prepaid Food fund beginning cash and investments balance was understated by \$5,084. Receipts and disbursements were understated by \$52,883 and \$46,641, respectively, for 2019-2020; and understated by \$59,958 and \$48,837, respectively, for 2020-2021.
3. Payroll Clearing fund beginning cash and investments balance was understated by \$47,206. Receipts and disbursements were understated by \$1,967,284 and \$1,982,563, respectively, for 2019-2020; and understated by \$4,371,816 and \$4,473,922, respectively, for 2020-2021.

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

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:

"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. . . .

Evaluations are used to determine whether each of the five components of internal control is present and functioning. The evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing board or recognized standard-setting bodies or regulators. . . .

MADISON-GRANT UNITED SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

BANK ACCOUNT RECONCILIATIONS

Condition and Context

Depository reconciliations of the bank account balance to the financial records fund balance were attempted monthly; however, the reconciliations did not balance after the School Corporation changed to a new accounting software system, beginning in October 2020. As of June 30, 2021, the Indiana State Board of Accounts" prepared reconciliation indicated the bank account balances are greater than the financial statement fund balances in the amount of \$36,055.

The outstanding check list presented for audit as of June 30, 2021, contained 16 vendor checks in the amount \$67,061. Although listed, these outstanding checks could not be verified to any invoice or to any disbursement in the School Corporation's ledger. Vendors contacted had no knowledge of these amounts.

Criteria

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

MADISON-GRANT UNITED SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

OVERDRAWN CASH BALANCES

Condition and Context

The financial statement included the following funds with overdrawn cash balances that were not attributed to the timing of reimbursements.

Fund	Amount Overdrawn June 30, 2020	Amount Overdrawn June 30, 2021
Retirement/Severance Bond Debt Service	\$ -	\$ 28,469
Construction	-	2,066
S L Overdue Balance Donation	61	-
Hazelbaker Foundation	-	300
Community Hospital Anderson Foundation	-	33

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

TRAINING ON INTERNAL CONTROL STANDARDS

The same comment appeared in prior Report B54394.

Condition and Context

The School Corporation did not have supporting documentation that the required training on internal control standards was provided to the appropriate personnel during the audit period.

Criteria

Indiana 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

CAPITAL ASSETS

Condition and Context

The School Corporation did not maintain a complete detailed listing of capital assets during the audit period. In addition, a complete physical inventory of capital assets was not completed.

MADISON-GRANT UNITED SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

PREPAID SCHOOL MEAL ACCOUNTS SUBSIDIARY BALANCES

Condition and Context

The control ledger for the Clearing - Prepaid Food fund did not reconcile to the detail of individual meal accounts in the subsidiary ledger. The control ledger balance on June 30, 2020, was \$11,326, while the detail on the subsidiary ledger was \$9,202. The control ledger balance on June 30, 2021, was \$22,446, while the detail on the subsidiary ledger was \$10,608.

Criteria

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

When a student puts money into their individual meal account, it should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while money is in the student's individual account, the balance should not be included in Fund 800 School Lunch. A school should set up a clearing account with the fund number of 8400 Prepaid School Lunch Accounts, which is included in Chapter 4 of the State Board of Accounts Uniform Compliance Guidelines for Indiana Public School Corporations. When a student brings in a deposit the receipt should be recorded to Fund 8400 using receipt account 1630 Special Functions. After the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 Other Food Services and receipt this into fund 800 using the Food Services receipt accounts 1611-1623 at the time established in a written school policy to ensure accurate monthly reporting. At this point the receipts are considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis it is required that the balance of the 8400 fund be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, February 2019)

ERRORS ON ACCOUNTS PAYABLE VOUCHERS

Condition and Context

Accounts Payable Vouchers (claims) contained the following errors:

1. During the audit period, the School Corporation had multiple invoices that had not been approved by the officer or person receiving the goods and services.

MADISON-GRANT UNITED SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

2. In fiscal year 2020-2021, the School Corporation did not have Accounts Payable Vouchers (APV) for approximately half of the invoices tested. Of the remaining invoices tested, the APV often contained no relevant information such as a voucher or check number. Without the relevant information on the APV the validity of the invoices could not be easily verified to the School Corporation's records.

Criteria

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Officials and employees are required to use prescribed and approved forms in the manner prescribed. Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)



MADISON-GRANT UNITED SCHOOL CORPORATION

*Scott Deetz, Ph. D., Superintendent Ben Mann, Chief Financial Officer Steve Vore, Assistant Superintendent
Kristy Drewitz, Transportation Teresa Riggs, Payroll Allison Holloway, HR/Benefits Kim Hiatt, Grants
Coordinator*

Inspire, challenge, and cultivate excellence in every Argyll.

OFFICIAL RESPONSE

Date: May 26, 2022

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: MGUSC Audit Results and Comments

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context: The CFO will build the Form 9 and Annual Financial Report. The Deputy Treasurer will spot check and sign off on both. Then the Form 9 and Annual Financial Report will be presented to the Board of Education for approval. The documents for each report will be included in our board minutes for approval. Once board approved, the CFO will upload both the Form 9 and AFR. The Deputy Treasurer will sign off on the uploads for both the Form 9 and the AFR. Should a change have to be made to either report after board approval, then supporting documentation of the change will be filed by the CFO while being signed off by the CFO, Deputy Treasurer, and Superintendent.

Cash and Investments: All privately funded debt, in addition to payroll clearing funds and prepaid food funds will be included on both the Form 9 and Annual Financial Report beginning with the six month period ending June 30, 2022.

With each month's reconciliation beginning April 2022, the section documenting the final comparison of the reconciled bank account balances to the total financial statement fund balance within the reconciliation platform of eFinance will be included in the Gateway monthly upload. An internal spreadsheet has been built to track end of month fund balances from the financial statement and the bank balance beginning with June 2021.

Receipts: The CFO gathers receipt documentation including the bank deposit notice and passes on to Accounts Receivable. Accounts Receivable will enter receipts into the financial accounting software. The CFO will then review and sign off on the Batch Receipt Edit List report after Accounts Receivable has signed off on it.

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Disbursements: The Payroll Deputy and CFO will review the Detail Distribution Report generated within PowerSchool eFinance at the time of each executed payroll. This report lists employee benefit amounts by Fund and Account Structure. This file will be initialed by both in the naming of the file and it will be placed in the folder associated with that specific payroll within the shared drive.

Financial Account Balances and Reporting: The CFO will build the Form 9 and Annual Financial Report. The Deputy Treasurer will spot check and sign off on both. Then the Form 9 and Annual Financial Report will be presented to the Board of Education for approval. The documents for each report will be included in our board minutes for approval. Once board approved, the CFO will upload both the Form 9 and AFR. The Deputy Treasurer will sign off on the uploads for both the Form 9 and the AFR. Should a change have to be made to either report after board approval, then supporting documentation of the change will be filed by the CFO while being signed off by the CFO, Deputy Treasurer, and Superintendent.

BANK ACCOUNT RECONCILIATIONS

With each month's reconciliation beginning April 2022, the section documenting the final comparison of the reconciled bank account balances to the total financial statement fund balance within the reconciliation platform of eFinance will be included in the Gateway monthly upload.

A monthly spreadsheet will be built to track end of month fund balances from the financial statement and the bank balance beginning with June 2021. That difference will be tracked monthly. In addition, the process of reconciling October 2020 through December 2021 will be completed in collaboration with the software vendor, PowerSchool eFinance.

TRAINING ON INTERNAL CONTROL STANDARDS

The district's internal controls manual is posted on our district website. Appropriate personnel will receive training concerning the internal control standards and procedures through The TEAM platform that is provided by Educational Service Centers Risk Funding Trust (ESCRFT) beginning with FY2023.

CAPITAL ASSETS

MGUSC entered into a contract on December 13, 2021 with Administrator Assistance to develop an up to date and accurate Capital Assets inventory. The district's CFO is working in collaboration with Mike Doll (retired SBOA auditor) to complete this task. Once complete, the inventory will be entered into the district's financial software system, PowerSchool eFinance. Administrator Assistance will be contracted annually to update the district's Capital Assets.

OVERDRAWN CASH BALANCES

The CFO is in the process of identifying why these funds were overdrawn and providing corrective action to zero out funds with a negative balance that are not dependent upon reimbursement.

ERRORS ON CLAIMS

The MGUSC Business Office is correcting the pattern of lacking Accounts Payable Vouchers for invoices. Moving forward, when processing claims we will compile the Accounts Payable Vouchers, Batch Edit List (which is signed off by Accounts Payable and CFO), and the final check register for that batch. All Accounts Payable Vouchers will be signed off on by the CFO or person receiving the goods and services.

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PREPAID SCHOOL MEAL ACCOUNTS SUBSIDIARY BALANCES

The Food Service Director and CFO will review and balance the Clearing – Prepaid Food fund each month. The Food Service Director has access to her revenue and expenditure account reports within PowerSchool eFinance.

Bengamin Mann
Chief Financial Officer

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MADISON-GRANT UNITED SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on May 26, 2022, with Bengamin Mann, Treasurer; Dr. Scott Deetz, Superintendent of Schools; Mary Jo Brunt, President of the School Board; and Dr. Katti Sneed, Vice President of the School Board.