



Dave Yost • Auditor of State

MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY

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**MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Non-Cash Assistance (Food Distribution):						
National School Lunch Program	2012	10.555		\$100,540		\$100,540
Cash Assistance:						
National School Breakfast Program	2012	10.553	\$952,106		\$952,106	
National School Lunch Program	2012	10.555	1,815,605		1,815,605	
Total Child Nutrition Cluster			<u>2,767,711</u>	<u>100,540</u>	<u>2,767,711</u>	<u>100,540</u>
Total U.S. Department of Agriculture			<u>2,767,711</u>	<u>100,540</u>	<u>2,767,711</u>	<u>100,540</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY						
<i>Passed Through Ohio Environmental Protection Agency:</i>						
State Clean Diesel Grant	2012	66.040	34,122		-	
Total U.S. Environmental Protection Agency			<u>34,122</u>		<u>-</u>	
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE						
<i>Passed Through Ohio Department of Education:</i>						
Learn & Serve America-School & Community Based Programs	2011	94.004	(879)		-	
Total Corporation for National and Community Service			<u>(879)</u>		<u>-</u>	
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education - Grants to States	2012	84.027	1,719,269		1,667,265	
	2011	84.027	380,556		268,891	
ARRA - Special Education - Grants to States	2011	84.391	219,711		276,419	
Total Special Education Grants to States			<u>2,319,536</u>		<u>2,212,575</u>	
Special Education - Preschool Grants	2012	84.173	27,131		27,131	
ARRA - Special Education - Preschool Grant	2011	84.392	31,245		33,506	
Total Special Education - Preschool Grants			<u>58,376</u>		<u>60,637</u>	
Total Special Education Cluster			<u>2,377,912</u>		<u>2,273,212</u>	
Title I Grants to Local Educational Agencies	2012	84.010	3,368,693		3,669,816	
	2011	84.010	(51,771)		214,732	
ARRA - Title I Grants to Local Educational Agencies	2011	84.389	160,463		215,564	
Total Title I Grants to Local Educational Agencies			<u>3,477,385</u>		<u>4,100,112</u>	
Safe and Drug-Free Schools and Communities	2011	84.186	(1,361)		-	
Education Technology State Grants	2012	84.318	876		1,275	
	2011	84.318	895		-	
			<u>1,771</u>		<u>1,275</u>	
Reading First State Grants	2011	84.357	-		75,614	
English Language Acquisition Grants (Title III)	2012	84.365	53,317		48,226	
	2011	84.365	7,027		10,965	
Total English Language Acquisition Grants			<u>60,344</u>		<u>59,191</u>	
Improving Teacher Quality State Grants	2012	84.367	342,478		400,128	
	2011	84.367	(12,644)		52,276	
Total Improving Teacher Quality State Grants			<u>329,834</u>		<u>452,404</u>	

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**MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Federal Grantor/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
ARRA - State Fiscal Stabilization Fund (SFSF) - Education	2011	84.394	-		107,387	
ARRA - Race to the Top	2012	84.395	187,622		158,063	
	2011	84.395	11,312		1,100	
			198,934		159,163	
Education Jobs	2012	84.410	1,138,174		1,050,716	
<i>Passed Through Ohio Board of Regents:</i>						
Adult and Basic Education	2012	84.002	301,949		325,973	
	2011	84.002	27,943		63,985	
	2010	84.002	3,127		1,585	
Total Adult and Basic Education			333,019		391,543	
<i>Passed Through Princeton City School District:</i>						
Teaching American History	2012	84.215	61,124		85,498	
Total U.S. Department of Education			7,977,136		8,756,115	
TOTAL FEDERAL ASSISTANCE			<u>\$10,778,090</u>	<u>\$100,540</u>	<u>\$11,523,826</u>	<u>\$100,540</u>

The accompanying notes to this schedule are an integral part of this schedule.

**MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Middletown City School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE D - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting some negative receipts. The District transferred the following program amounts:

Fund	Grant/Year	CFDA #	Transfer In	Transfer Out
501-9111	Adult Basic Education/2011	84.002		(8,571)
501-9112	Adult Basic Education/2012	84.002	8,571	
501-9911	Adult Basic Education (EL/Civics)/2011	84.002		(618)
501-9912	Adult Basic Education (EL/Civics)/2012	84.002	618	
506-9111	Race to the Top/2011	84.395		(36,775)
506-9112	Race to the Top/2012	84.395	36,775	
516-9111	Special Education/2011	84.027		(97,486)
516-9112	Special Education/2012	84.027	97,486	
533-9911	Education Technology/2011	84.318		(500)
533-9912	Education Technology/2012	84.318	500	
536-9111	Title I-School Improvement/2011	84.010		(21,299)
536-9112	Title I-School Improvement/2012	84.010	21,299	
551-9111	Title III-Limited English Proficiency/2011	84.365		(1,1513)
551-9112	Title III-Limited English Proficiency/2012	84.365	1,513	
572-9111	Title I/2011	84.010		(319,682)
572-9112	Title I/2012	84.010	319,682	
590-9111	Improving Teacher Quality/2011	84.367		(12,644)
590-9112	Improving Teacher Quality/2012	84.367	12,644	

NOTE E – NEGATIVE RECEIPTS

Each project completed approved activities within the time frames allotted by the Ohio Department of Education (ODE). At the conclusion of the grant period, ODE required the District to return any unused grant monies. The District returned the following unused grant monies to ODE [these monies are shown as negative receipts on the Schedule]: \$1,361 Safe & Drug Free Schools (CFDA #84.186) and \$879 Learn & Serve America (CFDA #94.004).

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INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Middletown City School District
Butler County
1515 Girard Avenue
Middletown, Ohio 45044

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Middletown City School District, Butler County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 19, 2012, wherein we noted the District incurred an operating loss and negative assets balance that raise substantial doubt about its ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider a significant deficiency in internal control over financial reporting. We consider finding 2012-06 to be a significant deficiency. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2012-01 through 2012-05.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 19, 2012.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the audit committee, Board of Education, and federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.

Dave Yost
Auditor of State

December 19, 2012



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INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Middletown City School District
Butler County
1515 Girard Avenue
Middletown, Ohio 45044

To the Board of Education:

Compliance

We have audited the compliance of Middletown City School District, Butler County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Middletown City School District's major federal programs for the year ended June 30, 2012. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, the Middletown City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists these instances as Findings 2012-07 through 2012-09.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies, described in the accompanying schedule of findings and questioned costs as items 2012-08 and 2012-09. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Federal Awards Receipts and Expenditures Schedule

We have also audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Middletown City School District (the District) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 19, 2012. Our audit was performed to form opinions on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The accompanying federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The District's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

Middletown City School District
Independent Accountants' Report on Compliance with Requirements Applicable
To Each Major Federal Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133
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We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated December 19, 2012.

We intend this report solely for the information and use of the audit committee, management, Board of Education, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Dave Yost
Auditor of State

December 19, 2012

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**MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	<p>CFDA #84.410: Education Jobs</p> <p>CFDA #84.367: Improving Teacher Quality</p> <p>CFDA #84.394: ARRA – State Fiscal Stabilization Fund-Education</p> <p>Special Education Cluster:</p> <p>CFDA #84.027: Special Education-Grants to States</p> <p>CFDA #84.391: ARRA – Special Education-Grants to States</p> <p>CFDA #84.173: Special Education-Preschool Grants</p> <p>CFDA #84.392: ARRA – Special Education-Preschool Grants</p> <p>CFDA #84.010: Title I</p> <p>CFDA #84.389: ARRA – Title I</p>

(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 348,731 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
 REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2012-01

Finding for Recovery

Ohio Rev. Code, Sections 2921.41(A)(1) and (2) and (B), state “No public official shall commit any theft offense, as defined in division (K) of section 2913.01 of the Revised Code, when either of the following applies: (1) The offender uses the offender’s office in aid of committing the offense or permits or assents to its use in aid of committing the offense; (2) The property or service involved is owned by the state, any other state, the United States, a county, a municipal corporation, a township, or any political subdivision, department, or agency of any of them, is owned by a political party, or is part of a political campaign fund. Whoever violates this section is guilty of theft in office.”

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. **Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose** states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

The District issued a \$500 Kroger gift card to Joshua Belcher to be used for special education federal grant program purchases. Mr. Belcher purchased items in the amount of \$209 with the gift card; he provided supporting receipts. The gift card had a remaining balance of \$291. Mr. Belcher claims he mailed the card back to the District on August 31, 2012. The District never received the gift card. The District obtained evidence from Kroger that two large purchases were made with the card in early September 2012.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public property which has been converted or misappropriated is hereby issued against Joshua Belcher in the amount of \$291, and in favor of the Middletown City School District’s Special Education ARRA Fund (516-9320), in the amount of \$291. (The purchase of this gift card by the District is included as a federal questioned cost in Finding Number 2012-09).

Officials’ Response:

Mr. Belcher is no longer employed by MCSD. He has filed a police report claiming the theft of the card in question. The district has implemented a checklist of issued items to ensure the return of all items prior to employee separation from the district.

FINDING NUMBER 2012-02

Noncompliance

Ohio Rev. Code, Section 5705.10(H), provides that money paid into a fund must be used only for the purposes for which such fund has been established. A negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The Uniform School Supplies Fund (Fund 009) had a negative fund balance throughout the audit period [highest negative fund balance of \$332,460 at December 7, 2011].

The General Fund had a negative fund balance from February 3, 2012 through February 24, 2012 [highest negative balance of \$1,626,971 at February 24, 2012].

The District Managed Activity Fund (Fund 300) had a negative fund balance throughout the audit period [the highest negative fund balance of \$523,917 at June 29, 2012.]

We recommend the District monitor fund balances and take corrective action such as advancing funds, if possible. The District should follow the procedures in Auditor of State Bulletin 97-003 for the advancing of funds.

Officials' Response:

The district has maintained the practice for several years of running certain funds in the negative in order to demonstrate publicly the effect of non-payment of fees and other support. The school supply fund and activity fund are examples of this practice. Noncompliance will be corrected in FY13. The transfer of necessary funds has been appropriated in the current operating budget.

FINDING NUMBER 2012-03

Noncompliance

Ohio Rev. Code, Section 5705.41(B), states no taxing authority shall make any expenditures of money unless it has been appropriated.

Expenditures exceeded appropriations at June 30, 2012 as follows:

Fund	Appropriations	Expenditures	Variance
General (001)	\$65,344,082	\$70,335,318	\$(4,991,236)

Failure to properly amend appropriations and limit expenditures by appropriations may result in negative fund balances. We recommend the District take steps to ensure appropriations are being properly approved, monitored, and recorded in the ledgers. No expenditure should be made unless funds have been sufficiently appropriated.

The Board did not approve the final appropriations until subsequent to fiscal year end. Therefore, the figures above derive from the last appropriations approved by the Board prior to year end [April 30, 2012].

Officials' Response:

The Middletown City School District recognizes that the Auditor of State's Office adheres to very strict guidelines. Recent audits and auditors have not been as thorough or as rigorous in testing compliance issues. We appreciate the opportunity to strengthen our own compliance standards. The District will close the books prior to June 30 in order to comply with the compliance date. This will ensure timely notification of year-end data to the county auditor as of June 30.

FINDING NUMBER 2012-04

Noncompliance

Ohio Rev. Code, Section 5705.36(A)(4), requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation.

Actual receipts were less than estimated receipts and the deficiency reduced available resources below the current level of appropriations as follows:

Fund	Appropriations	Available Resources [beginning unencumbered fund balance plus actual receipts]	Variance
Fund 002 - Bond Retirement	\$5,904,335	\$5,439,162	\$(465,173)

Failure to properly obtain amended certificates when the amount of deficiency will reduce available resources below the current level of appropriation can result in overspending and negative fund balances. We recommend the District monitor estimated and actual receipts and obtain amendments when required.

The Board did not approve the final appropriations and certificate of estimated resources until subsequent to fiscal year end. Therefore, the figures above derive from the last appropriations and certificate of estimated resources approved by the Board prior to year end [April 30, 2012 and March 27, 2012, respectively].

Officials' Response:

The Middletown City School District recognizes that the Auditor of State's Office adheres to very strict guidelines. Recent audits and auditors have not been as thorough or as rigorous in testing compliance issues. We appreciate the opportunity to strengthen our own compliance standards. The District will close the books prior to June 30 in order to comply with the compliance date. This will ensure timely notification of year-end data to the county auditor as of June 30.

FINDING NUMBER 2012-05

Noncompliance

Ohio Rev. Code, Sections 102.03(D) and (E), provide that:

- (D) No public official or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public employee with respect to that person's duties.
- (E) No public official or employee shall solicit or accept anything of value that is of such a character as to manifest a substantial and improper influence upon the public employee with respect to that person's duties.

The term "anything of value" is defined to include money and every other thing of value. Discounts on future purchases and other things of value offered as reward program incentives are things of value.

**FINDING NUMBER 2012-05
(Continued)**

The Special Education Coordinator used her personal Kroger Plus card to purchase gift cards from Kroger in August 2011. The Special Education Coordinator earned personal gas points on this purchase. The gift cards were purchased with District funds.

Reward program benefits are of such a character as to manifest a substantial and improper influence upon the employee with respect to his duties. It is foreseeable that a public employee could select a particular vendor from which to make purchases in order to accumulate rewards benefits on his personal rewards card and, by doing so, create a higher expense for his public agency.

We recommend the District implement a policy for the use of personal reward cards while making District purchases.

Officials' Response:

Guidance has been provided to teachers to ensure monies are used only on allowable items. The Treasurer's office will closely monitor the use of funds and gift cards will not be used in the future.

FINDING NUMBER 2012-06

Significant Deficiency

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The District did not accurately report budgeted estimated receipts and expenditures in the financial statements at June 30, 2012 as noted below.

The Board did not approve the final appropriations until subsequent to fiscal year end. Therefore, the final approved budget expenditure figures below derive from the last appropriations approved by the Board prior to year end [April 30, 2012].

- The Board approved original budget estimated receipts of \$2,571 for the Spotlight and Neediest Kids Fund. However, the District reported original budget estimated receipts of \$2,134 (difference of \$437).
- The Board approved original budget estimated receipts of \$373,389 for the Adult Basic Education Fund. However, the District reported original budget estimated receipts of \$421,114 (difference of \$47,725).
- The Board approved final budget estimated receipts of \$30,270 for the EHA Preschool Grant. However, the District reported final budget estimated receipts of \$3,027 (difference of \$27,243).

**FINDING NUMBER 2012-06
 (Continued)**

Fund	Approved Original Budget Expenditures	Reported Original Budget Expenditures	Variance
Uniform School Supplies	\$101,434	\$134,870	\$(33,436)
Emergency Levy	0	84,999	(84,999)
Public School Support	85,000	0	85,000
District Managed Activities	975,000	230,773	744,227
Auxiliary Services	595,399	598,339	(2,940)

Fund	Approved Final Budget Expenditures [from April 30, 2012]	Reported Final Budget Expenditures	Variance
General Fund	\$64,585,053	\$69,576,289	\$(4,991,236)
Uniform School Supplies	101,434	887,353	(785,919)
Special Rotary	2,681	(513)	3,194
Adult Education	52,685	40,470	12,215
Public School Support	162,131	89,703	72,428
Debt Service	5,904,355	4,276,797	1,627,558
Food Service	3,577,384	3,593,734	(16,350)
Other Grant	120,662	123,273	(2,611)
District Managed Activities	1,092,778	998,285	94,493
Auxiliary Services	649,408	590,153	59,255
Public School Preschool	120,000	132,043	(12,043)
Early Entry Grant	320	0	320
Alternative Education Grant	139,377	134,322	5,055
Miscellaneous State Grants	60,969	25,176	35,793
Adult Basic Education	403,013	443,914	(40,901)
Race to the Top	609,540	321,541	287,999
Title VI-B Grant	2,388,214	2,874,681	(486,467)
Title IID Grant	26,313	25,493	820
School Improvement Stimulus A	281,269	281,516	(247)
Title III Grant	76,656	67,107	9,549
Title I Grant	4,371,185	4,863,505	(492,320)
Title V Grant	1,732	0	1,732
Drug Free School Grant	1,106	0	1,106
EHA Preschool Grant	30,270	115,075	(84,805)

**FINDING NUMBER 2012-06
 (Continued)**

Fund	Approved Final Budget Expenditures [from April 30, 2012]	Reported Final Budget Expenditures	Variance
Improving Teacher Quality Grant	826,257	610,717	215,540
Miscellaneous Federal Grants	94,840	112,140	(17,300)
Permanent Improvement	51,081	107,969	(56,888)
Building Fund	1,560,977	583,453	977,524

Failure to properly report budgeted estimated resources and expenditures could result in inaccurate financial statements. The Board should approve final appropriations [budget expenditures] prior to year end. The District should implement procedures to verify that the correct amount of estimated receipts and appropriations have been reported in the financial statements.

Officials' Response:

The district plans to close the books prior to June 30 in the future in order to comply with the June 30 compliance date. This will ensure timely notification of end-of-year data to the county auditor prior to June 30.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2012-07

Noncompliance - Allowable Costs/Cost Principles

Finding Number	2012-07
CFDA Title and Number	84.367 Improving Teacher Quality
Federal Award Year	2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

2 CFR § 225 (OMB Circular A-87), Appendix B 8.h(3) states that where employees are expected to work solely on a single Federal Award or cost objective, charges for their salaries and wages are to be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications are to be prepared at least semi-annually and will be signed by the employee and supervisor or just the supervisor, if they have firsthand knowledge of the information contained in the certification.

The District did not complete time and effort certifications for the employees [academic support specialist position] charged to the Improving Teacher Quality federal grant program during the first half of fiscal year 2012. However, the District maintained other documentation to support the work performed on the program.

The District also did not complete time and effort certifications for the employees [curriculum coordinator position] charged to the Title I federal grant program during the first half of fiscal year 2012. The District did not maintain other documentation to support the work performed on the program [see Finding 2012-08 for federal questioned costs].

**FINDING NUMBER 2012-07
 (Continued)**

Failure to complete required time and effort certifications could result in disallowed costs for the District's federal programs. We recommend the District complete required time and effort certifications for federal grant programs.

Officials' Response:

Noncompliance has been corrected.

FINDING NUMBER 2012-08

Noncompliance/Questioned Costs/Significant Deficiency - Allowable Costs/Cost Principles

Finding Number	2012-08
CFDA Title and Number	84.010 Title I
Federal Award Year	2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix A, Section C(1)(j) provides that for a cost to be allowable, the expenditure must be adequately documented.

The District did not complete time and effort certifications for the employees [curriculum coordinator position] charged to the Title I federal grant program during the first half of fiscal year 2012. The District did not maintain other documentation to support the work performed on this program. This resulted in questioned costs totaling \$158,665.

We recommend that the District use federal grant funds for expenditures allowable under Circular A-87. The District should complete required time and effort certifications for federal grant programs.

Officials' Response:

Noncompliance has been corrected.

FINDING NUMBER 2012-09

Noncompliance/Questioned Costs/Significant Deficiency – Activities Allowed/Unallowed

Finding Number	2012-09
CFDA Title and Number	84.391 ARRA – Special Education – Grants to States 84.010 Title I
Federal Award Year	2011 ARRA – Special Education – Grants to States 2012 Title I
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix A, Section C provides that for a cost to be allowable, it must be for a purpose the specific award permits and fall within A-87's (codified in 2 CFR Part 225) allowable cost guidelines.

**FINDING NUMBER 2012-09
(Continued)**

The District used ARRA federal grant funds to purchase Kroger gift cards for the Special Education federal grant program. These gift cards were used to purchase items that were not within the allowable cost guidelines for the program [e.g. food for student incentives]. The purchase of these gift cards resulted in questioned costs totaling \$27,560.

The District also used federal grant funds to purchase items that were not within the allowable cost guidelines for the Title I program [e.g. food for student incentives, polo shirts, t-shirts, jackets, signs, travel coffee mugs, etc.]. These purchases resulted in questioned costs totaling \$16,292.

We recommend that the District use federal grant funds for expenditures allowable under Circular A-87.

Officials' Response:

Guidance has been provided to teachers to ensure monies are used only on allowable items. The Treasurer's office will closely monitor the use of funds and gift cards will not be used in the future.

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**MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (C)
FISCAL YEAR END JUNE 30, 2012**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-07	Noncompliance has been corrected.	12/17/12	Kelley Thorpe
2012-08	Noncompliance has been corrected.	12/17/12	Kelley Thorpe
2012-09	Approval for these purchases was initiated prior to the hiring of the new treasurer in August, 2011. The district will return the funds used for non-allowable items to the state. Guidance has provided to teachers in the future to ensure monies are used only on allowable items. The Treasurer's office will closely monitor the use of funds and gift cards will not be used in the future.	12/17/12	Kelley Thorpe