

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

GARY COMMUNITY SCHOOL CORPORATION  
LAKE COUNTY, INDIANA

July 1, 2012 to June 30, 2014



**FILED**  
09/11/2015



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### SCHEDULE OF OFFICIALS

| <u>Office</u>                    | <u>Official</u>                | <u>Term</u>          |
|----------------------------------|--------------------------------|----------------------|
| Treasurer/CFO                    | (Vacant)                       | 07-01-12 to 07-04-12 |
|                                  | Dr. Cheryl L. Pruitt (Interim) | 07-05-12 to 09-24-12 |
|                                  | Dr. Nikita White               | 09-25-12 to 08-02-13 |
|                                  | Michael Washington (Interim)   | 08-03-13 to 04-15-15 |
|                                  | Mary Comer (Interim)           | 04-16-15 to 12-31-15 |
| Superintendent<br>of Schools     | Dr. Cheryl L. Pruitt           | 07-01-12 to 12-31-15 |
| President of the<br>School Board | Darren Washington              | 07-01-12 to 12-31-12 |
|                                  | Rosie G. Washington            | 01-01-13 to 12-31-14 |
|                                  | Antuwan Clemons                | 01-01-15 to 12-31-15 |



## INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE GARY COMMUNITY SCHOOL CORPORATION, LAKE COUNTY, INDIANA

### ***Report on the Financial Statement***

We were engaged to audit the accompanying financial statement of the Gary Community School Corporation (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2012 to June 30, 2014, and the related notes to the financial statement.

### ***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on this financial statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the *Basis for Disclaimer of Opinion* paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### ***Basis for Disclaimer of Opinion***

The School Corporation did not maintain adequate records to properly account for cash and investment balances. We were unable to obtain sufficient competent evidential matter because we were unable to reconcile the School Corporation's record balances with the bank depository balances. The School Corporation's records do not permit the application of other auditing procedures to ascertain if the cash and investment balances are fairly stated.

The School Corporation did not maintain adequate records to properly account for payroll disbursements. We were unable to obtain sufficient competent evidential matter because the School Corporation did not provide documentation of approved pay rates and did not provide time and attendance records to support all payroll disbursements. The School Corporation's records do not permit the application of other auditing procedures to ascertain if the disbursements are fairly stated.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

***Disclaimer of Opinion***

Because of the significance of the matters discussed in the *Basis for Disclaimer of Opinion* paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on this financial statement.

***Going Concern***

The accompanying financial statement has been prepared assuming that the School Corporation will continue as a going concern. As discussed in Note 8 to the financial statement, the School Corporation has been experiencing significant negative cash balances. As discussed in Note 12 to the financial statement, management has provided its response to the going concern, which relies upon action at the state level. The deficit cash balances of the School Corporation, as well as the School Corporation's procedures performed to operate without addressing the root causes of the deficits raises substantial doubt about the School Corporation's ability to continue as a going concern. The financial statement does not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

***Other Matters***

*Supplementary Information*

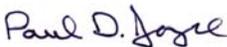
Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* paragraphs and because federal grant monies were not accurately and separately identified in the financial ledgers, it is inappropriate to and we do not express an opinion on the Schedule of Expenditures of Federal Awards referred to above.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances - Regulatory Basis, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to any auditing procedures and, accordingly, we express no opinion on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated July 2, 2015, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control over financial reporting and compliance.

  
Paul D. Joyce, CPA  
State Examiner

July 2, 2015



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF THE GARY COMMUNITY SCHOOL CORPORATION, LAKE COUNTY, INDIANA

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the Gary Community School Corporation (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2012 to June 30, 2014, and the related notes to the financial statement, and have issued our report thereon dated July 2, 2015. Our report disclaims an opinion on such financial statement because of the inability to obtain sufficient competent evidential matter for cash and investment balances and payroll disbursements.

***Internal Control Over Financial Reporting***

In connection with our engagement to audit the financial statement, we considered the School Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001, 2014-002, and 2014-003 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*  
(Continued)

***Compliance and Other Matters***

In connection with our engagement to audit the financial statement of the School Corporation, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001, 2014-002, and 2014-003.

***Gary Community School Corporation's Response to Findings***

The School Corporation's response to the findings identified in our engagement is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the engagement to audit of the financial statement and, accordingly, we express no opinion on it.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

July 2, 2015

FINANCIAL STATEMENT AND ACCOMPANYING NOTES

The financial statement and accompanying notes were approved by management of the School Corporation.

GARY COMMUNITY SCHOOL CORPORATION  
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Years Ended June 30, 2013 and 2014

|   | Cash and Investments |               | Disbursements | Other Financing Sources (Uses) |             | Cash and Investments |               | Other Financing Sources (Uses) |                | Cash and Investments |  |
|---|----------------------|---------------|---------------|--------------------------------|-------------|----------------------|---------------|--------------------------------|----------------|----------------------|--|
|   | 07-01-12             | Receipts      |               | 06-30-13                       | Receipts    | Disbursements        | 06-30-14      | Receipts                       | Disbursements  | 06-30-14             |  |
| General   | \$ (2,850,362)       | \$ 72,770,708 | \$ 89,188,105 | \$ 20,155,156                  | \$ 887,397  | \$ 64,943,468        | \$ 68,965,752 | \$ 74,132                      | \$ (3,060,755) |                      |  |
| Debt Service                                      | 4,820                | 2,278,233     | 2,482,323     | 201,998                        | 2,728       | 2,634,968            | 3,702,234     | -                              | (1,064,538)    |                      |  |
| Exempt Debt                                       | 752,311              | 4,692,931     | 5,401,387     | -                              | 43,855      | 3,305,474            | 4,093,995     | -                              | (744,666)      |                      |  |
| Capital Projects                                  | (2,622,525)          | 6,649,095     | 8,312,291     | 4,687,086                      | 401,365     | 4,203,225            | 3,884,858     | -                              | 719,732        |                      |  |
| School Transportation                             | (7,522,570)          | 7,153,804     | 6,996,882     | -                              | (7,365,648) | 5,287,173            | 6,473,131     | -                              | (8,551,606)    |                      |  |
| Rainy Day   | -                    | -             | -             | -                              | -           | -                    | -             | -                              | -              |                      |  |
| Construction                                      | 206,871              | -             | 4,315         | -                              | 202,556     | -                    | -             | -                              | 202,556        |                      |  |
| School Lunch                                      | 1,225,740            | 4,176,286     | 4,993,617     | -                              | 408,409     | 4,549,562            | 2,785,101     | -                              | 2,172,870      |                      |  |
| Textbook Rental                                   | 5,027,175            | 529,200       | 105,612       | -                              | 5,450,763   | 416,575              | -             | -                              | 5,867,338      |                      |  |
| Self-Insurance                                    | 8,245,261            | 761,335       | 2,158,329     | (873,171)                      | 5,975,096   | 718,324              | 567,136       | -                              | 6,126,284      |                      |  |
| Alternative Education                             | 21,784               | 23,219        | 11,560        | (23,219)                       | 10,224      | -                    | -             | -                              | 10,224         |                      |  |
| Early Intervention Grant                          | 80,368               | 19,900        | 2,742         | -                              | 97,526      | -                    | 19,083        | -                              | 78,443         |                      |  |
| Extra-Curricular Activities                       | 13,034               | -             | 18,317        | -                              | (5,283)     | -                    | -             | -                              | (5,283)        |                      |  |
| Construction, Remodeling, and Equipping Buildings | 12,217               | -             | -             | -                              | 12,217      | -                    | -             | -                              | 12,217         |                      |  |
| Special Education United Way                      | 37,980               | 8,375         | 280           | -                              | 46,075      | 7,529                | -             | -                              | 53,604         |                      |  |
| Gifted and Talented                               | 9,593                | 63,967        | 50,744        | -                              | 22,816      | 55,182               | 30,547        | -                              | 47,451         |                      |  |
| Medicaid Reimbursement                            | 630                  | 108,081       | 108,081       | -                              | 630         | 62,646               | 1,557         | -                              | 61,719         |                      |  |
| Non-English Speaking Programs P.L. 273-1999       | 7,085                | 1,886         | -             | -                              | 8,971       | -                    | 1,500         | -                              | 7,471          |                      |  |
| Technology Grants [IC 20-40-15]                   | 210,281              | 2,402         | 103,923       | -                              | 108,760     | 2,225                | 58,362        | -                              | 52,623         |                      |  |
| WGVE Broadcast                                    | 38,908               | 106,125       | 131,257       | -                              | 13,776      | 101,630              | 82,470        | -                              | 32,936         |                      |  |
| Title I School Improvement                        | (47,623)             | 165,344       | 118,910       | -                              | (1,189)     | 194,500              | 230,163       | -                              | (36,852)       |                      |  |
| School Improvement 1003g                          | (61,823)             | 4,159,676     | 4,228,864     | -                              | (131,011)   | 4,393,128            | 5,108,634     | -                              | (846,517)      |                      |  |
| School Improvement - Bailly and Lew Wallace       | (32,322)             | 116,624       | 84,302        | -                              | -           | -                    | -             | -                              | -              |                      |  |
| Title I   | (208,402)            | 7,328,529     | 7,582,743     | (891)                          | (463,507)   | 7,560,046            | 7,202,562     | -                              | (106,023)      |                      |  |
| Impact Aid  | 32,766               | 3,411         | 24,017        | -                              | 12,160      | 13,952               | 1,750         | -                              | 24,362         |                      |  |
| Improvement Special Education Award               | -                    | 38,900        | 47,760        | -                              | (8,860)     | -                    | -             | -                              | (8,860)        |                      |  |
| Special Education Improvement                     | (657,134)            | 1,296,272     | 2,778,265     | -                              | (2,139,127) | 1,153,249            | 2,869,673     | -                              | (3,855,551)    |                      |  |
| Special Education Preschool Grant                 | (35,748)             | 173,719       | 164,816       | -                              | (26,845)    | 19,365               | 161,060       | -                              | (168,540)      |                      |  |
| Adult Education and Family Literacy, Title II     | (18,125)             | 163,790       | 180,653       | -                              | (34,988)    | 190,896              | 200,457       | -                              | (44,549)       |                      |  |
| Adult Education Vouchers                          | 6,901                | 569           | 12,067        | -                              | (4,597)     | -                    | -             | -                              | (4,597)        |                      |  |
| Adult Education Remediation                       | -                    | -             | 4,710         | -                              | (4,710)     | -                    | -             | -                              | (4,710)        |                      |  |
| Safe and Drug Free Schools                        | 32,625               | -             | 31,335        | -                              | 1,290       | -                    | -             | -                              | 1,290          |                      |  |

The notes to the financial statement are an integral part of this statement.

GARY COMMUNITY SCHOOL CORPORATION  
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Years Ended June 30, 2013 and 2014  
(Continued)

|  | Cash and<br>Investments<br>07-01-12 | Receipts              | Disbursements         | Other<br>Financing<br>Sources (Uses) | Cash and<br>Investments<br>06-30-13 | Receipts              | Disbursements         | Other<br>Financing<br>Sources (Uses) | Cash and<br>Investments<br>06-30-14 |
|--|-------------------------------------|-----------------------|-----------------------|--------------------------------------|-------------------------------------|-----------------------|-----------------------|--------------------------------------|-------------------------------------|
| Title II - Dwight D. Eisenhower - Science and Math Technology Grants | 2,250                               | -                     | -                     | -                                    | 2,250                               | -                     | -                     | -                                    | 2,250                               |
| UTEP   | 7,333                               | -                     | -                     | -                                    | 7,333                               | -                     | -                     | -                                    | 7,333                               |
| Carl D. Perkins  | (15,469)                            | 387,128               | 403,293               | -                                    | (31,634)                            | 464,523               | 444,453               | -                                    | (11,564)                            |
| Medicaid Reimbursement - Federal                                     | 65,408                              | 279,500               | 11,955                | -                                    | 332,953                             | 172,777               | 7,594                 | -                                    | 498,136                             |
| Improving Teaching Quality, No Child Left, Title II, Part A          | (262)                               | 898,635               | 1,042,342             | -                                    | (143,969)                           | 1,499,456             | 1,343,830             | -                                    | 11,657                              |
| Title III - Language Instruction                                     | -                                   | -                     | -                     | -                                    | -                                   | 480                   | 575                   | -                                    | (95)                                |
| Deep River   | 926                                 | -                     | -                     | -                                    | 926                                 | -                     | -                     | -                                    | 926                                 |
| Technology   | (37,698)                            | 231,278               | 156,649               | -                                    | 36,931                              | 4,466                 | 211,846               | -                                    | (170,449)                           |
| Vision Athena  | 8,635                               | -                     | -                     | -                                    | 8,635                               | -                     | -                     | -                                    | 8,635                               |
| Common School Loan   | 11,734                              | -                     | -                     | -                                    | 11,734                              | -                     | -                     | -                                    | 11,734                              |
| ARRA Title I - Grants to LEAs  | (2,212)                             | -                     | -                     | -                                    | (2,212)                             | -                     | -                     | -                                    | (2,212)                             |
| ARRA Special Education - Part B                                      | -                                   | -                     | (39,233)              | -                                    | 39,233                              | -                     | -                     | -                                    | 39,233                              |
| McKinney - Vento Education for Homeless                              | -                                   | -                     | 1,550                 | -                                    | (1,550)                             | 58,721                | 56,238                | -                                    | 933                                 |
| Education Jobs   | -                                   | 67,137                | 67,137                | -                                    | -                                   | -                     | -                     | -                                    | -                                   |
| Employee FICA  | -                                   | 4,395,455             | 4,395,455             | -                                    | -                                   | 4,435,179             | 2,863,087             | -                                    | 1,572,092                           |
| Employee Pensions  | 87,195                              | 257,224               | 177,895               | -                                    | 166,524                             | 206,499               | 343,835               | -                                    | 29,188                              |
| Savings Bonds  | -                                   | -                     | 123                   | -                                    | (123)                               | -                     | -                     | -                                    | (123)                               |
| Employee Insurance   | 55,754                              | 1,917,276             | 1,670,972             | -                                    | 302,058                             | 2,161,105             | 2,269,355             | -                                    | 193,808                             |
| FIT  | -                                   | 8,235,100             | 8,235,100             | -                                    | -                                   | 7,236,822             | 4,710,627             | -                                    | 2,526,195                           |
| State Tax  | -                                   | 2,150,793             | 2,150,793             | -                                    | -                                   | 2,472,199             | 2,472,199             | -                                    | -                                   |
| Annuities  | (2,125)                             | 3,571,773             | 3,571,858             | -                                    | (2,210)                             | 2,924,421             | 2,925,514             | -                                    | (3,303)                             |
| Garnishments   | (476)                               | 845,232               | 834,132               | -                                    | 10,624                              | 720,032               | 731,135               | -                                    | (479)                               |
| Union Dues   | 23,946                              | 929,242               | 932,297               | -                                    | 20,891                              | 774,280               | 776,975               | -                                    | 18,196                              |
| Withholdings (Misc Deductions)                                       | 71                                  | 10,324                | 10,324                | -                                    | 71                                  | 12,189                | 12,189                | -                                    | 71                                  |
| Credit Union   | 30                                  | 2,920,313             | 2,920,928             | -                                    | (585)                               | 2,345,229             | 2,345,229             | -                                    | (585)                               |
| Provident Life Insurance   | -                                   | 104,024               | 103,735               | -                                    | 289                                 | 150,925               | 150,866               | -                                    | 348                                 |
| Short-Term Disability  | 57                                  | 265,414               | 265,429               | -                                    | 42                                  | 275,095               | 274,987               | -                                    | 150                                 |
| Retirees Life Insurance  | 35,114                              | 399,032               | 434,880               | -                                    | (734)                               | 352,421               | 378,086               | -                                    | (26,399)                            |
| <b>Totals</b>  | <b>\$ 2,149,927</b>                 | <b>\$ 140,657,261</b> | <b>\$ 162,675,821</b> | <b>\$ 24,146,959</b>                 | <b>\$ 4,278,326</b>                 | <b>\$ 126,079,936</b> | <b>\$ 128,758,645</b> | <b>\$ 74,132</b>                     | <b>\$ 1,673,749</b>                 |

The notes to the financial statement are an integral part of this statement.

GARY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENT

**Note 1. Summary of Significant Accounting Policies**

*A. Reporting Entity*

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The accompanying financial statement presents the financial information for the School Corporation.

*B. Basis of Accounting*

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

*C. Cash and Investments*

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

*D. Receipts*

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Local sources which include taxes, revenue from local governmental units other than school corporations, transfer tuition, transportation fees, investment income, food services, School Corporation activities, revenue from community services activities, and other revenue from local sources.

Intermediate sources which include distributions from the County for fees collected for or on behalf of the School Corporation including educational license plate fees, congressional interest, riverboat distributions, and other similar fees.

GARY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENT  
(Continued)

State sources include distributions from the State of Indiana and are to be used by the School Corporation for various purposes. Included in state sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

Federal sources include distributions from the federal government and are to be used by the School Corporation for various purposes. Included in federal sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

Temporary loans which include money received from a loan obtained to pay current expenses prior to the receipt of revenue from taxes levied for that purpose. These loans, sometimes designated tax anticipation warrants, must be repaid from the next semiannual distribution of local property taxes levied for such fund.

Other receipts which include amounts received from various sources which include return of petty cash, return of cash change, insurance claims for losses, sale of securities, and other receipts not listed in another category above.

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Instruction which includes outflows for regular programs, special programs, adult and continuing education programs, summer school programs, enrichment programs, remediation, and payments to other governmental units.

Support services which include outflows for support services related to students, instruction, general administration, and school administration. It also includes outflows for central services, operation and maintenance of plant services, and student transportation.

Noninstructional services which include outflows for food service operations and community service operations.

Facilities acquisition and construction which includes outflows for the acquisition, development, construction, and improvement of new and existing facilities.

Debt services which include fixed obligations resulting from financial transactions previously entered into by the School Corporation. It includes all expenditures for the reduction of the principal and interest of the School Corporation's general obligation indebtedness.

Nonprogrammed charges which include outflows for donations to foundations, securities purchased, indirect costs, scholarships, and self-insurance payments.

*F. Other Financing Sources and Uses*

Other financing sources and uses are presented in the aggregate on the face of the financial statement. The aggregate other financing sources and uses include the following:

GARY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENT  
(Continued)

Proceeds of long-term debt which includes money received in relation to the issuance of bonds or other long-term debt issues.

Sale of capital assets which includes money received when land, buildings, or equipment owned by the School Corporation is sold.

Transfers in which includes money received by one fund as a result of transferring money from another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

Transfers out which includes money paid by one fund to another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

*G. Fund Accounting*

Separate funds are established, maintained, and reported by the School Corporation. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the School Corporation. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the School Corporation in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

**Note 2. Budgets**

The operating budget is initially prepared and approved at the local level. The fiscal officer of the School Corporation submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

**Note 3. Property Taxes**

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the School Corporation in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

GARY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 4. Deposits and Investments**

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

**Note 5. Risk Management**

The School Corporation may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the School Corporation to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

**Note 6. Pension Plans**

*A. Public Employees' Retirement Fund*

*Plan Description*

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System  
One North Capitol, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

GARY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*Funding Policy and Annual Pension Cost*

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

**B. Teachers' Retirement Fund**

*Plan Description*

The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the TRF plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System  
One North Capitol, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 286-3544

*Funding Policy and Annual Pension Cost*

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

**Note 7. Negative Receipts and Disbursements**

The financial statement contains some receipts and/or disbursements which appear as negative entries. This is a result of the correction of errors from a prior period. The errors made in the prior period were corrected by reversing the original entry. Since the original entry and the correction were made in separate periods, a negative receipt/disbursement was shown in the current period.

GARY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 8. Cash Balance Deficits**

The financial statement contains some funds with deficits in cash. This is a result of some funds disbursing in excess of receipts, decreases in state funding due to decreases in student enrollment, and low tax collection rates. In other funds, it is attributed to the funds being set up for reimbursable grants. The reimbursement for expenditures made by the School Corporation were not received by June 30.

**Note 9. Holding Corporation**

The School Corporation has entered into a capital lease with Gary Community School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the years ended June 30, 2013 and 2014, totaled \$1,497,000 and \$3,248,228, respectively.

**Note 10. Subsequent Events**

The School Corporation issued General Obligation bonds in March 2015 totaling \$2,000,000. The bond proceeds were used to pay outstanding transportation judgments against the School Corporation.

**Note 11. Contingent Liabilities and Lawsuits**

The School Corporation has been named as defendant in several pending lawsuits of which the outcome and the amount of potential damages has not been estimated.

**Note 12. Plans to Address Financial Concerns**

House Bill 1001 SECTION 66. IC 6-1.1-20.3-6.9 IS ADDED TO THE INDIANA CODE AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE UPON PASSAGE]: Sec. 6.9.

- (a) The (Distressed Unit Appeals) board may do the following:
- (1) Hold a public hearing to review the budget, tax levies, assessed value, debt service requirements, and other financial information for the Gary Community School Corporation.
  - (2) After reviewing the information described in subdivision (1) and subject to subdivision (3) the board may, with the consent of the governing body of the Gary Community School Corporation, select a financial specialist to take financial control of the Gary Community School Corporation, who shall act in consultation with the governing body of the Gary Community School Corporation and the city of Gary.
  - (3) In selecting a financial specialist to take financial control of the Gary Community School Corporation under subdivision (2):

GARY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENT  
(Continued)

(A) the board shall recommend three (3) persons as potential candidates for the financial specialist position to take financial control of the Gary Community School Corporation; and the governing body of the Gary Community School Corporation may, within twenty-one days after the board makes the recommendations under clause (A), choose one (1) of the persons recommended by the board under clause (A) that the board may then select as a financial specialist to take financial control of the Gary Community School Corporation as provided in subdivision (2). If the governing body of the Gary Community School Corporation does not choose a financial specialist as provided in clause

(B) from the persons recommended by the board within twenty-one (21) days, the board's authority under this section is terminated.

(4) A financial specialist selected under this section:

(A) shall be paid out of the funds appropriated to the board; and

(B) may perform the duties authorized under this section for not more than twelve (12) consecutive months.

(b) The board may do any of the following if the board selects a financial specialist to take financial control of the Gary Community School Corporation under subsection (a):

(1) The board may work jointly with the city of Gary and the financial specialist to develop a financial plan for the Gary Community School Corporation.

(2) The board may delay or suspend, for a period determined by the board, any payments of principal or interest, or both, that would otherwise be due from the Gary Community School Corporation on loans or advances from the common school fund.

(3) The board may recommend to the state board of finance that the state board of finance make an interest free loan to the Gary Community School Corporation from the common school fund. If the board makes a recommendation that such a loan be made, the state board of finance may, notwithstanding IC 20-49, make such a loan for a term of not more than six (6) years.

#### OTHER INFORMATION - UNAUDITED

The School Corporation's Financial Reports can be found on the Indiana Department of Education website: <http://mustang.doe.state.in.us/TRENDS/fin.cfm>. This website is maintained by the Indiana Department of Education. More current financial information is available from the School Corporation Treasurer's Office. Additionally, some financial information of the School Corporation can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Financial Reports of the School Corporation which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The other information presented was approved by management of the School Corporation. It is presented as intended by the School Corporation.

GARY COMMUNITY SCHOOL CORPORATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013

|   | General             | Debt<br>Service  | Exempt<br>Debt   | Capital<br>Projects | School<br>Transportation | Rainy<br>Day | Construction      | School<br>Lunch   |
|---|---------------------|------------------|------------------|---------------------|--------------------------|--------------|-------------------|-------------------|
| Cash and investments - beginning  | \$ (2,850,362)      | \$ 4,820         | \$ 752,311       | \$ (2,622,525)      | \$ (7,522,570)           | \$ -         | \$ 206,871        | \$ 1,225,740      |
| Receipts:   |                     |                  |                  |                     |                          |              |                   |                   |
| Local sources   | 1,469,225           | 1,588,758        | 3,147,854        | 4,205,955           | 5,093,233                | -            | -                 | 326,627           |
| Intermediate sources  | 476,256             | -                | -                | -                   | -                        | -            | -                 | -                 |
| State sources   | 66,840,930          | -                | -                | -                   | -                        | -            | -                 | -                 |
| Federal sources   | 329,037             | 242              | 547              | 696                 | 851                      | -            | -                 | 3,849,154         |
| Temporary loans   | 3,655,260           | 689,233          | 1,544,530        | 1,686,415           | 2,059,720                | -            | -                 | -                 |
| Other   | -                   | -                | -                | 756,029             | -                        | -            | -                 | 505               |
| Total receipts  | <u>72,770,708</u>   | <u>2,278,233</u> | <u>4,692,931</u> | <u>6,649,095</u>    | <u>7,153,804</u>         | <u>-</u>     | <u>-</u>          | <u>4,176,286</u>  |
| Disbursements:  |                     |                  |                  |                     |                          |              |                   |                   |
| Current:  |                     |                  |                  |                     |                          |              |                   |                   |
| Instruction   | 48,185,503          | -                | -                | -                   | -                        | -            | -                 | 94,072            |
| Support services  | 32,552,822          | 83,403           | -                | 3,345,784           | 3,520,984                | -            | -                 | 550               |
| Noninstructional services   | 85,768              | -                | -                | -                   | 308,998                  | -            | -                 | 4,898,995         |
| Facilities acquisition and construction   | -                   | -                | -                | 2,520,177           | -                        | -            | 4,315             | -                 |
| Debt services   | 8,364,012           | 2,398,920        | 5,401,387        | 2,446,330           | 3,166,900                | -            | -                 | -                 |
| Nonprogrammed charges   | -                   | -                | -                | -                   | -                        | -            | -                 | -                 |
| Total disbursements   | <u>89,188,105</u>   | <u>2,482,323</u> | <u>5,401,387</u> | <u>8,312,291</u>    | <u>6,996,882</u>         | <u>-</u>     | <u>4,315</u>      | <u>4,993,617</u>  |
| Excess (deficiency) of receipts over disbursements  | <u>(16,417,397)</u> | <u>(204,090)</u> | <u>(708,456)</u> | <u>(1,663,196)</u>  | <u>156,922</u>           | <u>-</u>     | <u>(4,315)</u>    | <u>(817,331)</u>  |
| Other financing sources (uses):   |                     |                  |                  |                     |                          |              |                   |                   |
| Proceeds of long-term debt  | 5,435,571           | -                | -                | 18,538,875          | -                        | -            | -                 | -                 |
| Sale of capital assets  | 24,302              | -                | -                | 148,211             | -                        | -            | -                 | -                 |
| Transfers in  | 14,695,283          | 201,998          | -                | -                   | -                        | 14,000,000   | -                 | -                 |
| Transfers out   | -                   | -                | -                | (14,000,000)        | -                        | (14,000,000) | -                 | -                 |
| Total other financing sources (uses)  | <u>20,155,156</u>   | <u>201,998</u>   | <u>-</u>         | <u>4,687,086</u>    | <u>-</u>                 | <u>-</u>     | <u>-</u>          | <u>-</u>          |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>3,737,759</u>    | <u>(2,092)</u>   | <u>(708,456)</u> | <u>3,023,890</u>    | <u>156,922</u>           | <u>-</u>     | <u>(4,315)</u>    | <u>(817,331)</u>  |
| Cash and investments - ending   | <u>\$ 887,397</u>   | <u>\$ 2,728</u>  | <u>\$ 43,855</u> | <u>\$ 401,365</u>   | <u>\$ (7,365,648)</u>    | <u>\$ -</u>  | <u>\$ 202,556</u> | <u>\$ 408,409</u> |

GARY COMMUNITY SCHOOL CORPORATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

|   | Textbook<br>Rental | Self-<br>Insurance | Alternative<br>Education | Early<br>Intervention<br>Grant | Extra-<br>Curricular<br>Activities | Construction,<br>Remodeling,<br>and<br>Equipping<br>Buildings | Special<br>Education<br>United<br>Way | Gifted and<br>Talented |
|---|--------------------|--------------------|--------------------------|--------------------------------|------------------------------------|---|---------------------------------------|------------------------|
| Cash and investments - beginning  | \$ 5,027,175       | \$ 8,245,261       | \$ 21,784                | \$ 80,368                      | \$ 13,034                          | \$ 12,217   | \$ 37,980                             | \$ 9,593               |
| Receipts:   |                    |                    |                          |                                |                                    |   |                                       |                        |
| Local sources   | 24,563             | 761,335            | -                        | -                              | -                                  | -   | 8,375                                 | -                      |
| Intermediate sources  | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| State sources   | 504,637            | -                  | 23,219                   | 19,900                         | -                                  | -   | -                                     | 63,967                 |
| Federal sources   | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Temporary loans   | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Other   | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Total receipts  | 529,200            | 761,335            | 23,219                   | 19,900                         | -                                  | -   | 8,375                                 | 63,967                 |
| Disbursements:  |                    |                    |                          |                                |                                    |   |                                       |                        |
| Current:  |                    |                    |                          |                                |                                    |   |                                       |                        |
| Instruction   | -                  | -                  | 11,560                   | 2,742                          | -                                  | -   | 280                                   | 50,744                 |
| Support services  | 105,612            | -                  | -                        | -                              | 18,317                             | -   | -                                     | -                      |
| Noninstructional services   | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Facilities acquisition and construction   | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Debt services   | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Nonprogrammed charges   | -                  | 2,158,329          | -                        | -                              | -                                  | -   | -                                     | -                      |
| Total disbursements   | 105,612            | 2,158,329          | 11,560                   | 2,742                          | 18,317                             | -   | 280                                   | 50,744                 |
| Excess (deficiency) of receipts over disbursements  | 423,588            | (1,396,994)        | 11,659                   | 17,158                         | (18,317)                           | -   | 8,095                                 | 13,223                 |
| Other financing sources (uses):   |                    |                    |                          |                                |                                    |   |                                       |                        |
| Proceeds of long-term debt  | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Sale of capital assets  | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Transfers in  | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Transfers out   | -                  | (873,171)          | (23,219)                 | -                              | -                                  | -   | -                                     | -                      |
| Total other financing sources (uses)  | -                  | (873,171)          | (23,219)                 | -                              | -                                  | -   | -                                     | -                      |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | 423,588            | (2,270,165)        | (11,560)                 | 17,158                         | (18,317)                           | -   | 8,095                                 | 13,223                 |
| Cash and investments - ending   | \$ 5,450,763       | \$ 5,975,096       | \$ 10,224                | \$ 97,526                      | \$ (5,283)                         | \$ 12,217   | \$ 46,075                             | \$ 22,816              |

GARY COMMUNITY SCHOOL CORPORATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

|   | Medicaid<br>Reimbursement | Non-English<br>Speaking<br>Programs<br>P.L. 273-1999 | Technology<br>Grants<br>[IC 20-40-15] | WGVE<br>Broadcast | Title I<br>School<br>Improvement | School<br>Improvement<br>1003g | School<br>Improvement -<br>Bailly and<br>Lew Wallace | Title I      |
|---|---------------------------|--|---------------------------------------|-------------------|----------------------------------|--------------------------------|--|--------------|
| Cash and investments - beginning  | \$ 630                    | \$ 7,085   | \$ 210,281                            | \$ 38,908         | \$ (47,623)                      | \$ (61,823)                    | \$ (32,322)  | \$ (208,402) |
| Receipts:   |                           |  |                                       |                   |                                  |                                |  |              |
| Local sources   | -                         | -  | -                                     | 106,125           | -                                | -                              | -  | 57           |
| Intermediate sources  | -                         | -  | -                                     | -                 | -                                | -                              | -  | -            |
| State sources   | 108,081                   | 1,886  | 2,402                                 | -                 | -                                | -                              | -  | -            |
| Federal sources   | -                         | -  | -                                     | -                 | 165,344                          | 4,159,676                      | 116,624  | 7,328,472    |
| Temporary loans   | -                         | -  | -                                     | -                 | -                                | -                              | -  | -            |
| Other   | -                         | -  | -                                     | -                 | -                                | -                              | -  | -            |
| Total receipts  | 108,081                   | 1,886  | 2,402                                 | 106,125           | 165,344                          | 4,159,676                      | 116,624  | 7,328,529    |
| Disbursements:  |                           |  |                                       |                   |                                  |                                |  |              |
| Current:  |                           |  |                                       |                   |                                  |                                |  |              |
| Instruction   | -                         | -  | -                                     | 131,257           | -                                | 1,787,708                      | -  | 5,128,804    |
| Support services  | 108,081                   | -  | 103,923                               | -                 | 118,910                          | 2,390,617                      | 84,302   | 2,272,075    |
| Noninstructional services   | -                         | -  | -                                     | -                 | -                                | 50,539                         | -  | 181,864      |
| Facilities acquisition and construction   | -                         | -  | -                                     | -                 | -                                | -                              | -  | -            |
| Debt services   | -                         | -  | -                                     | -                 | -                                | -                              | -  | -            |
| Nonprogrammed charges   | -                         | -  | -                                     | -                 | -                                | -                              | -  | -            |
| Total disbursements   | 108,081                   | -  | 103,923                               | 131,257           | 118,910                          | 4,228,864                      | 84,302   | 7,582,743    |
| Excess (deficiency) of receipts over disbursements  | -                         | 1,886  | (101,521)                             | (25,132)          | 46,434                           | (69,188)                       | 32,322   | (254,214)    |
| Other financing sources (uses):   |                           |  |                                       |                   |                                  |                                |  |              |
| Proceeds of long-term debt  | -                         | -  | -                                     | -                 | -                                | -                              | -  | -            |
| Sale of capital assets  | -                         | -  | -                                     | -                 | -                                | -                              | -  | -            |
| Transfers in  | -                         | -  | -                                     | -                 | -                                | -                              | -  | -            |
| Transfers out   | -                         | -  | -                                     | -                 | -                                | -                              | -  | (891)        |
| Total other financing sources (uses)  | -                         | -  | -                                     | -                 | -                                | -                              | -  | (891)        |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | -                         | 1,886  | (101,521)                             | (25,132)          | 46,434                           | (69,188)                       | 32,322   | (255,105)    |
| Cash and investments - ending   | \$ 630                    | \$ 8,971   | \$ 108,760                            | \$ 13,776         | \$ (1,189)                       | \$ (131,011)                   | \$ -   | \$ (463,507) |

GARY COMMUNITY SCHOOL CORPORATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

|   | Impact Aid       | Improvement<br>Special<br>Education<br>Award | Special<br>Education<br>Improvement | Special<br>Education<br>Preschool<br>Grant | Adult<br>Education<br>and Family<br>Literacy,<br>Title II | Adult<br>Education<br>Vouchers | Adult<br>Education<br>Remediation | Safe and<br>Drug Free<br>Schools |
|---|------------------|--|-------------------------------------|--|---|--------------------------------|-----------------------------------|----------------------------------|
| Cash and investments - beginning  | \$ 32,766        | \$ -   | \$ (657,134)                        | \$ (35,748)                                | \$ (18,125)   | \$ 6,901                       | \$ -                              | \$ 32,625                        |
| Receipts:   |                  |  |                                     |  |   |                                |                                   |                                  |
| Local sources   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Intermediate sources  | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| State sources   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Federal sources   | 3,411            | 38,900                                       | 1,296,272                           | 173,719                                    | 163,790   | 569                            | -                                 | -                                |
| Temporary loans   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Other   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Total receipts  | <u>3,411</u>     | <u>38,900</u>                                | <u>1,296,272</u>                    | <u>173,719</u>                             | <u>163,790</u>  | <u>569</u>                     | <u>-</u>                          | <u>-</u>                         |
| Disbursements:  |                  |  |                                     |  |   |                                |                                   |                                  |
| Current:  |                  |  |                                     |  |   |                                |                                   |                                  |
| Instruction   | -                | 47,760                                       | 2,778,265                           | 164,816                                    | 180,653   | 12,067                         | 4,710                             | -                                |
| Support services  | 24,017           | -  | -                                   | -  | -   | -                              | -                                 | 31,335                           |
| Noninstructional services   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Facilities acquisition and construction   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Debt services   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Nonprogrammed charges   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Total disbursements   | <u>24,017</u>    | <u>47,760</u>                                | <u>2,778,265</u>                    | <u>164,816</u>                             | <u>180,653</u>  | <u>12,067</u>                  | <u>4,710</u>                      | <u>31,335</u>                    |
| Excess (deficiency) of receipts over disbursements  | <u>(20,606)</u>  | <u>(8,860)</u>                               | <u>(1,481,993)</u>                  | <u>8,903</u>                               | <u>(16,863)</u>   | <u>(11,498)</u>                | <u>(4,710)</u>                    | <u>(31,335)</u>                  |
| Other financing sources (uses):   |                  |  |                                     |  |   |                                |                                   |                                  |
| Proceeds of long-term debt  | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Sale of capital assets  | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Transfers in  | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Transfers out   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Total other financing sources (uses)  | <u>-</u>         | <u>-</u>                                     | <u>-</u>                            | <u>-</u>                                   | <u>-</u>  | <u>-</u>                       | <u>-</u>                          | <u>-</u>                         |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>(20,606)</u>  | <u>(8,860)</u>                               | <u>(1,481,993)</u>                  | <u>8,903</u>                               | <u>(16,863)</u>   | <u>(11,498)</u>                | <u>(4,710)</u>                    | <u>(31,335)</u>                  |
| Cash and investments - ending   | <u>\$ 12,160</u> | <u>\$ (8,860)</u>                            | <u>\$ (2,139,127)</u>               | <u>\$ (26,845)</u>                         | <u>\$ (34,988)</u>  | <u>\$ (4,597)</u>              | <u>\$ (4,710)</u>                 | <u>\$ 1,290</u>                  |

GARY COMMUNITY SCHOOL CORPORATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

|   | Title II -<br>Dwight D.<br>Eisenhower -<br>Science and<br>Math Technology<br>Grants | UTEP     | Carl D.<br>Perkins | Medicaid<br>Reimbursement -<br>Federal | Improving<br>Teaching<br>Quality,<br>No Child<br>Left,<br>Title II, Part A | Title III -<br>Language<br>Instruction | Deep River | Technology  |
|---|---|----------|--------------------|--|--|--|------------|-------------|
| Cash and investments - beginning  | \$ 2,250  | \$ 7,333 | \$ (15,469)        | \$ 65,408                              | \$ (262)   | \$ -                                   | \$ 926     | \$ (37,698) |
| Receipts:   |   |          |                    |  |  |  |            |             |
| Local sources   | -   | -        | -                  | -                                      | -  | -                                      | -          | -           |
| Intermediate sources  | -   | -        | -                  | -                                      | -  | -                                      | -          | -           |
| State sources   | -   | -        | -                  | -                                      | -  | -                                      | -          | 231,278     |
| Federal sources   | -   | -        | 387,128            | 279,500                                | 898,635  | -                                      | -          | -           |
| Temporary loans   | -   | -        | -                  | -                                      | -  | -                                      | -          | -           |
| Other   | -   | -        | -                  | -                                      | -  | -                                      | -          | -           |
| Total receipts  | -   | -        | 387,128            | 279,500                                | 898,635  | -                                      | -          | 231,278     |
| Disbursements:  |   |          |                    |  |  |  |            |             |
| Current:  |   |          |                    |  |  |  |            |             |
| Instruction   | -   | -        | 341,506            | -                                      | 483,251  | -                                      | -          | 84,085      |
| Support services  | -   | -        | 61,787             | 11,955                                 | 559,091  | -                                      | -          | 72,564      |
| Noninstructional services   | -   | -        | -                  | -                                      | -  | -                                      | -          | -           |
| Facilities acquisition and construction   | -   | -        | -                  | -                                      | -  | -                                      | -          | -           |
| Debt services   | -   | -        | -                  | -                                      | -  | -                                      | -          | -           |
| Nonprogrammed charges   | -   | -        | -                  | -                                      | -  | -                                      | -          | -           |
| Total disbursements   | -   | -        | 403,293            | 11,955                                 | 1,042,342  | -                                      | -          | 156,649     |
| Excess (deficiency) of receipts over disbursements  | -   | -        | (16,165)           | 267,545                                | (143,707)  | -                                      | -          | 74,629      |
| Other financing sources (uses):   |   |          |                    |  |  |  |            |             |
| Proceeds of long-term debt  | -   | -        | -                  | -                                      | -  | -                                      | -          | -           |
| Sale of capital assets  | -   | -        | -                  | -                                      | -  | -                                      | -          | -           |
| Transfers in  | -   | -        | -                  | -                                      | -  | -                                      | -          | -           |
| Transfers out   | -   | -        | -                  | -                                      | -  | -                                      | -          | -           |
| Total other financing sources (uses)  | -   | -        | -                  | -                                      | -  | -                                      | -          | -           |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | -   | -        | (16,165)           | 267,545                                | (143,707)  | -                                      | -          | 74,629      |
| Cash and investments - ending   | \$ 2,250  | \$ 7,333 | \$ (31,634)        | \$ 332,953                             | \$ (143,969)   | \$ -                                   | \$ 926     | \$ 36,931   |

GARY COMMUNITY SCHOOL CORPORATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

|   | Vision<br>Athena | Common<br>School<br>Loan | ARRA<br>Title I -<br>Grants<br>to LEAs | ARRA<br>Special<br>Education -<br>Part B | McKinney -<br>Vento<br>Education<br>for<br>Homeless | Education<br>Jobs | Employee<br>FICA |
|---|------------------|--------------------------|--|--|---|-------------------|------------------|
| Cash and investments - beginning  | \$ 8,635         | \$ 11,734                | \$ (2,212)                             | \$ -                                     | \$ -  | \$ -              | \$ -             |
| Receipts:   |                  |                          |  |  |   |                   |                  |
| Local sources   | -                | -                        | -                                      | -  | -   | -                 | -                |
| Intermediate sources  | -                | -                        | -                                      | -  | -   | -                 | -                |
| State sources   | -                | -                        | -                                      | -  | -   | -                 | -                |
| Federal sources   | -                | -                        | -                                      | -  | -   | 67,137            | -                |
| Temporary loans   | -                | -                        | -                                      | -  | -   | -                 | -                |
| Other   | -                | -                        | -                                      | -  | -   | -                 | 4,395,455        |
| Total receipts  | -                | -                        | -                                      | -  | -   | 67,137            | 4,395,455        |
| Disbursements:  |                  |                          |  |  |   |                   |                  |
| Current:  |                  |                          |  |  |   |                   |                  |
| Instruction   | -                | -                        | -                                      | (39,233)                                 | -   | 67,137            | -                |
| Support services  | -                | -                        | -                                      | -  | 1,550   | -                 | -                |
| Noninstructional services   | -                | -                        | -                                      | -  | -   | -                 | -                |
| Facilities acquisition and construction   | -                | -                        | -                                      | -  | -   | -                 | -                |
| Debt services   | -                | -                        | -                                      | -  | -   | -                 | -                |
| Nonprogrammed charges   | -                | -                        | -                                      | -  | -   | -                 | 4,395,455        |
| Total disbursements   | -                | -                        | -                                      | (39,233)                                 | 1,550   | 67,137            | 4,395,455        |
| Excess (deficiency) of receipts over disbursements  | -                | -                        | -                                      | 39,233                                   | (1,550)   | -                 | -                |
| Other financing sources (uses):   |                  |                          |  |  |   |                   |                  |
| Proceeds of long-term debt  | -                | -                        | -                                      | -  | -   | -                 | -                |
| Sale of capital assets  | -                | -                        | -                                      | -  | -   | -                 | -                |
| Transfers in  | -                | -                        | -                                      | -  | -   | -                 | -                |
| Transfers out   | -                | -                        | -                                      | -  | -   | -                 | -                |
| Total other financing sources (uses)  | -                | -                        | -                                      | -  | -   | -                 | -                |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | -                | -                        | -                                      | 39,233                                   | (1,550)   | -                 | -                |
| Cash and investments - ending   | <u>\$ 8,635</u>  | <u>\$ 11,734</u>         | <u>\$ (2,212)</u>                      | <u>\$ 39,233</u>                         | <u>\$ (1,550)</u>                                   | <u>\$ -</u>       | <u>\$ -</u>      |

GARY COMMUNITY SCHOOL CORPORATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

|   | Employee<br>Pensions | Savings<br>Bonds | Employee<br>Insurance | FIT              | State Tax        | Annuities         | Garnishments     |
|---|----------------------|------------------|-----------------------|------------------|------------------|-------------------|------------------|
| Cash and investments - beginning  | \$ 87,195            | \$ -             | \$ 55,754             | \$ -             | \$ -             | \$ (2,125)        | \$ (476)         |
| Receipts:   |                      |                  |                       |                  |                  |                   |                  |
| Local sources   | -                    | -                | -                     | -                | -                | -                 | -                |
| Intermediate sources  | -                    | -                | -                     | -                | -                | -                 | -                |
| State sources   | -                    | -                | -                     | -                | -                | -                 | -                |
| Federal sources   | -                    | -                | -                     | -                | -                | -                 | -                |
| Temporary loans   | -                    | -                | -                     | -                | -                | -                 | -                |
| Other   | <u>257,224</u>       | <u>-</u>         | <u>1,917,276</u>      | <u>8,235,100</u> | <u>2,150,793</u> | <u>3,571,773</u>  | <u>845,232</u>   |
| Total receipts  | <u>257,224</u>       | <u>-</u>         | <u>1,917,276</u>      | <u>8,235,100</u> | <u>2,150,793</u> | <u>3,571,773</u>  | <u>845,232</u>   |
| Disbursements:  |                      |                  |                       |                  |                  |                   |                  |
| Current:  |                      |                  |                       |                  |                  |                   |                  |
| Instruction   | -                    | -                | -                     | -                | -                | -                 | -                |
| Support services  | -                    | -                | -                     | -                | -                | -                 | -                |
| Noninstructional services   | -                    | -                | -                     | -                | -                | -                 | -                |
| Facilities acquisition and construction   | -                    | -                | -                     | -                | -                | -                 | -                |
| Debt services   | -                    | -                | -                     | -                | -                | -                 | -                |
| Nonprogrammed charges   | <u>177,895</u>       | <u>123</u>       | <u>1,670,972</u>      | <u>8,235,100</u> | <u>2,150,793</u> | <u>3,571,858</u>  | <u>834,132</u>   |
| Total disbursements   | <u>177,895</u>       | <u>123</u>       | <u>1,670,972</u>      | <u>8,235,100</u> | <u>2,150,793</u> | <u>3,571,858</u>  | <u>834,132</u>   |
| Excess (deficiency) of receipts over disbursements  | <u>79,329</u>        | <u>(123)</u>     | <u>246,304</u>        | <u>-</u>         | <u>-</u>         | <u>(85)</u>       | <u>11,100</u>    |
| Other financing sources (uses):   |                      |                  |                       |                  |                  |                   |                  |
| Proceeds of long-term debt  | -                    | -                | -                     | -                | -                | -                 | -                |
| Sale of capital assets  | -                    | -                | -                     | -                | -                | -                 | -                |
| Transfers in  | -                    | -                | -                     | -                | -                | -                 | -                |
| Transfers out   | <u>-</u>             | <u>-</u>         | <u>-</u>              | <u>-</u>         | <u>-</u>         | <u>-</u>          | <u>-</u>         |
| Total other financing sources (uses)  | <u>-</u>             | <u>-</u>         | <u>-</u>              | <u>-</u>         | <u>-</u>         | <u>-</u>          | <u>-</u>         |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>79,329</u>        | <u>(123)</u>     | <u>246,304</u>        | <u>-</u>         | <u>-</u>         | <u>(85)</u>       | <u>11,100</u>    |
| Cash and investments - ending   | <u>\$ 166,524</u>    | <u>\$ (123)</u>  | <u>\$ 302,058</u>     | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ (2,210)</u> | <u>\$ 10,624</u> |

GARY COMMUNITY SCHOOL CORPORATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

|   | Union Dues       | Withholdings<br>(Misc Deductions) | Credit Union     | Provident Life<br>Insurance | Short-Term<br>Disability | Retirees Life<br>Insurance | Totals              |
|---|------------------|-----------------------------------|------------------|-----------------------------|--------------------------|----------------------------|---------------------|
| Cash and investments - beginning  | \$ 23,946        | \$ 71                             | \$ 30            | \$ -                        | \$ 57                    | \$ 35,114                  | \$ 2,149,927        |
| Receipts:   |                  |                                   |                  |                             |                          |                            |                     |
| Local sources   | -                | -                                 | -                | -                           | -                        | -                          | 16,732,107          |
| Intermediate sources  | -                | -                                 | -                | -                           | -                        | -                          | 476,256             |
| State sources   | -                | -                                 | -                | -                           | -                        | -                          | 67,796,300          |
| Federal sources   | -                | -                                 | -                | -                           | -                        | -                          | 19,259,704          |
| Temporary loans   | -                | -                                 | -                | -                           | -                        | -                          | 9,635,158           |
| Other   | <u>929,242</u>   | <u>10,324</u>                     | <u>2,920,313</u> | <u>104,024</u>              | <u>265,414</u>           | <u>399,032</u>             | <u>26,757,736</u>   |
| Total receipts  | <u>929,242</u>   | <u>10,324</u>                     | <u>2,920,313</u> | <u>104,024</u>              | <u>265,414</u>           | <u>399,032</u>             | <u>140,657,261</u>  |
| Disbursements:  |                  |                                   |                  |                             |                          |                            |                     |
| Current:  |                  |                                   |                  |                             |                          |                            |                     |
| Instruction   | -                | -                                 | -                | -                           | -                        | -                          | 59,517,687          |
| Support services  | -                | -                                 | -                | -                           | -                        | -                          | 45,467,679          |
| Noninstructional services   | -                | -                                 | -                | -                           | -                        | -                          | 5,526,164           |
| Facilities acquisition and construction   | -                | -                                 | -                | -                           | -                        | -                          | 2,524,492           |
| Debt services   | -                | -                                 | -                | -                           | -                        | -                          | 21,777,549          |
| Nonprogrammed charges   | <u>932,297</u>   | <u>10,324</u>                     | <u>2,920,928</u> | <u>103,735</u>              | <u>265,429</u>           | <u>434,880</u>             | <u>27,862,250</u>   |
| Total disbursements   | <u>932,297</u>   | <u>10,324</u>                     | <u>2,920,928</u> | <u>103,735</u>              | <u>265,429</u>           | <u>434,880</u>             | <u>162,675,821</u>  |
| Excess (deficiency) of receipts over disbursements  | <u>(3,055)</u>   | <u>-</u>                          | <u>(615)</u>     | <u>289</u>                  | <u>(15)</u>              | <u>(35,848)</u>            | <u>(22,018,560)</u> |
| Other financing sources (uses):   |                  |                                   |                  |                             |                          |                            |                     |
| Proceeds of long-term debt  | -                | -                                 | -                | -                           | -                        | -                          | 23,974,446          |
| Sale of capital assets  | -                | -                                 | -                | -                           | -                        | -                          | 172,513             |
| Transfers in  | -                | -                                 | -                | -                           | -                        | -                          | 28,897,281          |
| Transfers out   | <u>-</u>         | <u>-</u>                          | <u>-</u>         | <u>-</u>                    | <u>-</u>                 | <u>-</u>                   | <u>(28,897,281)</u> |
| Total other financing sources (uses)  | <u>-</u>         | <u>-</u>                          | <u>-</u>         | <u>-</u>                    | <u>-</u>                 | <u>-</u>                   | <u>24,146,959</u>   |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>(3,055)</u>   | <u>-</u>                          | <u>(615)</u>     | <u>289</u>                  | <u>(15)</u>              | <u>(35,848)</u>            | <u>2,128,399</u>    |
| Cash and investments - ending   | <u>\$ 20,891</u> | <u>\$ 71</u>                      | <u>\$ (585)</u>  | <u>\$ 289</u>               | <u>\$ 42</u>             | <u>\$ (734)</u>            | <u>\$ 4,278,326</u> |

GARY COMMUNITY SCHOOL CORPORATION  
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 REGULATORY BASIS  
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|   | General               | Debt<br>Service       | Exempt<br>Debt      | Capital<br>Projects | School<br>Transportation | Rainy<br>Day | Construction      | School<br>Lunch     |
|---|-----------------------|-----------------------|---------------------|---------------------|--------------------------|--------------|-------------------|---------------------|
| Cash and investments - beginning  | \$ 887,397            | \$ 2,728              | \$ 43,855           | \$ 401,365          | \$ (7,365,648)           | \$ -         | \$ 202,556        | \$ 408,409          |
| Receipts:   |                       |                       |                     |                     |                          |              |                   |                     |
| Local sources   | 509,949               | 2,634,679             | 3,304,906           | 4,202,516           | 5,286,307                | -            | -                 | 241,744             |
| Intermediate sources  | 492,701               | -                     | -                   | -                   | -                        | -            | -                 | -                   |
| State sources   | 63,725,628            | -                     | -                   | -                   | -                        | -            | -                 | -                   |
| Federal sources   | 215,190               | 289                   | 568                 | 709                 | 866                      | -            | -                 | 4,307,313           |
| Other   | -                     | -                     | -                   | -                   | -                        | -            | -                 | 505                 |
| Total receipts  | <u>64,943,468</u>     | <u>2,634,968</u>      | <u>3,305,474</u>    | <u>4,203,225</u>    | <u>5,287,173</u>         | <u>-</u>     | <u>-</u>          | <u>4,549,562</u>    |
| Disbursements:  |                       |                       |                     |                     |                          |              |                   |                     |
| Current:  |                       |                       |                     |                     |                          |              |                   |                     |
| Instruction   | 43,622,487            | -                     | -                   | -                   | -                        | -            | -                 | 512,169             |
| Support services  | 25,243,679            | 63,600                | -                   | 872,896             | 5,126,987                | -            | -                 | 490                 |
| Noninstructional services   | 49,638                | -                     | -                   | -                   | 315,797                  | -            | -                 | 2,272,442           |
| Facilities acquisition and construction   | -                     | -                     | -                   | 2,168,356           | -                        | -            | -                 | -                   |
| Debt services   | 49,948                | 3,638,634             | 4,093,995           | 843,606             | 1,030,347                | -            | -                 | -                   |
| Nonprogrammed charges   | -                     | -                     | -                   | -                   | -                        | -            | -                 | -                   |
| Total disbursements   | <u>68,965,752</u>     | <u>3,702,234</u>      | <u>4,093,995</u>    | <u>3,884,858</u>    | <u>6,473,131</u>         | <u>-</u>     | <u>-</u>          | <u>2,785,101</u>    |
| Excess (deficiency) of receipts over disbursements  | <u>(4,022,284)</u>    | <u>(1,067,266)</u>    | <u>(788,521)</u>    | <u>318,367</u>      | <u>(1,185,958)</u>       | <u>-</u>     | <u>-</u>          | <u>1,764,461</u>    |
| Other financing sources (uses):   |                       |                       |                     |                     |                          |              |                   |                     |
| Proceeds of long-term debt  | 33                    | -                     | -                   | -                   | -                        | -            | -                 | -                   |
| Sale of capital assets  | 74,099                | -                     | -                   | -                   | -                        | -            | -                 | -                   |
| Total other financing sources (uses)  | <u>74,132</u>         | <u>-</u>              | <u>-</u>            | <u>-</u>            | <u>-</u>                 | <u>-</u>     | <u>-</u>          | <u>-</u>            |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>(3,948,152)</u>    | <u>(1,067,266)</u>    | <u>(788,521)</u>    | <u>318,367</u>      | <u>(1,185,958)</u>       | <u>-</u>     | <u>-</u>          | <u>1,764,461</u>    |
| Cash and investments - ending   | <u>\$ (3,060,755)</u> | <u>\$ (1,064,538)</u> | <u>\$ (744,666)</u> | <u>\$ 719,732</u>   | <u>\$ (8,551,606)</u>    | <u>\$ -</u>  | <u>\$ 202,556</u> | <u>\$ 2,172,870</u> |

GARY COMMUNITY SCHOOL CORPORATION  
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 REGULATORY BASIS  
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 (Continued)

|   | Textbook<br>Rental | Self-<br>Insurance | Alternative<br>Education | Early<br>Intervention<br>Grant | Extra-<br>Curricular<br>Activities | Construction,<br>Remodeling,<br>and<br>Equipping<br>Buildings | Special<br>Education<br>United<br>Way | Gifted and<br>Talented |
|---|--------------------|--------------------|--------------------------|--------------------------------|------------------------------------|---|---------------------------------------|------------------------|
| Cash and investments - beginning  | \$ 5,450,763       | \$ 5,975,096       | \$ 10,224                | \$ 97,526                      | \$ (5,283)                         | \$ 12,217   | \$ 46,075                             | \$ 22,816              |
| Receipts:   |                    |                    |                          |                                |                                    |   |                                       |                        |
| Local sources   | 9,988              | 718,324            | -                        | -                              | -                                  | -   | 7,529                                 | -                      |
| Intermediate sources  | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| State sources   | 406,587            | -                  | -                        | -                              | -                                  | -   | -                                     | 55,182                 |
| Federal sources   | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Other   | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Total receipts  | 416,575            | 718,324            | -                        | -                              | -                                  | -   | 7,529                                 | 55,182                 |
| Disbursements:  |                    |                    |                          |                                |                                    |   |                                       |                        |
| Current:  |                    |                    |                          |                                |                                    |   |                                       |                        |
| Instruction   | -                  | -                  | -                        | 18,288                         | -                                  | -   | -                                     | 28,286                 |
| Support services  | -                  | -                  | -                        | 795                            | -                                  | -   | -                                     | 2,261                  |
| Noninstructional services   | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Facilities acquisition and construction   | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Debt services   | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Nonprogrammed charges   | -                  | 567,136            | -                        | -                              | -                                  | -   | -                                     | -                      |
| Total disbursements   | -                  | 567,136            | -                        | 19,083                         | -                                  | -   | -                                     | 30,547                 |
| Excess (deficiency) of receipts over disbursements  | 416,575            | 151,188            | -                        | (19,083)                       | -                                  | -   | 7,529                                 | 24,635                 |
| Other financing sources (uses):   |                    |                    |                          |                                |                                    |   |                                       |                        |
| Proceeds of long-term debt  | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Sale of capital assets  | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Total other financing sources (uses)  | -                  | -                  | -                        | -                              | -                                  | -   | -                                     | -                      |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | 416,575            | 151,188            | -                        | (19,083)                       | -                                  | -   | 7,529                                 | 24,635                 |
| Cash and investments - ending   | \$ 5,867,338       | \$ 6,126,284       | \$ 10,224                | \$ 78,443                      | \$ (5,283)                         | \$ 12,217   | \$ 53,604                             | \$ 47,451              |

GARY COMMUNITY SCHOOL CORPORATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2014  
 (Continued)

|   | Medicaid<br>Reimbursement | Non-English<br>Speaking<br>Programs<br>P.L. 273-1999 | Technology<br>Grants<br>[IC 20-40-15] | WGVE<br>Broadcast | Title I<br>School<br>Improvement | School<br>Improvement<br>1003g | School<br>Improvement -<br>Baily and<br>Lew Wallace | Title I      |
|---|---------------------------|--|---------------------------------------|-------------------|----------------------------------|--------------------------------|---|--------------|
| Cash and investments - beginning  | \$ 630                    | \$ 8,971   | \$ 108,760                            | \$ 13,776         | \$ (1,189)                       | \$ (131,011)                   | \$ -  | \$ (463,507) |
| Receipts:   |                           |  |                                       |                   |                                  |                                |   |              |
| Local sources   | -                         | -  | -                                     | 101,630           | -                                | -                              | -   | -            |
| Intermediate sources  | -                         | -  | -                                     | -                 | -                                | -                              | -   | -            |
| State sources   | 62,646                    | -  | 2,225                                 | -                 | -                                | -                              | -   | -            |
| Federal sources   | -                         | -  | -                                     | -                 | 194,500                          | 4,393,128                      | -   | 7,560,046    |
| Other   | -                         | -  | -                                     | -                 | -                                | -                              | -   | -            |
| Total receipts  | 62,646                    | -  | 2,225                                 | 101,630           | 194,500                          | 4,393,128                      | -   | 7,560,046    |
| Disbursements:  |                           |  |                                       |                   |                                  |                                |   |              |
| Current:  |                           |  |                                       |                   |                                  |                                |   |              |
| Instruction   | -                         | -  | -                                     | 82,470            | 120,491                          | 2,262,076                      | -   | 5,150,032    |
| Support services  | 1,557                     | 1,250  | 58,362                                | -                 | 109,672                          | 2,802,116                      | -   | 1,889,052    |
| Noninstructional services   | -                         | 250  | -                                     | -                 | -                                | 44,442                         | -   | 163,478      |
| Facilities acquisition and construction   | -                         | -  | -                                     | -                 | -                                | -                              | -   | -            |
| Debt services   | -                         | -  | -                                     | -                 | -                                | -                              | -   | -            |
| Nonprogrammed charges   | -                         | -  | -                                     | -                 | -                                | -                              | -   | -            |
| Total disbursements   | 1,557                     | 1,500  | 58,362                                | 82,470            | 230,163                          | 5,108,634                      | -   | 7,202,562    |
| Excess (deficiency) of receipts over disbursements  | 61,089                    | (1,500)  | (56,137)                              | 19,160            | (35,663)                         | (715,506)                      | -   | 357,484      |
| Other financing sources (uses):   |                           |  |                                       |                   |                                  |                                |   |              |
| Proceeds of long-term debt  | -                         | -  | -                                     | -                 | -                                | -                              | -   | -            |
| Sale of capital assets  | -                         | -  | -                                     | -                 | -                                | -                              | -   | -            |
| Total other financing sources (uses)  | -                         | -  | -                                     | -                 | -                                | -                              | -   | -            |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | 61,089                    | (1,500)  | (56,137)                              | 19,160            | (35,663)                         | (715,506)                      | -   | 357,484      |
| Cash and investments - ending   | \$ 61,719                 | \$ 7,471   | \$ 52,623                             | \$ 32,936         | \$ (36,852)                      | \$ (846,517)                   | \$ -  | \$ (106,023) |

GARY COMMUNITY SCHOOL CORPORATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2014  
 (Continued)

|   | Impact Aid       | Improvement<br>Special<br>Education<br>Award | Special<br>Education<br>Improvement | Special<br>Education<br>Preschool<br>Grant | Adult<br>Education<br>and Family<br>Literacy,<br>Title II | Adult<br>Education<br>Vouchers | Adult<br>Education<br>Remediation | Safe and<br>Drug Free<br>Schools |
|---|------------------|--|-------------------------------------|--|---|--------------------------------|-----------------------------------|----------------------------------|
| Cash and investments - beginning  | \$ 12,160        | \$ (8,860)                                   | \$ (2,139,127)                      | \$ (26,845)                                | \$ (34,988)   | \$ (4,597)                     | \$ (4,710)                        | \$ 1,290                         |
| Receipts:   |                  |  |                                     |  |   |                                |                                   |                                  |
| Local sources   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Intermediate sources  | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| State sources   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Federal sources   | 13,952           | -  | 1,153,249                           | 19,365                                     | 190,896   | -                              | -                                 | -                                |
| Other   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Total receipts  | <u>13,952</u>    | <u>-</u>                                     | <u>1,153,249</u>                    | <u>19,365</u>                              | <u>190,896</u>  | <u>-</u>                       | <u>-</u>                          | <u>-</u>                         |
| Disbursements:  |                  |  |                                     |  |   |                                |                                   |                                  |
| Current:  |                  |  |                                     |  |   |                                |                                   |                                  |
| Instruction   | -                | -  | 2,869,673                           | 159,016                                    | 200,457   | -                              | -                                 | -                                |
| Support services  | 1,750            | -  | -                                   | 2,044                                      | -   | -                              | -                                 | -                                |
| Noninstructional services   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Facilities acquisition and construction   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Debt services   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Nonprogrammed charges   | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Total disbursements   | <u>1,750</u>     | <u>-</u>                                     | <u>2,869,673</u>                    | <u>161,060</u>                             | <u>200,457</u>  | <u>-</u>                       | <u>-</u>                          | <u>-</u>                         |
| Excess (deficiency) of receipts over disbursements  | <u>12,202</u>    | <u>-</u>                                     | <u>(1,716,424)</u>                  | <u>(141,695)</u>                           | <u>(9,561)</u>  | <u>-</u>                       | <u>-</u>                          | <u>-</u>                         |
| Other financing sources (uses):   |                  |  |                                     |  |   |                                |                                   |                                  |
| Proceeds of long-term debt  | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Sale of capital assets  | -                | -  | -                                   | -  | -   | -                              | -                                 | -                                |
| Total other financing sources (uses)  | <u>-</u>         | <u>-</u>                                     | <u>-</u>                            | <u>-</u>                                   | <u>-</u>  | <u>-</u>                       | <u>-</u>                          | <u>-</u>                         |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>12,202</u>    | <u>-</u>                                     | <u>(1,716,424)</u>                  | <u>(141,695)</u>                           | <u>(9,561)</u>  | <u>-</u>                       | <u>-</u>                          | <u>-</u>                         |
| Cash and investments - ending   | <u>\$ 24,362</u> | <u>\$ (8,860)</u>                            | <u>\$ (3,855,551)</u>               | <u>\$ (168,540)</u>                        | <u>\$ (44,549)</u>  | <u>\$ (4,597)</u>              | <u>\$ (4,710)</u>                 | <u>\$ 1,290</u>                  |

GARY COMMUNITY SCHOOL CORPORATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2014  
 (Continued)

|   | Title II -<br>Dwight D.<br>Eisenhower -<br>Science and<br>Math Technology<br>Grants | UTEP     | Carl D.<br>Perkins | Medicaid<br>Reimbursement -<br>Federal | Improving<br>Teaching<br>Quality,<br>No Child<br>Left,<br>Title II, Part A | Title III -<br>Language<br>Instruction | Deep River | Technology   |
|---|---|----------|--------------------|--|--|--|------------|--------------|
| Cash and investments - beginning  | \$ 2,250  | \$ 7,333 | \$ (31,634)        | \$ 332,953                             | \$ (143,969)   | \$ -                                   | \$ 926     | \$ 36,931    |
| Receipts:   |   |          |                    |  |  |  |            |              |
| Local sources   | -   | -        | -                  | -                                      | -  | 480                                    | -          | -            |
| Intermediate sources  | -   | -        | -                  | -                                      | -  | -                                      | -          | -            |
| State sources   | -   | -        | -                  | -                                      | -  | -                                      | -          | 4,466        |
| Federal sources   | -   | -        | 464,523            | 172,777                                | 1,499,456  | -                                      | -          | -            |
| Other   | -   | -        | -                  | -                                      | -  | -                                      | -          | -            |
| Total receipts  | -   | -        | 464,523            | 172,777                                | 1,499,456  | 480                                    | -          | 4,466        |
| Disbursements:  |   |          |                    |  |  |  |            |              |
| Current:  |   |          |                    |  |  |  |            |              |
| Instruction   | -   | -        | 423,991            | -                                      | 598,721  | 435                                    | -          | 68,583       |
| Support services  | -   | -        | 20,462             | 7,594                                  | 745,109  | 140                                    | -          | 143,263      |
| Noninstructional services   | -   | -        | -                  | -                                      | -  | -                                      | -          | -            |
| Facilities acquisition and construction   | -   | -        | -                  | -                                      | -  | -                                      | -          | -            |
| Debt services   | -   | -        | -                  | -                                      | -  | -                                      | -          | -            |
| Nonprogrammed charges   | -   | -        | -                  | -                                      | -  | -                                      | -          | -            |
| Total disbursements   | -   | -        | 444,453            | 7,594                                  | 1,343,830  | 575                                    | -          | 211,846      |
| Excess (deficiency) of receipts over disbursements  | -   | -        | 20,070             | 165,183                                | 155,626  | (95)                                   | -          | (207,380)    |
| Other financing sources (uses):   |   |          |                    |  |  |  |            |              |
| Proceeds of long-term debt  | -   | -        | -                  | -                                      | -  | -                                      | -          | -            |
| Sale of capital assets  | -   | -        | -                  | -                                      | -  | -                                      | -          | -            |
| Total other financing sources (uses)  | -   | -        | -                  | -                                      | -  | -                                      | -          | -            |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | -   | -        | 20,070             | 165,183                                | 155,626  | (95)                                   | -          | (207,380)    |
| Cash and investments - ending   | \$ 2,250  | \$ 7,333 | \$ (11,564)        | \$ 498,136                             | \$ 11,657  | \$ (95)                                | \$ 926     | \$ (170,449) |

GARY COMMUNITY SCHOOL CORPORATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2014  
 (Continued)

|   | Vision<br>Athena | Common<br>School<br>Loan | ARRA<br>Title I -<br>Grants<br>to LEAs | ARRA<br>Special<br>Education -<br>Part B | McKinney -<br>Vento<br>Education<br>for<br>Homeless | Education<br>Jobs | Employee<br>FICA |
|---|------------------|--------------------------|--|--|---|-------------------|------------------|
| Cash and investments - beginning  | \$ 8,635         | \$ 11,734                | \$ (2,212)                             | \$ 39,233                                | \$ (1,550)  | \$ -              | \$ -             |
| Receipts:   |                  |                          |  |  |   |                   |                  |
| Local sources   | -                | -                        | -                                      | -  | -   | -                 | -                |
| Intermediate sources  | -                | -                        | -                                      | -  | -   | -                 | -                |
| State sources   | -                | -                        | -                                      | -  | -   | -                 | -                |
| Federal sources   | -                | -                        | -                                      | -  | 58,721  | -                 | -                |
| Other   | -                | -                        | -                                      | -  | -   | -                 | 4,435,179        |
| Total receipts  | -                | -                        | -                                      | -  | 58,721  | -                 | 4,435,179        |
| Disbursements:  |                  |                          |  |  |   |                   |                  |
| Current:  |                  |                          |  |  |   |                   |                  |
| Instruction   | -                | -                        | -                                      | -  | 7,990   | -                 | -                |
| Support services  | -                | -                        | -                                      | -  | 47,755  | -                 | -                |
| Noninstructional services   | -                | -                        | -                                      | -  | 493   | -                 | -                |
| Facilities acquisition and construction   | -                | -                        | -                                      | -  | -   | -                 | -                |
| Debt services   | -                | -                        | -                                      | -  | -   | -                 | -                |
| Nonprogrammed charges   | -                | -                        | -                                      | -  | -   | -                 | 2,863,087        |
| Total disbursements   | -                | -                        | -                                      | -  | 56,238  | -                 | 2,863,087        |
| Excess (deficiency) of receipts over disbursements  | -                | -                        | -                                      | -  | 2,483   | -                 | 1,572,092        |
| Other financing sources (uses):   |                  |                          |  |  |   |                   |                  |
| Proceeds of long-term debt  | -                | -                        | -                                      | -  | -   | -                 | -                |
| Sale of capital assets  | -                | -                        | -                                      | -  | -   | -                 | -                |
| Total other financing sources (uses)  | -                | -                        | -                                      | -  | -   | -                 | -                |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | -                | -                        | -                                      | -  | 2,483   | -                 | 1,572,092        |
| Cash and investments - ending   | \$ 8,635         | \$ 11,734                | \$ (2,212)                             | \$ 39,233                                | \$ 933  | \$ -              | \$ 1,572,092     |

GARY COMMUNITY SCHOOL CORPORATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2014  
 (Continued)

|   | Employee<br>Pensions | Savings<br>Bonds | Employee<br>Insurance | FIT          | State Tax | Annuities  | Garnishments |
|---|----------------------|------------------|-----------------------|--------------|-----------|------------|--------------|
| Cash and investments - beginning  | \$ 166,524           | \$ (123)         | \$ 302,058            | \$ -         | \$ -      | \$ (2,210) | \$ 10,624    |
| Receipts:   |                      |                  |                       |              |           |            |              |
| Local sources   | -                    | -                | -                     | -            | -         | -          | -            |
| Intermediate sources  | -                    | -                | -                     | -            | -         | -          | -            |
| State sources   | -                    | -                | -                     | -            | -         | -          | -            |
| Federal sources   | -                    | -                | -                     | -            | -         | -          | -            |
| Other   | 206,499              | -                | 2,161,105             | 7,236,822    | 2,472,199 | 2,924,421  | 720,032      |
| Total receipts  | 206,499              | -                | 2,161,105             | 7,236,822    | 2,472,199 | 2,924,421  | 720,032      |
| Disbursements:  |                      |                  |                       |              |           |            |              |
| Current:  |                      |                  |                       |              |           |            |              |
| Instruction   | -                    | -                | -                     | -            | -         | -          | -            |
| Support services  | -                    | -                | -                     | -            | -         | -          | -            |
| Noninstructional services   | -                    | -                | -                     | -            | -         | -          | -            |
| Facilities acquisition and construction   | -                    | -                | -                     | -            | -         | -          | -            |
| Debt services   | -                    | -                | -                     | -            | -         | -          | -            |
| Nonprogrammed charges   | 343,835              | -                | 2,269,355             | 4,710,627    | 2,472,199 | 2,925,514  | 731,135      |
| Total disbursements   | 343,835              | -                | 2,269,355             | 4,710,627    | 2,472,199 | 2,925,514  | 731,135      |
| Excess (deficiency) of receipts over disbursements  | (137,336)            | -                | (108,250)             | 2,526,195    | -         | (1,093)    | (11,103)     |
| Other financing sources (uses):   |                      |                  |                       |              |           |            |              |
| Proceeds of long-term debt  | -                    | -                | -                     | -            | -         | -          | -            |
| Sale of capital assets  | -                    | -                | -                     | -            | -         | -          | -            |
| Total other financing sources (uses)  | -                    | -                | -                     | -            | -         | -          | -            |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | (137,336)            | -                | (108,250)             | 2,526,195    | -         | (1,093)    | (11,103)     |
| Cash and investments - ending   | \$ 29,188            | \$ (123)         | \$ 193,808            | \$ 2,526,195 | \$ -      | \$ (3,303) | \$ (479)     |

GARY COMMUNITY SCHOOL CORPORATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2014  
 (Continued)

|   | Union Dues | Withholdings<br>(Misc Deductions) | Credit Union | Provident Life<br>Insurance | Short-Term<br>Disability | Retirees Life<br>Insurance | Totals       |
|---|------------|-----------------------------------|--------------|-----------------------------|--------------------------|----------------------------|--------------|
| Cash and investments - beginning  | \$ 20,891  | \$ 71                             | \$ (585)     | \$ 289                      | \$ 42                    | \$ (734)                   | \$ 4,278,326 |
| Receipts:   |            |                                   |              |                             |                          |                            |              |
| Local sources   | -          | -                                 | -            | -                           | -                        | -                          | 17,018,052   |
| Intermediate sources  | -          | -                                 | -            | -                           | -                        | -                          | 492,701      |
| State sources   | -          | -                                 | -            | -                           | -                        | -                          | 64,256,734   |
| Federal sources   | -          | -                                 | -            | -                           | -                        | -                          | 20,245,548   |
| Other   | 774,280    | 12,189                            | 2,345,229    | 150,925                     | 275,095                  | 352,421                    | 24,066,901   |
| Total receipts  | 774,280    | 12,189                            | 2,345,229    | 150,925                     | 275,095                  | 352,421                    | 126,079,936  |
| Disbursements:  |            |                                   |              |                             |                          |                            |              |
| Current:  |            |                                   |              |                             |                          |                            |              |
| Instruction   | -          | -                                 | -            | -                           | -                        | -                          | 56,125,165   |
| Support services  | -          | -                                 | -            | -                           | -                        | -                          | 37,140,834   |
| Noninstructional services   | -          | -                                 | -            | -                           | -                        | -                          | 2,846,540    |
| Facilities acquisition and construction   | -          | -                                 | -            | -                           | -                        | -                          | 2,168,356    |
| Debt services   | -          | -                                 | -            | -                           | -                        | -                          | 9,656,530    |
| Nonprogrammed charges   | 776,975    | 12,189                            | 2,345,229    | 150,866                     | 274,987                  | 378,086                    | 20,821,220   |
| Total disbursements   | 776,975    | 12,189                            | 2,345,229    | 150,866                     | 274,987                  | 378,086                    | 128,758,645  |
| Excess (deficiency) of receipts over disbursements  | (2,695)    | -                                 | -            | 59                          | 108                      | (25,665)                   | (2,678,709)  |
| Other financing sources (uses):   |            |                                   |              |                             |                          |                            |              |
| Proceeds of long-term debt  | -          | -                                 | -            | -                           | -                        | -                          | 33           |
| Sale of capital assets  | -          | -                                 | -            | -                           | -                        | -                          | 74,099       |
| Total other financing sources (uses)  | -          | -                                 | -            | -                           | -                        | -                          | 74,132       |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | (2,695)    | -                                 | -            | 59                          | 108                      | (25,665)                   | (2,604,577)  |
| Cash and investments - ending   | \$ 18,196  | \$ 71                             | \$ (585)     | \$ 348                      | \$ 150                   | \$ (26,399)                | \$ 1,673,749 |

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE GARY COMMUNITY SCHOOL CORPORATION, LAKE COUNTY, INDIANA

***Report on Compliance for Each Major Federal Program***

We have audited the Gary Community School Corporation's (School Corporation) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the period of July 1, 2012 to June 30, 2014. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School Corporation's compliance.

***Basis for Disclaimer Opinion on Special Education Cluster***

As described in items 2014-005 and 2014-006 in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient documentation supporting the School Corporation's compliance with Special Education Cluster requirements regarding Allowable Costs/Cost Principles, Cash Management, Period of Availability, and Reporting, nor were we able to satisfy ourselves as to the School Corporation's compliance with those requirements by other auditing procedures.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
(Continued)

***Basis for Adverse Opinion on Title I Grants to Local Educational Agencies***

As described in items 2014-004, 2014-006, 2014-007, 2014-008, 2014-009, and 2014-010 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Equipment, Period of Availability, Reporting, and Special Tests and Provisions that are applicable to its Title I Grants to Local Educational Agencies. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

***Basis for Adverse Opinion on School Improvement Grants Cluster***

As described in items 2014-004, 2014-006, 2014-007, and 2014-008 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Equipment, Period of Availability, and Reporting that are applicable to its School Improvement Grants Cluster. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

***Basis for Adverse Opinion on Improving Teacher Quality State Grants***

As described in items 2014-004, 2014-006, and 2014-008 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Activities Allowed or Unallowed, Allowable Costs and Cost Principles, Cash Management, Period of Availability, and Reporting that are applicable to its Improving Teacher Quality State Grants. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

***Disclaimer of Opinion on Special Education Cluster***

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion on Special Education Cluster* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the School Corporation's compliance with the types of compliance requirements referred to above that could have a direct and material effect on the Special Education Cluster for the period of July 1, 2012 to June 30, 2014.

***Adverse Opinion on Title I Grants to Local Educational Agencies***

In our opinion, because of the significance of the noncompliance described in the *Basis for Adverse Opinion on Title I Grants to Local Educational Agencies* paragraph, the School Corporation did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on Title I Grants to Local Educational Agencies for the period of July 1, 2012 to June 30, 2014.

***Adverse Opinion on School Improvement Grants Cluster***

In our opinion, because of the significance of the noncompliance described in the *Basis for Adverse Opinion on School Improvements Grants Cluster* paragraph, the School Corporation did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on School Improvement Grants Cluster for the period of July 1, 2012 to June 30, 2014.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
(Continued)

***Adverse Opinion on Improving Teacher Quality State Grants***

In our opinion, because of the significance of the noncompliance described in the *Basis for Adverse Opinion on Improving Teacher Quality State Grants* paragraph, the School Corporation did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on Improving Teacher Quality State Grants for the period of July 1, 2012 to June 30, 2014.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-015 and 2014-016. Our opinion on each major federal program is not modified with respect to these matters.

The School Corporation's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Report on Internal Control Over Compliance***

Management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

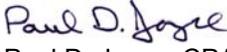
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-004, 2014-005, 2014-006, 2014-007, 2014-008, 2014-009, 2014-010, 2014-011, 2014-012, 2014-013, 2014-014, 2014-015, and 2014-016 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
(Continued)

The School Corporation's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

July 2, 2015

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## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the School Corporation. The schedule and notes are presented as intended by the School Corporation.

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GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Years Ended June 30, 2013 and 2014

| Federal Grantor Agency/Pass-Through Entity<br>Cluster Title/Program Title/Project Title | Federal<br>CFDA<br>Number | Pass-Through<br>Entity (or Other)<br>Identifying<br>Number | Total<br>Federal Awards<br>Expended<br>06-30-13 | Total<br>Federal Awards<br>Expended<br>06-30-14 |
|---|---------------------------|--|---|---|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u>   |                           |  |   |   |
| Pass-Through Indiana Department of Education  |                           |  |   |   |
| Child Nutrition Cluster   |                           |  |   |   |
| School Breakfast Program  | 10.553                    | FY 2013 and 2014   | \$ 1,321,585                                    | \$ 1,414,546                                    |
| National School Lunch Program   | 10.555                    | FY 2013 and 2014   | 2,791,745                                       | 3,186,754                                       |
| Summer Food Service Program for Children  | 10.559                    | FY 2014  | -   | 27,525  |
| Total for cluster   |                           |  | <u>4,113,330</u>                                | <u>4,628,825</u>                                |
| Child and Adult Care Food Program   | 10.558                    | FY 2013 and 2014   | 89,805  | 10,467  |
| Total for federal grantor agency  |                           |  | <u>4,203,135</u>                                | <u>4,639,292</u>                                |
| <u>U.S. DEPARTMENT OF DEFENSE</u>   |                           |  |   |   |
| Direct Grant  |                           |  |   |   |
| Army Junior Reserve Officers' Training Corps (JROTC)                                    | 12.Unknown                | FY 2013  | 151,523   | -   |
| <u>U.S. DEPARTMENT OF LABOR</u>   |                           |  |   |   |
| Pass-Through Indiana Department of Workforce Development                                |                           |  |   |   |
| WIA Cluster   |                           |  |   |   |
| WIA Adult Program   | 17.258                    | FY 2013  | 569   | -   |
| <u>U.S. DEPARTMENT OF EDUCATION</u>   |                           |  |   |   |
| Direct Grant  |                           |  |   |   |
| Impact Aid Cluster  |                           |  |   |   |
| Impact Aid  | 84.041                    | FY 2013 and 2014   | 3,412   | 13,951  |
| Pass-Through Indiana Department of Education  |                           |  |   |   |
| Title I, Part A Cluster   |                           |  |   |   |
| Title I Grants to Local Educational Agencies  | 84.010                    |  |   |   |
|   |                           | 12-4690  | 2,501,573                                       | -   |
|   |                           | 13-4690  | 4,826,900                                       | 3,280,199                                       |
|   |                           | 14-4690  | -   | 4,279,846                                       |
| School Improvement  |                           | 12-4690  | 157,014   | -   |
|   |                           | 13-4690  | 8,330   | 14,005  |
|   |                           | 14-4690  | -   | 180,495   |
| Total for cluster   |                           |  | <u>7,493,817</u>                                | <u>7,754,545</u>                                |
| Pass-Through Indiana Department of Education  |                           |  |   |   |
| Special Education Cluster   |                           |  |   |   |
| Special Education - Grants to States  | 84.027                    |  |   |   |
|   |                           | A58-3-13DL-0073  | 38,900  | -   |
|   |                           | 14212-019-PN01   | 884,989   | 212,605   |
|   |                           | 14213-019-PN01   | 411,282   | 1,151,812                                       |
| Total for program   |                           |  | <u>1,335,171</u>                                | <u>1,364,417</u>                                |

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Years Ended June 30, 2013 and 2014  
(Continued)

| Federal Grantor Agency/Pass-Through Entity<br>Cluster Title/Program Title/Project Title | Federal<br>CFDA<br>Number | Pass-Through<br>Entity (or Other)<br>Identifying<br>Number | Total<br>Federal Awards<br>Expended<br>06-30-13 | Total<br>Federal Awards<br>Expended<br>06-30-14 |
|---|---------------------------|--|---|---|
| <u>U.S. DEPARTMENT OF EDUCATION (continued)</u>   |                           |  |   |   |
| Pass-Through Indiana Department of Education (continued)                                |                           |  |   |   |
| Special Education Cluster (continued)   |                           |  |   |   |
| Special Education - Preschool Grants  | 84.173                    |  |   |   |
|   |                           | 45712-019-PN01   | 43,044  | 14,615  |
|   |                           | 45713-019-PN01   | <u>130,675</u>                                  | <u>4,750</u>                                    |
| Total for program   |                           |  | <u>173,719</u>                                  | <u>19,365</u>                                   |
| Total for cluster   |                           |  | <u>1,508,890</u>                                | <u>1,383,782</u>                                |
| Pass-Through Indiana Department of Education  |                           |  |   |   |
| School Improvement Grants Cluster   |                           |  |   |   |
| School Improvement Grants   | 84.377                    | 12-4690  | 697,170   | -   |
|   |                           | 14-4690  | <u>-</u>  | <u>2,377,510</u>                                |
| Total for program   |                           |  | <u>697,170</u>                                  | <u>2,377,510</u>                                |
| ARRA School Improvement Grants, Recovery Act  | 84.388                    | 13-4690  | <u>3,579,130</u>                                | <u>2,015,618</u>                                |
| Total for cluster   |                           |  | <u>4,276,300</u>                                | <u>4,393,128</u>                                |
| Pass-Through Indiana Department of Workforce Development                                |                           |  |   |   |
| Adult Education - Basic Grants to States  |                           |  |   |   |
|   | 84.002                    |  |   |   |
|   |                           | CWI-AE-01-PY11   | 13,833  | -   |
|   |                           | CWI-AE-01-PY12   | <u>67,021</u>                                   | <u>48,899</u>                                   |
| Total for program   |                           |  | <u>80,854</u>                                   | <u>48,899</u>                                   |
| Pass-Through Indiana Department of Education  |                           |  |   |   |
| Career and Technical Education - Basic Grants to States                                 |                           |  |   |   |
|   | 84.048                    |  |   |   |
|   |                           | 12-4700-4690   | 387,128   | -   |
|   |                           | 13-4700-4690   | <u>-</u>  | <u>153,263</u>                                  |
|   |                           | 14-4700-4690   | <u>-</u>  | <u>311,260</u>                                  |
| Total for program   |                           |  | <u>387,128</u>                                  | <u>464,523</u>                                  |
| Pass-Through Indiana Department of Education  |                           |  |   |   |
| Education for Homeless Children and Youth   |                           |  |   |   |
|   | 84.196                    |  |   |   |
|   |                           | A58-3-13SS-1017  | <u>-</u>  | <u>58,721</u>                                   |
| Pass-Through Indiana Department of Education  |                           |  |   |   |
| Improving Teacher Quality State Grants  |                           |  |   |   |
|   | 84.367                    |  |   |   |
|   |                           | 10-4690  | 285,169   | -   |
|   |                           | 11-4690  | 613,466   | 525,671   |
|   |                           | 12-4690  | <u>-</u>  | <u>564,703</u>                                  |
|   |                           | 13-4690  | <u>-</u>  | <u>409,081</u>                                  |
| Total for program   |                           |  | <u>898,635</u>                                  | <u>1,499,455</u>                                |

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

GARY COMMUNITY SCHOOL CORPORATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Years Ended June 30, 2013 and 2014  
 (Continued)

| Federal Grantor Agency/Pass-Through Entity<br>Cluster Title/Program Title/Project Title                          | Federal<br>CFDA<br>Number | Pass-Through<br>Entity (or Other)<br>Identifying<br>Number | Total<br>Federal Awards<br>Expended<br>06-30-13 | Total<br>Federal Awards<br>Expended<br>06-30-14 |
|--|---------------------------|--|---|---|
| <u>U.S. DEPARTMENT OF EDUCATION (continued)</u>  |                           |  |   |   |
| Pass-Through Indiana Department of Education<br>Education Jobs Fund  | 84.410                    | S410A100015  | 67,137  | -   |
| Total for federal grantor agency   |                           |  | <u>14,716,173</u>                               | <u>15,617,004</u>                               |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>  |                           |  |   |   |
| Pass-Through Indiana Family and Social Services Administration<br>Medicaid Cluster<br>Medical Assistance Program | 93.778                    | FY 2013 and 2014   | 279,500   | 172,777   |
| Total federal awards expended  |                           |  | <u>\$ 19,350,900</u>                            | <u>\$ 20,429,073</u>                            |

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

GARY COMMUNITY SCHOOL CORPORATION  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the School Corporation and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1-25), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

**Note 2. Noncash Assistance**

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2013 and 2014. This noncash assistance is also included in the federal expenditures presented in the schedule.

| Program Title                 | Federal<br>CFDA<br>Number | 2013       | 2014       |
|-------------------------------|---------------------------|------------|------------|
| National School Lunch Program | 10.555                    | \$ 281,591 | \$ 293,987 |

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I - Summary of Auditor's Results**

Financial Statement:

|  |               |
|--|---------------|
| Type of auditor's report issued:                     | Disclaimer    |
| Internal control over financial reporting:           |               |
| Material weaknesses identified?                      | yes           |
| Significant deficiencies identified?                 | none reported |
| Noncompliance material to financial statement noted? | yes           |

Federal Awards:

|  |   |
|--|---|
| Internal control over major programs:  |   |
| Material weaknesses identified?  | yes   |
| Significant deficiencies identified?   | none reported   |
| Type of auditor's report issued on compliance for major programs:  | Adverse for all programs except for Special Education Cluster, which was Disclaimed |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | yes   |

Identification of Major Programs:

| CFDA<br>Number | Name of Federal Program or Cluster  |
|----------------|---|
| 84.367         | Title I, Part A Cluster<br>Special Education Cluster<br>School Improvement Grants Cluster<br>Improving Teacher Quality State Grants |

Dollar threshold used to distinguish between Type A and Type B programs: \$1,193,399

|  |    |
|--|----|
| Auditee qualified as low-risk auditee? | no |
|--|----|

**Section II - Financial Statement Findings**

**FINDING 2014-001 - CASH AND INVESTMENT BALANCES AND REPORTING**

The School Corporation has deficiencies in the internal control system related to financial transactions and reporting. Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the School Corporation's audited financial statement and then determining how those identified risks should be managed. The School Corporation has not identified risks to the preparation of a reliable financial statement and, as a result, has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements.

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

1. Segregation of Duties: Control activities should be selected and developed at various levels to reduce risks of error and/or fraud of the financial statement. The School Corporation has not separated incompatible activities related to all areas of the financial statement. The failure to establish these controls could enable material misstatements to remain undetected.
2. Monitoring of Controls: An evaluation of the School Corporation's system of internal control has not been conducted. The failure to monitor the internal control system places the School Corporation at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the School Corporation has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the School Corporation to monitor and assess the quality of the system of internal control.
3. Risk Assessment of Controls: This is the identification and analysis by management of relevant risks to achieving predetermined objectives. The School Corporation faces risks from external and internal sources that must be assessed. Failure to perform risk assessment does not provide management a basis for how the risks should be managed.

The failure to establish adequate internal controls could enable material misstatements or irregularities to remain undetected. Controls should be in place to reduce the risks of errors in financial reporting.

*Bank Account Reconciliations*

The School Corporation is responsible for ensuring that their accounting record balances (ledgers) are reconciled with the bank depository balances at least monthly. Controls have not been developed to ensure that the reconciliations were completed or that they were accurate when completed.

Reconciliations of the fund balances to the Operating and Payroll bank account balances were not presented for audit for 12 and 23 months of our audit period, respectively. The School Corporation operating bank account had not been reconciled since June 2013. The payroll bank accounts have not been reconciled since July 2012. As of July 2, 2015, the status of the reconciliations remained unchanged.

Depository reconciliations of the ledger fund balances to the bank account balances were provided for the operating bank account prior to July 2013. The reconciliation as of June 30, 2013, contained the following identified errors and did not balance:

1. The amount used as outstanding checks in the reconciliation was greater than the outstanding check detail by \$127,001.
2. The amount of Electronic Funds Transfers (EFT) used in the reconciliation was greater than the amount clearing the bank in the following month by \$1,000.
3. The reconciliation did not address the January 2013 payment of principal and interest of \$323,351 for the 2009 General Obligation Bonds which cleared the bank but was not recorded in the financial accounting system.

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

An outstanding checklist for the payroll bank account had not been prepared because the account had not been reconciled. We obtained an outstanding checklist generated from the financial accounting system for the periods ended June 30, 2013, and June 30, 2014. Checks which had cleared the bank after July 2012 were not removed from the list, which materially overstated the outstanding check amount.

The outstanding checklist for the operating bank account, generated from the financial accounting system, included EFT's as outstanding since October 2013 which had actually cleared the bank. This also materially overstated the outstanding check amount.

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."

*Reporting*

One individual is responsible for preparing the Form 9 financial reports required to be submitted to the Indiana Department of Education every six months. These reports are the basis for the financial statement. This same individual is extensively involved with the disbursement process. Although a required certification for this report is signed by the Superintendent of Schools, President of the School Board, and Fiscal Officer, the report is not compared to supporting documentation or subjected to review before submission.

Due to the lack of controls, an error involving the reporting of federal taxes as paid when they had not been initially appeared in the financial statement. This initially overstated disbursements and understated cash and investment balances in the financial statement. The School Corporation provided documentation for an adjustment of \$5,670,549, which was made to the financial statement.

*Impact on Independent Auditor's Report*

Due to the School Corporation's failure to reconcile the ledgers to the bank balances and their failure to provide adequate accounting records which would permit the application of other auditing procedures, we were unable to ascertain if the cash and investment balances were fairly stated. This impacted the Independent Auditor's Report, which resulted in a disclaimer of opinion on the financial statement.

Each member of the school board in accepting the responsibility of administering the financial affairs of a public school system must recognize not only his responsibilities toward the educational needs of the student population of the unit but also the board's relationship with and responsibilities toward the taxpayers of the local unit and of the State. Among other items, faithful performance of duty requires adequate budgeting, accurate accounting and informative reporting of all financial transactions and the establishment of sound business practices for effective and efficient operation of all schools. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

***FINDING 2014-002 - RECEIPTS AND DISBURSEMENTS TRANSACTIONS AND REPORTING***

We noted several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting that we believe constitute material weaknesses. Control activities should be selected and developed at various levels to reduce risks to the achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related to receipts and disbursements. The failure to establish these controls enabled material misstatements and irregularities to remain undetected.

*Receipts*

One individual is primarily responsible for issuing and recording receipts, preparing the deposits, and taking the deposit to the bank without a proper system of oversight or review in place.

*Disbursements*

We noted deficiencies in the internal control system of the School Corporation related to vendor payments and payroll processing. Controls have not been established which would allow management and those charged with governance to detect and prevent errors or omissions of vendor and payroll disbursements. Effective controls include establishing policies and procedures for ensuring federal, state, and local laws and regulations are adhered to by management and staff.

Financial records presented for audit were incomplete and not reflective of the activity of the School Corporation funds. The records presented did not provide sufficient information to audit or establish the accuracy or correctness of the transactions. Some of the deficiencies include:

1. The School Corporation recorded disbursements for FICA, Medicare, and Federal Income Taxes that were not actually disbursed which overstated disbursements and understated the cash and investment balances. This required a net adjusting entry of \$5,670,549 to be recorded in the financial statement by the School Corporation.
2. Transactions were recorded as "negative" receipts and disbursements. Causes include:
  - a. Checks were voided after the end of a 6 month reporting period. These should have been receipted back into the fund instead of voided which created negative disbursements.
  - b. Journal entries were made after the end of a 6 month reporting period. These were made to correct disbursements initially recorded in the wrong fund.
  - c. Checks were issued to various vendors but were held and not remitted, or not remitted in a timely fashion. This occurred more frequently during the 2012-2013 school year. Disbursements were recorded in the financial accounting system which had not actually been disbursed or were not disbursed until a subsequent reporting period.
3. Errors were made in accounting for the Debt Service Fund:
  - a. A disbursement of \$447,083 was made by check in January 2014 for interest on the 2013 capital lease. The payment was verified to the January 2014 bank statement as cleared. Payment was made based upon a bill received by the School Corporation; however, this amount should have been paid from the capitalized interest portion of bond proceeds held by the trustee.

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- b. The January 2013 payment of \$323,351 in principal and interest for the 2009 General Obligation Bonds cleared the bank but was not recorded in the financial accounting system.
- c. The amortization schedule for the 2010 capital lease required two interest only payments to be made in 2013. The amount of interest for each payment would have been \$348,000, before applying a reduction due to the debt being a Recovery Zone debt. According to a review of the accounting records, both by fund and vendor, these payments were not made and documentation that these payments were not required was not provided.
- 4. Time records such as timesheets and sign in registers were kept at the building level, not in a centralized location. Due to the closure of buildings, changes in staffing and other factors, certain time records requested could not be located and were not provided for audit.
- 5. We were unable to determine if some employees were paid the correct rate of pay. A board approved salary schedule or a current collective bargaining agreement was not provided for audit.
- 6. A process was not established to ensure a review of the bi-weekly payroll claim before payment.

*Impact on Independent Auditor's Report*

Due to the lack of supporting documentation for time worked and approved pay rates, we were unable to apply other auditing procedures to ascertain if disbursements for payroll were fairly stated. This impacted the Independent Auditor's Report, which resulted in a disclaimer of opinion on the financial statement.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Each member of the school board in accepting the responsibility of administering the financial affairs of a public school system must recognize not only his responsibilities toward the educational needs of the student population of the unit but also the board's relationship with and responsibilities toward the taxpayers of the local unit and of the State. Among other items, faithful performance of duty requires adequate budgeting, accurate accounting and informative reporting of all financial transactions and the establishment of sound business practices for effective and efficient operation of all schools. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

***FINDING 2014-003 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). One Individual was responsible for compiling the information for the SEFA. However, that individual does not work with all of the grants received by the School Corporation and, therefore, did not provide grant information regarding some programs.

The School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA remain undetected.

During the audit of the SEFA, we noted the inclusion of state matching funds or state grants in addition to the following errors:

1. The following programs were omitted from the SEFA presented for audit for the federal awards expended for the year ended June 30, 2013 and 2014, respectively:
  - a. Child Nutrition Cluster expenditures of \$4,113,330 and \$4,628,825.
  - b. Child and Adult Care Food Program expenditures of \$89,805 and \$10,467.
  - c. Army Junior Reserve Officers' Training Corps (JROTC) FY 2013 expenditures of \$151,523.
  - d. Impact Aid Cluster expenditures of \$3,412 and \$13,951.
  - e. Education for Homeless Children and Youth FY 2014 expenditures of \$58,721.
  - f. Medicaid Cluster expenditures of \$279,500 and \$172,777.
2. The following program expenditures were omitted from the SEFA presented for audit. These expenditures were for grants awarded prior to the audit period which had continued activity for the year ended June 30, 2013.
  - a. Title I Grants to Local Educational Agencies 12-4690 - \$2,775,210.
  - b. Special Education - Grants to States - \$38,900.
  - c. Career and Technical Education - Basic Grants to States - \$387,128.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Audit adjustments were proposed, approved, and made to the SEFA presented in this report.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (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."

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

***Section III - Federal Award Findings and Questioned Costs***

***FINDING 2014-004 - ALLOWABLE COSTS/COST PRINCIPLES***

Federal Agency: U.S. Department of Education

Federal Programs: Title I Grants to Local Educational Agencies; School Improvement Grants;  
ARRA School Improvement Grants, Recovery Act; Improving Teacher  
Quality State Grants

CFDA Numbers: 84.010; 84.377; 84.388; 84.367

Federal Award Numbers: 12-4690; 13-4690; 14-4690; 10-4690; 11-4690

Pass-Through Entity: Indiana Department of Education

*Internal Controls*

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Allowable Costs/Cost Principles compliance requirements. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements.

The School Corporation did not have controls in place to ensure that adequate supporting documentation was maintained to support all individuals being paid from federal programs, or to ensure these employees completed time and effort logs or semiannual certifications as applicable.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

*Noncompliance*

Employees completed "Supplemental Pay Sheets" that included the number of hours worked and a description of the activity for a federal program. In some cases, supplemental pay sheets for the Title I Grants to Local Educational Agencies (Title I) were completed and signed in advance; some were prepared for periods of up to six months. Employees fill out a timesheet at the building level and their time is entered by payroll staff. Timesheets were not provided for some pay periods audited. Supplemental pay sheets also did not always show the total activity of each person. We were unable to determine if the supplemental pay sheets tested represented the employee's entire activity for the pay period.

In addition, Semiannual Certifications for individuals who work solely for one federal program and Time and Effort Logs for individuals who work on multiple programs were not always prepared or maintained.

Supporting documentation of time records, supplemental pay agreements, time and effort logs, or semiannual certifications were not provided for some employees that were paid from Title I, School Improvement Grants, ARRA School Improvement Grants, Recovery Act, and Improving Teacher Quality State Grants. Due to the lack of documentation for these costs, we were unable to determine if the related activities were allowable activities and allowable costs. Undocumented payroll expenditures from each of the federal programs are considered questioned costs, as follows:

GARY COMMUNITY SCHOOL CORPORATION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 (Continued)

| Major Program                                | CFDA #        | Amount     |
|--|---------------|------------|
| Title I Grants to Local Educational Agencies | 84.010        | \$ 183,423 |
| School Improvement Grants Cluster            | 84.377/84.388 | 81,745     |
| Improving Teacher Quality State Grants       | 84.367        | 36,637     |

OMB Circular A-87, Attachment B, Part 8. Compensation for personal services states in part:

"a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Circular, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and
- (3) Is determined and supported as provided in subsection h. . . .

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.
- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. 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, . . .

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (5) Personnel activity reports or equivalent documentation must meet the following standards:
- (a) They must reflect an after the fact distribution of the actual activity of each employee,
  - (b) They must account for the total activity for which each employee is compensated,
  - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
  - (d) They must be signed by the employee.
  - (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
    - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
    - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
    - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls enabled material noncompliance to go undetected. The failure to materially comply with the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Allowable Costs/Cost Principles requirements of the programs.

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

***FINDING 2014-005 - ALLOWABLE COSTS/COST PRINCIPLES,  
CASH MANAGEMENT, PERIOD OF AVAILABILITY, REPORTING***

Federal Agency: U.S. Department of Education

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

CFDA Numbers: 84.027, 84.173

Federal Award Numbers: A58-3-13DL-0073, 14212-019-PN01,  
14213-019-PN01, 45712-019-PN01,  
45713-019-PN01

Pass-Through Entity: Indiana Department of Education

*Internal Controls*

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Allowable Costs/Cost Principles, Cash Management, Period of Availability, and Reporting. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements.

*Allowable Costs/Cost Principles, Cash Management, and Reporting*

The School Corporation has not designed or implemented adequate policies or procedures to ensure:

1. Compliance with the program requirements that only allowable costs of the program are charged to the program and properly recorded in the federal grant fund.
2. Required periodic certifications are prepared for all personnel paid with federal funding.
3. An effective oversight or review process over the indirect cost computation for amounts included on grant reimbursement requests.
4. Proper written documentation is retained to support grant expenditures.

The School Corporation records special education disbursements in its Special Education grant funds, whether or not those disbursements are related to the grants.

*Period of Availability*

The School Corporation has not designed or implemented adequate policies or procedures to ensure that all obligations for expenditures made from program funds were incurred during the period of availability.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Noncompliance*

The School Corporation received Special Education - Grants to States (Special Education), and Special Education - Preschool Grants (Preschool) funding. The activity of each grant should be reported in a manner that allows the federal grant activity to be separately identified. The School Corporation comingled special education grant and non-grant disbursements in the grant funds.

The Special Education Director (Director) and the Business Office each had a copy of the various grant agreements which specified how the funds were to be used and the time frame for spending or obligating the funds. An approved budget was included as part of each grant agreement. Payroll claims and accounts payable vouchers or claims were used for grant disbursements, and were to be signed or initialed by the Director. Evidence of the determination that the expenditure occurred within the grant period and the cost was allowable was the Director's signature or initials. The Business Office, which processes both payroll claims and accounts payable claims for payment, did not have a system in place to ensure that only the claims signed or initialed by the Director were paid from the funds established to account for the grants. Many payroll claims and related benefits paid which were recorded in the grant funds were not included in the approved grant budgets.

The comingling of the special education grant and non-grant disbursements in the grant funds affected the School Corporation's ability to file accurate reimbursement requests and other reports. Documentation was not available that detailed which payroll and related disbursements from the funds were included in each of the reimbursement requests.

Reimbursement requests for the special education grants were submitted for disbursements totaling \$2,892,672, of which \$2,566,384 was for payroll and related benefits. For the same time period, the special education funds reported \$6,019,530 in payroll and related benefits disbursements. Since the grant and non-grant disbursements were comingled in the grant funds and no detail was available to support the requested reimbursements, the entire \$2,566,384 for payroll and related benefits are considered questioned costs. The questioned costs consist of \$2,375,343 for Special Education and \$191,040 for Preschool funding.

When employees are paid entirely from a grant, the grantee is required to obtain signed semiannual certifications from the grant personnel. The School Corporation did not complete the required semiannual certifications for the personnel paid with special education grant funds.

School Corporation officials did not retain written documentation to support the computation of the indirect cost amounts included on the special education grant reimbursement requests totaling \$41,868, composed of \$39,824 for award 14212-019-PN01 and \$2,044 for award 45712-019-PN01. Although indirect costs were included in the grant budgets, federal cost principles require written documentation to support the amounts in order for them to be considered allowable costs of the program. Therefore, the total indirect cost amount of \$41,868 is considered questioned costs.

Due to the comingled disbursements, we could not determine if all the obligations for expenditures made from program funds were incurred during the period of availability.

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

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

34 CFR 76.730 states:

"A State and a subgrantee shall keep records that fully show:

- (a) the amount of funds under the grant or subgrant;
- (b) How the State or subgrantee uses the funds;
- (c) The total cost of the project;
- (d) The share of that cost provided from other sources; and
- (e) Other records to facilitate an effective audit."

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

OMB Circular A-87, Attachment A, Part C. Basic Guidelines 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.
- c. Be authorized or not prohibited under State or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- i. Be the net of all applicable credits.
- j. Be adequately documented . . .

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

3. Allocable costs.

a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

OMB Circular A-87, Attachment B, paragraph 8.h. states in part:

"(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee."

34 CFR 80.23 states:

"(a) *General.* Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

(b) *Liquidation of obligations.* A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls enabled material noncompliance to go undetected. The failure to materially comply with the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Allowable Costs/Cost Principles, Cash Management, Period of Availability, and Reporting requirements of the programs.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

***FINDING 2014-006 - CASH MANAGEMENT AND REPORTING***

Federal Agency: U.S. Department of Education

Federal Programs: Title I Grants to Local Educational Agencies; Special Education - Grants to States;  
Special Education - Preschool Grants; School Improvement Grants;  
ARRA School Improvement Grants, Recovery Act;  
Improving Teacher Quality State Grants

CFDA Numbers: 84.010; 84.027; 84.173; 84.377; 84.388; 84.367

Federal Award Numbers: 12-4690; 13-4690; 14-4690; A58-3-13DL-0073;  
14212-019-PN01; 14213-019-PN01; 45712-019-PN01;  
45713-019-PN01; 10-4690; 11-4690

Pass-Through Entity: Indiana Department of Education

*Internal Controls*

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Cash Management and Reporting compliance requirements.

The School Corporation has designated one individual to prepare and submit the reimbursement requests and the final expenditure reports. This same individual also computes the indirect cost amounts claimed for reimbursement. An oversight, review, or approval process has not been established.

The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

*Noncompliance*

1. During the 2012-2013 school year, until May 2013, requests for reimbursement were prepared from accrual based information from the accounting system. Accrual based disbursements were obligated or incurred but not actually paid. The Indiana Department of Education (IDOE) required the requests to be submitted on the cash basis; when the disbursement is actually made. The accrual method of requesting reimbursement resulted in the School Corporation receiving reimbursements before disbursements occurred.

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 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 (Continued)

Additionally, the School Corporation held checks prepared but not released during the 2012-2013 school year due to its financial condition. The School Corporation also paid payroll before paying vendors and certain payroll benefits (including taxes) due to its overall cash position. These benefits and taxes were included in the amounts submitted for reimbursement. Due to effect of these two issues, the School Corporation received reimbursements in excess of actual disbursements.

The School Corporation had to reimburse the IDOE for unexpended grant funds due to the receipt of reimbursements for funds not actually disbursed. On February 18, 2014, the School Corporation returned \$175,124 and \$59,982 for unexpended Title I and School Improvement Grants, respectively, from the 2012-2013 school year.

2. When requests for reimbursement were prepared, a cumulative financial report was generated at the summary level by fund, account and object. The amounts previously requested were subtracted from the current cumulative amounts and the difference was the amount of reimbursement requested. In some cases, the cumulative report was generated several days before the end of the time period covered by the report. No detailed report of the actual disbursements was generated and retained for audit.

When we generated financial reports for the same time periods covered by the requests for reimbursement, over 80 percent of the reports tested did not agree with the supporting reports for the requests. We were able to identify some minor differences that were due to timing; the original report was generated before some disbursements were recorded in the financial accounting system. However, without an original detailed report from the time the reimbursement was requested, we could not readily identify the causes for most of the differences or easily trace actual disbursements to the requests for reimbursement.

3. The employer share of Social Security and Medicare taxes are recorded as a disbursement to the various funds when payroll is processed. Due to the financial condition of the School Corporation, a portion of these taxes were not paid in 2013. Between September and December 2013, only one remittance of taxes occurred in November 2013. This resulted in the overstatement of disbursements and understatement of cash and investment balances. The School Corporation recorded an adjusting entry after the close of the audit period and approved an adjustment to the financial statement to correct this. The net effect of the adjustment increased cash and investments balances of the impacted funds.

Since the tax amounts recorded as disbursements were the basis for the amounts submitted for reimbursement, the School Corporation received reimbursement for disbursements which did not occur. Therefore, the disbursements for the requests for reimbursement and the final expenditure reports submitted for grant fiscal years 2013 and 2014 were overstated. Additionally, due to the overstatement of disbursements, the base for the indirect costs calculation was overstated. The following schedule is the amount received by the School Corporation for overstated indirect costs, which are considered questioned costs.

| Major Program                                | CFDA # | Overstated<br>Indirect<br>Cost |
|--|--------|--------------------------------|
| Title I Grants to Local Educational Agencies | 84.010 | \$ 2,460                       |
| School Improvement Grants                    | 84.377 | 1,530                          |
| Improving Teacher Quality State Grants       | 84.367 | 238                            |

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The failure to disburse these taxes also resulted in cash on hand in various grant funds for which the period of availability had passed. The IDOE may require the School Corporation to return any unspent funds. The following schedule details the amount received by the School Corporation but not disbursed in 2013 for employer taxes, which are considered question costs:

| School Corporation Fund No. | Federal Program                              | Grant Period         | Reimbursement Received, Not Disbursed |
|-----------------------------|--|----------------------|---------------------------------------|
| 404-4                       | Title I Grants to Local Educational Agencies | 07-01-13 to 09-30-14 | \$ 340                                |
| 414-3                       | Title I Grants to Local Educational Agencies | 07-01-12 to 09-30-13 | 18,283                                |
| 414-4                       | Title I Grants to Local Educational Agencies | 07-01-13 to 09-30-14 | <u>52,280</u>                         |
|                             | Total for CFDA 84.010                        |                      | <u>\$ 70,903</u>                      |
| 454-3                       | ARRA School Improvement Grants, Recovery Act | 07-01-12 to 09-30-13 | \$ 14,947                             |
| 454-4                       | School Improvement Grants                    | 07-01-13 to 09-30-14 | <u>29,145</u>                         |
|                             | Total for Cluster                            |                      | <u>\$ 44,092</u>                      |
| 684-3                       | Improving Teacher Quality State Grants       | 07-01-12 to 09-30-13 | \$ 4,566                              |
| 684-4                       | Improving Teacher Quality State Grants       | 07-01-13 to 09-30-14 | <u>2,296</u>                          |
|                             | Total for CFDA 84.367                        |                      | <u>\$ 6,862</u>                       |

Special Education grants were not included in the above table. FICA and Medicare taxes recorded as disbursements between September and December 2013 but not remitted, totaled \$44,481 for the Special Education - Grants to States (Special Education) and \$3,193 for the Special Education - Preschool Grants (Preschool). The amount of taxes recorded for Preschool was not included in any reimbursement request submitted for the audit period. The reimbursement requests submitted for the Special Education grant during the audit period included the September through December 2013 time period. Both grant and non-grant disbursements were comingled within the grant funds; therefore, we could not determine how much of the \$44,481 in unpaid FICA and Medicare taxes were included in the requests for reimbursement, or how much, if any, would need to be returned to the Indiana Department of Education.

4. Final Expenditure Reports were not mathematically accurate, complete, or supported by the School Corporation's records on the required cash basis of accounting.
  - a. Special Education: Detailed reports of actual federal grant disbursements were not generated and retained to support the final expenditure reports. Detailed reports were necessary to identify which disbursements were funded by the grants since both grant and non-grant disbursements were comingled in the same funds.
  - b. Improving Teacher Quality State Grants: Disbursements of \$15,458 were included in the report for Project 10-4690 that were not actually disbursed as of the end of the year when the report was due. The \$15,458 should not have been included in the final expenditure report.

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

c. Title I Grants:

1. Disbursements of \$6,973 were included in the report for Title I Improvement 12-4690 that were not actually disbursed as of the end of the grant period which ended September 30, 2012. These amounts were recorded as open claims (obligations, not disbursements) as of December 3, 2012.
2. The Title I Basic 12-4690 report submitted on January 10, 2013 (due October 30, 2012) reported \$9,019,916 as disbursed. The summary supporting ledger provided for audit was created on April 25, 2013; three months after the report submission date. This ledger covered the time period from July 1, 2011 to April 24, 2013. The grant period ended September 30, 2012. A detailed disbursements ledger that agreed with the total reported could not be reproduced.
3. The Title I Improvement 13-4690 report and summary supporting ledger (generated for the period July 1, 2012 to October 15, 2013) agreed. However, the grant period ended September 30, 2013. A detailed disbursements ledger to support the amounts reported for the correct period was not retained for audit and could not be reproduced.

5. Special Reporting

School Corporations in Indiana are required to submit a School Form 9 report (Form 9) to the Indiana Department of Education (IDOE) every six months. The report provides cash and investment balances, receipts, and disbursements by fund, account and object for all funds except payroll clearing funds. The Form 9 information is used by the IDOE to prepare a State Per Pupil Expenditure (SPPE) report. Each year, the IDOE must submit its SPPE data to the National Center for Education Statistics which is then used to determine certain grant awards. The Form 9 information is also used by the IDOE to determine Maintenance of Effort (MOE) and adjust the grant awards accordingly, if not met for school corporations receiving Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants.

For the period July 1, 2013 to December 31, 2013, the Form 9 submitted by the School Corporation was inaccurate. Due to the financial condition of the School Corporation, the employer's share of FICA and Medicare for all but one pay period between September and December 2013 was not disbursed. The computerized accounting system was set to automatically record payroll taxes as paid when the payroll was recorded, due to the timing of the required tax payment. The individual preparing the Form 9 for 2013 did not know until April 2015 that the taxes, which had not been paid, had been recorded as paid. This resulted in an overstatement of disbursements totaling \$1,421,295 in the Form 9 submitted for that time period.

The inclusion of disbursement amounts not actually paid inflated the amounts reported by the IDOE for the SPPE report and for the MOE calculation used for subsequent school years.

The IDOE, in a memo dated July 29, 2011, informed school corporations that reimbursement requests are to be based on actual expenditures in accordance with 31 CFR 205.12(b)(5) which states: "Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out funds for Federal assistance program purposes."

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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

34 CFR 80.21(b) states in part: "Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee . . ."

34 CFR 80.20 Standards for financial management systems, 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 . . . "

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

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

We recommended that the School Corporation's management establish controls, including segregation of duties, to ensure compliance and comply with the Cash Management and Reporting requirements of the programs. We recommended that the School Corporation officials contact the IDOE regarding the reimbursements received for grant amounts not actually disbursed.

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

***FINDING 2014-007 - EQUIPMENT***

Federal Agency: U.S. Department of Education  
Federal Programs: Title I Grants to Local Educational Agencies; School Improvement Grants;  
ARRA School Improvement Grants, Recovery Act  
CFDA Numbers: 84.010; 84.377; 84.388  
Federal Award Numbers: 12-4690; 13-4690; 14-4690  
Pass-Through Entity: Indiana Department of Education

*Internal Controls*

Management of the School Corporation has not established an effective internal control system related to the grant agreement and the compliance requirements for Equipment. Controls have not been established by the School Corporation to ensure capital asset records, including building level records, are maintained in accordance with federal guidelines for equipment management.

The failure to establish effective internal controls allowed material noncompliance to go undetected. An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. An effective internal control system is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs.

*Noncompliance*

The School Corporation received Title I Grants to Local Educational Agencies (Title I) funds through the Indiana Department of Education (IDOE) to assist children from low-income families who are at risk of not meeting academic standards. The IDOE also provides federal School Improvement Grant (SIG) funds to turn around the academic achievement of students in the Nation's persistently lowest-achieving schools. The School Corporation expended \$2,950,623 and \$1,226,484 to purchase equipment from Title I and SIG Funds, respectively, during the audit period.

The School Corporation did not adequately safeguard or maintain proper records for equipment purchased with federal funds. All but one school, the Area Career Center, are Title I schools. The School Corporation did not provide corporation wide capital asset records. Records were provided by the individual school principals for all but one of the Title I schools.

Equipment from seven invoices tested for the equipment purchased, or 33 percent, could not be traced to individual building equipment inventory records. Issues with the records included:

1. Some equipment was not included in the records provided.
2. Some records provided were inadequate and did not contain sufficient identifying information to verify that the assets were purchased with federal funds. Adequate property records include a description of the asset, the cost of asset, a serial number or other identification number, location and date of purchase.

GARY COMMUNITY SCHOOL CORPORATION  
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(Continued)

One of the schools which had received equipment purchased with SIG funds was closed at the end of the 2013-2014 school year. Officials were unable to provide documentation or explain where the equipment purchased with federal funds was currently located. In addition, two Dell laptops and four Apple I Pads purchased with federal funds at the closed school were noted as stolen in the inventory records. We observed Police reports filed for other stolen equipment at the closed school and other School Corporation schools; however, no documentation was provided to indicate follow-up regarding the stolen equipment noted above.

In addition, documentation that physical inventories of equipment purchased with federal funds were performed at least every two years was not presented for audit.

34 CFR 80.32 states in part:

"(d) 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) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated . . ."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

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

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Equipment requirements of the programs.

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

***FINDING 2014-008 - PERIOD OF AVAILABILITY***

Federal Agency: U.S. Department of Education  
Federal Programs: Title I Grants to Local Educational Agencies; School Improvement Grants;  
ARRA School Improvement Grants, Recovery Act;  
Improving Teacher Quality State Grants  
CFDA Numbers: 84.010; 84.377; 84.388; 84.367  
Federal Award Numbers: 12-4690; 13-4690; 14-4690; 10-4690; 11-4690  
Pass-Through Entity: Indiana Department of Education

*Internal Controls*

Management of the School Corporation has not established an effective internal control system to ensure compliance with the Period of Availability compliance requirements. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

The period of availability for federal awards is the time period during which a non-federal entity may charge expenses resulting from obligations incurred during the funding period to the grant. The School Corporation has not designed or implemented controls to ensure that all obligations for expenditures made from program funds were incurred and expended within the period of availability. The School Corporation did not have internal controls in place to ensure that expenditures incurred after the period of availability were not claimed for reimbursement.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

*Noncompliance*

An obligation is an actual cost owed due to purchase orders issued, contracts signed, or services rendered for which a district is required to make payment. Obligations are not anticipated or estimated costs. (Indiana Department of Education Fiscal Handbook for Basic Title I, and School Improvement [Page 4])

Per page 4 of the Indiana Department of Education Fiscal Handbook for Basic Title I and School Improvement grants, funds must be obligated by June 30th and expended by September 30th. The Improving Teacher Quality State Grants have an additional 90-day liquidation period (December 30th) during which all outstanding obligations must be paid.

The School Corporation incurred, claimed and received reimbursement for the following grant disbursements after the period of availability and we consider these amounts to be questioned costs:

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

| CFDA #                | Grant  | Fiscal<br>Year | Last Day<br>To<br>Obligate<br>Funds | Last Day<br>To<br>Expend<br>Funds | Total Expenses<br>Obligated or<br>Expended After<br>Period of<br>Availability |
|-----------------------|--|----------------|-------------------------------------|-----------------------------------|---|
| 84.010                | Title I Grants to Local Educational Agencies | 2012           | 06-30-12                            | 09-30-12                          | \$ 836,670  |
|                       |  | 2013           | 06-30-13                            | 09-30-13                          | <u>372,052</u>  |
| Total for CFDA 84.010 |  |                |                                     |                                   | <u>\$ 1,208,722</u>   |
| 84.388                | ARRA School Improvement Grants, Recovery Act | 2013           | 06-30-13                            | 09-30-13                          | <u>\$ 755,363</u>   |
| 84.367                | Improving Teacher Quality State Grants       | 2012           | 09-30-12                            | 12-30-12                          | \$ 40,866   |
|                       |  | 2013           | 09-30-13                            | 12-30-13                          | <u>4,247</u>  |
| Total for CFDA 84.367 |  |                |                                     |                                   | <u>\$ 45,113</u>  |

34 CFR 80.23 states:

"(a) *General.* Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

(b) *Liquidation of obligations.* A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

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

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Period of Availability requirements of the programs.

**FINDING 2014-009 - SPECIAL TESTS AND PROVISIONS - GRADUATION (COHORT) RATE**

Federal Agency: U.S. Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Federal Award Numbers: 12-4690, 13-4690, 14-4690  
Pass-Through Entity: Indiana Department of Education

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Internal Controls*

Management of the School Corporation has not established an effective internal control system to ensure compliance with the Special Tests and Provisions - Graduation (Cohort) rate compliance requirement. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The School Corporation operated three high schools during the audit period. When a student was removed from the graduation rate cohort (due to a transfer out, emigrating to another country or death), the removal was performed at the building level. The School Corporation did not have internal controls in place to ensure that written documentation was retained to confirm that a student should be removed from the cohort.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

*Noncompliance*

For the 2013 graduating class, the School Corporation's records indicated that seventy-nine students had withdrawn during the 2012-2013 school year. Twenty-four of these students were tested to the Indiana Department of Education (IDOE) Graduation Cohort Status Report. Four students (17 percent) were removed without the proper supporting written documentation. In addition, two deceased students (8 percent) were reported in the cohort since no written documentation had been obtained to remove the students.

34 CFR 200.19(b) states in part:

*"High schools—(1) Graduation rate.* Consistent with paragraphs (b)(4) and (b)(5) of this section regarding reporting and determining AYP, respectively, each State must calculate a graduation rate, defined as follows, for all public high schools in the State:

(i)(A) A State must calculate a "four-year adjusted cohort graduation rate," defined as the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for that graduating class. . .

(ii) The term "adjusted cohort" means the students who enter grade 9 (or the earliest high school grade) and any students who transfer into the cohort in grades 9 through 12 minus any students removed from the cohort.

(A) The term "students who transfer into the cohort" means the students who enroll after the beginning of the entering cohort's first year in high school, up to and including in grade 12.

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(Continued)

(B) To remove a student from the cohort, a school or LEA must confirm in writing that the student transferred out, emigrated to another country, or is deceased.

- (1) To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.
- (2) A student who is retained in grade, enrolls in a General Educational Development (GED) program, or leaves school for any other reason may not be counted as having transferred out for the purpose of calculating graduation rate and must remain in the adjusted cohort."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

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

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Special Tests and Provisions - Graduation (Cohort) Rate requirements of the program.

***FINDING 2014-010 - SPECIAL TESTS AND PROVISIONS - COMPARABILITY***

Federal Agency: U.S. Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Federal Award Numbers: 12-4690, 13-4690, 14-4690  
Pass-Through Entity: Indiana Department of Education

*Internal Controls*

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the Special Tests and Provisions - Comparability requirements. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of

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(Continued)

functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

*Noncompliance*

The School Corporation did not retain supporting documentation for information reported regarding comparability of services:

1. The School Corporation did not retain detailed student enrollment used in the Comparability Report. We compared the reported enrollment from the Comparability Report to average daily membership (ADM) detailed records for the count taken on September 13, 2013; they did not agree. The difference between the Comparability Report and the ADM records ranged from underreported by 99 students to overreported by 257 students. All 16 schools which took ADM counts had differences between the student enrollment reported and the ADM detail.
2. The reported FTE (full-time equivalent) staff did not agree with the supporting documentation for FTE. The difference ranged from underreported by 25 to overreported by 6.19 staff members. All but one school had differences between the FTE reported and the supporting documentation. The differences appear to be caused in some part by counting the number of staff and not the staff's FTE.
3. The School Corporation submitted a Comparability Report to the Indiana Department of Education by October 15, 2013. The report submitted was incomplete and lacking Form A, which was not filed until December 9, 2013. Revised Forms A and B for Comparability were submitted on January 15, 2014. The written Comparability documents presented for audit were not the records used in the original Comparability Report since most of the records were dated between November 19, 2013, and December 6, 2013; after the October 15 submission date.

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

34 CFR 76.700 states:

"A State and a subgrantee shall comply with the State plan and applicable statutes, regulations, and approved applications, and shall use Federal funds in accordance with those statutes, regulations, plan, and applications."

Indiana Department of Education Title I Comparability of Services Handbook states: "Current year data must be used to complete the district's comparability report. Typically, data are used based on fall counts (enrollment and staff). In any case, two criteria must apply: 1) the date used by the LEA may be no later than October 1 of the comparability reporting year; and 2) all data that an LEA uses in the comparability report must reflect conditions as they currently exist on the date from which the LEA bases comparability."

Indiana Department of Education Title I Comparability of Services Handbook states: "All LEAs must complete comparability yearly and submit information to the SEA every two years for compliance with the comparability requirement. Also, Title I LEAs must develop procedures for compliance with the comparability requirement and implement those procedures annually."

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(Continued)

OMB Circular A-133, Subpart C, section .300 (b) states:

"The auditee shall: (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

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

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Special Tests and Provisions - Comparability requirements of the program.

***FINDING 2014-011 - INTERNAL CONTROLS OVER TITLE I  
GRANTS TO LOCAL EDUCATIONAL AGENCIES***

Federal Agency: U.S. Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Federal Award Numbers: 12-4690, 13-4960, 14-4960  
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreements and Eligibility, Earmarking, Procurement, and Special Tests and Provisions compliance requirements. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant. We noted the following deficiencies in internal control:

*Eligibility*

Due to the changes in staffing and restructuring of departments related to the School Corporation's financial condition, and the change in food service vendors, we were unable to determine what controls may have existed regarding the October School Lunch Real Time information used to determine eligibility.

*Earmarking*

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the Earmarking program requirements. There is no segregation of duties. An oversight, review, or approval process has not been established to ensure compliance.

*Procurement*

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the Procurement requirements of the program. The School Corporation has not ensured that the most current School Board approved procurement policies are provided to and known by the appropriate departments and employees.

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(Continued)

*Special Tests and Provisions - Participation of Private School Children*

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the Special Tests and Provisions for participation of private school children. There was no segregation of duties to ensure that the approved budgets for participating private schools were properly recorded.

*Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals*

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the Special Tests and Provisions for highly qualified teachers and paraprofessionals. The School Corporation has two individuals in the Human Resources department responsible for ensuring that applicable staff were highly qualified; one for teachers and the other for paraprofessionals. An oversight or review process has not been established.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance related to the grant agreement and all compliance requirements listed above.

***FINDING 2014-012 - EARMARKING AND PROCUREMENT***

Federal Agency: U.S. Department of Education  
Federal Program: School Improvement Grants; ARRA School Improvement Grants, Recovery Act  
CFDA Number: 84.377; 84.388  
Federal Award Numbers: 12-4690; 13-4960; 14-4960  
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreements and the Earmarking and Procurement compliance requirements. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A

GARY COMMUNITY SCHOOL CORPORATION  
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(Continued)

lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant. We noted the following deficiencies in internal control:

*Earmarking*

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the Earmarking program requirements. There is no segregation of duties. An oversight, review, or approval process has not been established to ensure compliance.

*Procurement*

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the Procurement requirements of the program. The School Corporation has not ensured that the most current School Board approved procurement policies are provided to and known by the appropriate departments and employees.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance related to the grant agreement and all compliance requirements listed above.

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

***FINDING 2014-013 - ACTIVITIES ALLOWED, LEVEL OF EFFORT -  
MAINTENANCE OF EFFORT, EARMARKING***

Federal Agency: U.S. Department of Education  
Federal Programs: Special Education Grants to States, Special Education Preschool Grants  
CFDA Numbers: 84.027, 84.173  
Federal Award Numbers: A58-3-13DL-0073, 14212-019-PN01, 14213-019-PN01,  
45712-019-PN01, 45713-019-PN01  
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Activities Allowed, Level of Effort - Maintenance of Effort, and Earmarking.

*Activities Allowed*

The School Corporation has not implemented effective policies and procedures to ensure compliance with the Activities Allowed program requirements. There are no effective procedures to ensure that grant funds are used for only activities allowed.

*Level of Effort - Maintenance of Effort and Earmarking*

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the program requirements of Level of Effort - Maintenance of Effort, and Earmarking for early intervening services. There is no segregation of duties. An oversight, review, or approval process has not been established to ensure compliance.

The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements noted above.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance related to the grant agreement and all compliance requirements listed above.

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**FINDING 2014-014 - SPECIAL TESTS AND PROVISIONS -  
PARTICIPATION OF PRIVATE SCHOOL CHILDREN**

Federal Agency: U.S. Department of Education  
Federal Program: Improving Teacher Quality State Grants  
CFDA Number: 84.367  
Federal Award Numbers: 10-4690, 11-4690, 12-4690, 13-4690  
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Special Tests and Provisions - Participation of Private School Children compliance requirement. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the Special Tests and Provisions - Participation of Private School Children. There was no oversight or review process to ensure that the approved budgets for participating private schools were properly recorded.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance related to the grant agreement and the compliance requirement listed above.

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

***FINDING 2014-015 - ALLOWABLE COSTS/COST PRINCIPLES***

Federal Agency: U.S. Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program,  
Summer Food Service Program for Children,  
Child and Adult Care Food Program  
CFDA Numbers: 10.553, 10.555, 10.559, 10.558  
Federal Award Number: FY 2014  
Pass-Through Entity: Indiana Department of Education

*Internal Controls*

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Allowable Costs/Cost Principles compliance requirements.

1. The School Corporation has not designed or implemented effective controls to ensure that time records are maintained for each school and each employee to support payroll expenditures.
2. The School Corporation has not designed or implemented adequate procedures to ensure that leave time reported on employee time records agrees with the leave time recorded in the payroll system.
3. The School Corporation has not designed or implemented adequate procedures to ensure that food service employees are paid for actual hours worked; not for days when school is not in session. For example, employees were paid for nine "snow days" even though the employees did not work those days.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

*Noncompliance*

We audited each payroll recorded in the School Lunch fund for the 2013-2014 school year. We compared the hours worked on the time records to the hours paid for each employee. We compared the approved rate of pay for school lunch employees to the pay rate paid on a test basis. We also attempted to verify the leave time (sick, family illness, personal, and docked pay) paid to the leave time reported on the time records on a test basis. We noted the following issues:

1. Not all time records were available for audit. Four schools either did not submit time records at all or did not submit time records for each pay period. In addition, time records were not submitted for every employee at various other schools. The total amount of gross payroll and the related employer taxes and benefit costs that were not substantiated by time records was \$183,470. These unsubstantiated costs are considered questioned costs.

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

2. There were differences between the hours worked reported on time records and the hours paid by the School Corporation in many instances. The total amount of gross payroll and the related employer taxes paid for hours not substantiated by time records was \$80,480. These unsubstantiated costs are considered questioned costs.

We were unable to verify that the leave time paid agreed with the leave time reported on the time records in many instances. There were differences between leave time reported on the time records and leave time paid in 17 of the 26 pay periods tested. Therefore, leave time used was not considered in the determination of the questioned costs above.

Hourly employees were paid for nine "snow days" even though school was not in session and those employees did not work. Seven of those days were made up later in the year in which the employees were not supposed to be paid. Because we were not able to readily determine if employees were or were not paid on the make-up days, or if all of them actually worked on the make-up days, snow days paid were also not considered in the determination of the questioned costs above.

OMB Circular A-87, Attachment A, Part C. Basic Guidelines 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.
  - c. Be authorized or not prohibited under State or local laws or regulations.
  - d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
  - e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
  - f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
  - g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.
  - h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
  - i. Be the net of all applicable credits.
  - j. Be adequately documented . . ."

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

OMB Circular A-87, Attachment B, Part 8. Compensation for Personal Services states in part:

"a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Circular, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and
- (3) Is determined and supported as provided in subsection h. . . .

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

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

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Allowable Costs/Cost Principles requirements of the programs.

***FINDING 2014-016 - ALLOWABLE COSTS/COST PRINCIPLES, CASH MANAGEMENT AND SPECIAL TESTS AND PROVISIONS - SCHOOL FOOD ACCOUNTS***

Federal Agency: U.S. Department of Agriculture  
Federal Programs: School Breakfast Program; National School Lunch Program;  
Summer Food Service Program for Children;  
Child and Adult Care Food Program

CFDA Numbers: 10.553; 10.555; 10.559; 10.558

Federal Award Number: FY 2014

Pass-Through Entity: Indiana Department of Education

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Internal Controls*

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Allowable Costs/Cost Principles, Cash Management and Special Tests and Provisions - School Food Accounts compliance requirements.

The School Corporation did not have internal controls in place to ensure compliance with Allowable Costs/Cost Principles, Cash Management, and Special Tests and Provisions - School Food Accounts requirements. There were no controls to ensure that federal program funds were used only for the operation or improvement of the school food service. In addition, there were no controls to ensure that disbursements for food service were actually paid before reimbursement was claimed as required by the pass-through agency.

The Indiana Department of Education (IDOE) is the State agency responsible for ensuring that the school food authority, the School Corporation, complies with the requirements to account for all revenues and expenditures of their nonprofit school food service. The IDOE mandated that the School Corporation implement new control procedures to ensure that program funds are expended only for the operation or improvement of the food service; however, the School Corporation circumvented these new procedures.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

*Noncompliance*

1. The School Corporation maintained one bank account, the Operating account, for all funds except payroll withholding funds. The school food service transactions were included in the Operating account. The School Lunch fund reported a positive cash and investments balance of \$2,172,870 on the June 30, 2014 financial statement; however, the total balance of all funds included in the Operating account was a negative \$2,635,410.

Due to the financial condition of the School Corporation, the cash in the Operating account, which included the School Lunch fund federal reimbursements, was primarily used to pay employee compensation and other disbursements necessary to keep the School Corporation operating.

2. The School Corporation did not pay the Third Party Service Provider (Provider) for services provided between January and June of 2014. School lunch reimbursements were received by the School Corporation for these months; however, the reimbursements were used to pay school general operating expenses; not to pay expenses to operate or improve the school food service. As of June 30, 2014, the School Corporation owed the Provider \$2,025,540. As of March 31, 2015, the amount still unpaid for services through June 30, 2014, was \$1,231,720. The oldest of these invoices has been outstanding for 395 days. The \$1,231,720 in federal reimbursements not used for the operation or improvement of the school food service are considered questioned costs.

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

3. The School Corporation did not ensure that the Provider submitted detailed invoices for their services. Although very little was paid to the Provider during the audit period, a payment of \$100,000 was made for the January 2014 services without an itemized invoice. Additional payments for August through October 2014 services which totaled \$234,160 were paid in October and November 2014 without itemized invoices. The \$334,160 in undocumented disbursements are considered questioned costs.
4. The IDOE required the School Corporation to open a separate food service checking account to properly account for the receipts and disbursements of the school food service. The account was opened on August 27, 2014; however, not all food service receipts were deposited into this account.
5. Beginning in October 2014, the IDOE retained the monthly reimbursements based on the number of eligible meals served claimed by the School Corporation. The IDOE used the amount due the School Corporation to pay the food service vendor directly and timely. In addition, the IDOE required the School Corporation to submit supporting documentation for all expenditures of food service funds before they issued reimbursements of these expenditures. These procedures were mandated by the IDOE to ensure that only allowable costs were paid from federal program funds.

The School Corporation circumvented these procedures and received reimbursements in excess of amounts actually expended. The December 2014 reimbursement received by the School Corporation was \$80,981 in excess of the amount disbursed. Review of the disbursement ledger revealed that a portion of the disbursements amount submitted for reimbursement was later reversed in the accounting records as of December 31, 2014. The reimbursement received by the School Corporation in excess of the amount expended of \$80,981 is considered questioned costs.

7 CFR 210.2 states in part:

*"Nonprofit school food service account means the restricted account in which all of the revenue from all food service operations conducted by the school food authority principally for the benefit of school children is retained and used only for the operation or improvement of the nonprofit school food service. This account shall include, as appropriate, non-Federal funds used to support paid lunches as provided in §210.14(e), and proceeds from nonprogram foods as provided in §210.14(f)"*

7 CFR 210.14 states in part:

*"Resource management. (a) Nonprofit school food service. School food authorities shall maintain a nonprofit school food service. Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, except that, such revenues shall not be used to purchase land or buildings, unless otherwise approved by FNS, or to construct buildings. Expenditures of nonprofit school food service revenues shall be in accordance with the financial management system established by the State agency under §210.19(a) of this part . . ."*

GARY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

7 CFR 210.19(a) states in part:

"Additional responsibilities. *General Program management.* Each State agency shall provide an adequate number of consultative, technical and managerial personnel to administer programs and monitor performance in complying with all Program requirements.

- (1) *Assurance of compliance for finances.* Each State agency shall ensure that school food authorities comply with the requirements to account for all revenues and expenditures of their nonprofit school food service . . ."

OMB Circular A-87, Attachment A, Part C. Basic Guidelines 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-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

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

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Allowable Costs/Cost Principles, Cash Management, and Special Tests and Provisions - School Food Accounts. We also recommended that the School Corporation continue to address its financial position and cash flow needs, to enable it to fund the school lunch bank account.

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#### AUDITEE PREPARED DOCUMENTS

The subsequent documents were provided by management of the School Corporation. The documents are presented as intended by the School Corporation.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

***FINDING 2012-01***

Original Assigned SBA Audit Report Number: B41979

Report Period: June 1, 2010 – June 30, 2012

Pass-Through Entity or Federal Grantor Agency: Indiana Department of Education

Contact Person Responsible for Corrective Action: Dr. Cheryl Pruitt

Contact Phone Number: 219-881-5401

***FINDING 2012-02***

Original Assigned SBA Audit Report Number: B41979

Report Period: June 1, 2010 – June 30, 2012

Pass-Through Entity or Federal Grantor Agency: Indiana Department of Education

Contact Person Responsible for Corrective Action: Dr. Cheryl Pruitt

Contact Phone Number: 219-881-5401

***FINDING 2012-03***

Original Assigned SBA Audit Report Number: B41979

Report Period: June 1, 2010 – June 30, 2012

Pass-Through Entity or Federal Grantor Agency: Indiana Department of Education

Contact Person Responsible for Corrective Action: Dr. Cheryl Pruitt

Contact Phone Number: 219-881-5401

Status of Audit Finding: Corrective action steps taken are listed below for:

***FINDING 2012-01***

***FINDING 2012-02***

***FINDING 2012-03***

## **Indiana Department of Education and Gary Community School Corporation**

### **Support Plan**

In order for the Indiana Department of Education to become a stronger partner with the Gary Community School Corporation and better serve the students, parents and educators of the district, a designation of "high risk" has been applied to the GCSC by the IDOE effective March 17, 2014. This designation will provide greater flexibility to use existing federal education funds for supporting school initiatives to improve student achievement. Through the resources of the Department's Outreach for School Improvement division, we look forward to working with Superintendent Pruitt and the GCSC School Board on this new partnership. In addition, Indiana Superintendent Glenda Ritz and Superintendent Pruitt pledge to coordinate education efforts with Gary's most recent federal designation in the "Strong Cities, Strong Communities Initiative" to provide urban renewal to both the city and its schools.

#### **Background:**

On February 21, 2014, the Indiana Department of Education (IDOE) placed the Gary Community School Corporation (GCSC) on Federal High Risk Designation due to 1. A history of unsatisfactory academic performance and 2. Fiscal Instability per the Education Department General Administrative Regulations (EDGAR) 34 C.F.R.80.12 (a) rules, that grants a State Education Agency the ability to intervene in a more direct fashion in regards to Federal Education Dollars and their outcomes.

The High Risk Designation allows the State Educational Agency (IDOE) to place conditions on a Local Educational Agency's (GCSC) use of federal grant dollars.

The designation was reflective of the IDOE's desire to provide support to the Gary community and assist with school improvement with intentional and aligned efforts. Superintendent of Public Instruction, Glenda Ritz, and Director of Federal Relations, Jeff Coyne, traveled to the U.S. Department of Education (USED) and with the U.S. Department of Agriculture (USDA) in Washington D. C, to seek guidance on high risk supports available and researched best practices from other states.

To ensure community members and stakeholders were a part of the improvement process, the IDOE team reached out to the Mayor of Gary, Karen Freeman-Wilson, and asked for input and assistance. Additionally, on May 22, 2014 and May 31, 2014, community events were hosted in the GCSC community to share improvement plans and ask for community support.

#### **Director of District Improvement:**

IDOE placed a Director of District Improvement, Daniel Bundridge, in the Gary School District to assist with on the ground support for our collaborative work. Bundridge had previously

served as an Outreach Coordinator in Lake County and had assisted the district with improvement initiatives in 2013-14. The Director has assisted with a variety of school improvement initiatives:

- The development of district-wide curriculum maps/pacing guides that reflect the new 2014 Indiana Academic Standards
- Implementation of a new district-wide principal's meeting with processes and procedures that occur once a month where all central office staff and all building principal's attend
- Collaborated with the Title director in the development of the Title plan, allocation of resources, and reimbursement of expenses; provided technical assistance as needed
- Assisted with the development of the Operation Steering Team, which has begun to coordinate services between GCSC and IDOE
- Collaborated with the special education director and the Indiana State University compliance team to help develop processes and procedures
- Facilitation of monthly conference calls between Gary special education/ISU and the DOE special education director
- Conducted 11 professional development offerings for GCSC on data analysis, differentiated instruction, Acuity, standards and assessment and math process standards
- Conducted professional development on the turnaround principles for all Focus and Priority Schools
- Conducted two regional PD's, "digging into data" for Gary administrators and teachers
- Ongoing meetings with school leaders in their buildings to discuss their data, strengths, weaknesses and professional development needs
- Assisted with the Title finance office to expedite reimbursement processes while also assisting with developing the capacity of staff in this office
- Collaborated with Scholastic and International Center for Leadership in Education to design district-wide professional development to support school improvement initiatives

#### **Financial Assistance:**

The IDOE has partnered with the State Board of Accounts and Crowe Horwath LLP to conduct two financial audits:

- United States Department of Agriculture (USDA) program—This audit is complete and findings should be available and communicated soon.
- Title school programs—This audit began in December 2014 and is examining Title 1a, IIa, and III expenditures in 13 GCSC schools.

IDOE is considering the placement of an ongoing financial consultant to assist with monitoring federal programs and reimbursements.

IDOE has provided technical assistance to GCSC staff to assist with properly documenting needs to ensure tuition support is reimbursed accurately.

### **Special Education Support:**

Pursuant to special conditions attached to GCSC's eligibility for Part B federal special education funding, IDOE has used part of GCSC's federal allocation to pay for eight embedded staff at the district for two years (through a contract with ISU). Through its contracted partner, IDOE also directed the use of GCSC's mandatory federal expenditure for Coordinated Early Intervening Services.

- **District and Building Leadership Collaboration includes:** established formal process and procedures as foundation to address special education compliance related issues; work with principals to improve processes within their building; and implemented Scholastic's iRead as the district's Coordinated Early Intervening Services (academic intervention program – data shows student improvement).
- **Technical assistance and professional development includes:** established and support building compliance teams; 67 PD events, (216.5 hours of training including compliance procedures, inclusive practices, legal issues, evaluation timelines, assessment processes, transition, teacher of record responsibilities; and parent outreach).
- **Data Collection and Reporting assistance includes:** add SE data fields into SunGard; trained staff on IDOE data submissions; established data entry roles, responsibilities, expectations and submission timelines; and helped IT staff with conflict resolution/data error corrections. Worked with community organizations and district to create professional/community partnerships. Assisted in the SE evaluation process/eligibility determinations by: updating evaluation tools, collaborated with school psychologists on roles/responsibilities; recommended procedure revisions.

### **Federal Programs Support**

The USED requires the IDOE to closely monitor Federal grants, plans, and expenditures for all schools. Due to the High Risk Designation related to financial instability and enhanced regulatory flexibility directly from the USED, including the use of excess federal funds from the prior year for services to students, the IDOE has significantly increased the level of accountability and support for GCSC federal programs. The Title 1, 2, and 3 offices at the IDOE have had frequent and routine conversations and provided high touch support for GCSC staff. Program specialists have made several on-site visits to Gary and provided staff with technical assistance to increase their comprehensive understanding of systems and processes for Title allowable expenses while also assisting GCSC staff with amending the Title grants to

support school improvement work. IDOE staff have assisted GCSC staff with completing reimbursements in a timely manner and have provided professional development on how to liquidate funds within the required 72 hours as well as which expenses are allowable for reimbursement. IDOE staff members have also verified Title 1 personnel expenses by conducting an on-site team visit in January 2015.

### **Technical Assistance and Professional Development:**

Data Analysis

Curriculum Mapping

Leadership and Instructional Coaching with support from Scholastic

Leadership Development professional development

Financial: Reports and appropriate use of funds

Nutrition: Appropriate use of funds

Transportation: Bus routing and program analysis

Special Education: Established and support building compliance teams; 67 PD events, (216.5 hours of training including compliance procedures, inclusive practices, legal issues, evaluation timelines, assessment processes, transition, teacher of record responsibilities; and parent outreach)

School Improvement: Identifying needs and creating plans to address areas from diagnostics

Federal Program

Data Entry: IDOE staff member conducted on-site training of data entry to improve reporting accuracy

School Discipline: IDOE staff assisted with establishing appropriate procedures for suspension and expulsion processes

### **Long Range Planning:**

The Operational Steering Team will continue to meet during the 2014-15 school year to engage in long-range planning and develop a district support structure for the schools identified as needing intentional support in a "Transformation Zone." By August 2015 the support structure will be in place and district services will be coordinated for the schools in improvement status.

**Exiting High Risk Designation Status:**

The corrective actions GCSC must attain in order to have this designation removed are: two consecutive years of fiscal stability and an accountability grade for two consecutive years of "C" or above. Both conditions must be met for removal of this designation.

Dr. Cheryl Pruitt  
(Signature)

Superintendent  
(Title)

April 7, 2015  
(Date)

(Note to Officials: To determine what audit findings are required to be reported in the Summary Schedule of Prior Audit Findings, please see U.S. Office of Management and Budget (OMB), Circular A-133, Subpart C



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**DR. CHERYL PRUITT, Superintendent**  
clpruitt@garycsc.k12.in.us

## CORRECTIVE ACTION PLAN

### ***FINDING 2014-001***

Contact Person Responsible for Corrective Action: Financial Advisor and Gary Board of School Trustees  
Contact Phone Number: 219-881-5401

Description of Corrective Action Plan: Legislative agenda passed and signed by Governor Pence in May. 2015.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices.

Anticipated Completion Date: December 2015

### ***FINDING 2014-002***

Contact Person Responsible for Corrective Action: Financial Advisor, payroll and Gary Board of School Trustees  
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices.

Anticipated Completion Date: December 2015

### ***FINDING 2014-003***

Contact Person Responsible for Corrective Action: Financial Advisor, District Accountant and Gary Board of School Trustees  
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board

(DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices. Business Office personnel will be required to use the Gateway system as required by the state of Indiana.

Anticipated Completion Date: December 2016

***FINDING 2014-004***

Contact Person Responsible for Corrective Action: Financial Advisor, Federal Programs Administrator, Human Resources Administrator and Gary Board of School Trustees  
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices. The district will discontinue the "supplemental pay sheets". The Superintendent shall recommend to the Board of School Trustees all supplemental assignments from all revenue sources. A procedure will be put in place to make certain work is completed that is assigned to supplemental assignments.

Anticipated Completion Date: December 2015

***FINDING 2014-005***

Contact Person Responsible for Corrective Action: Financial Advisor, Assistant Director of SPED and Gary Board of School Trustees  
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices. The administration will recommend the hiring of an Assistant Director of Special Education to be funded from IDEA. The assistant will create internal controls for SPED and monitor the special education grant and non-grant disbursements in the grant funds in collaboration with the business office. Time-effort logs and semi annual certification oversight will be established.

Anticipated Completion Date: December 2015

***FINDING 2014-006***

Contact Person Responsible for Corrective Action: Financial Advisor, District Accountant, Federal Programs Administrator and Gary Board of School Trustees  
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board

(DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices.

Anticipated Completion Date: December 2015

***FINDING 2014-007***

Contact Person Responsible for Corrective Action: Financial Advisor, District Accountant, Federal Programs Administrator, Procurement Officer and Gary Board of School Trustees  
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices.

The Office of Innovation and Improvements will institute an updated physical inventory of all supplemental equipment supported with Title I and/or School Improvement Grant 1003(g) are consistent with documented policy and procedures.

- Address uniformity in its physical inventory process
- Anticipate the establishment of a comprehensive list of equipment
- Expect individual schools to provide equipment lists in a consistent format
- Expect equipment lists to be kept current
- Expect schools to include cost data on the physical inventory list
- A uniform method of labeling equipment assets
- The use of bar codes, labels, or some alternative method for identifying equipment or property

The efforts of the Office of Innovation and Improvements to maintain control and to create and maintain an accurate comprehensive inventory of property/equipment purchased with federal funds should benefit from an enhancement of its existing system in such a way as to ensure that what is ordered is received and what is received is distributed to and utilized by appropriate personnel for appropriate purposes.

Anticipated Completion Date: December 2015

***FINDING 2014-008***

Contact Person Responsible for Corrective Action: Financial Advisor, District Accountant, Federal Programs Administrator, and Gary Board of School Trustees  
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices.

Anticipated Completion Date: December 2016

***FINDING 2014-009***

Contact Person Responsible for Corrective Action: Assistant to the Superintendent, Human Resources, Registrars and Gary Board of School Trustees  
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices. Training and accountability for registrars will be completed with disciplinary actions to follow for persons who do not comply with data entry.

Anticipated Completion Date: December 2015

***FINDING 2014-010***

Contact Person Responsible for Corrective Action: Federal Programs Administrator  
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective comparability analysis by the Federal Programs Administrator.

The Office of Innovation and Improvements will work in conjunction with all Title I principals to ensure that student count and Average Daily Attendance (ADM) data are consistent with all required reporting. Schools' ADM data will be verified at the building level then submitted to the Office of Innovation and Improvements for final approval.

Anticipated Completion Date: December 2015

***FINDING 2014-011***

Contact Person Responsible for Corrective Action: Federal Programs Administrator  
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective comparability analysis by the Federal Programs Administrator.

The Office of Innovation and Improvements will review and provide more stringent internal control systems for the 2015-2016 school year for consideration by the Superintendent. For example, a reorganizational of the current structure will be developed to ensure that more effective and efficient processes and procedures are in place and able to be sustained over the years. The Office of Innovation and Improvements will work in coordination with the Office of Supervision of Budget in order to strengthen better internal accountability for Special Tests and Provisions – Participation of Private School Children,

**FINDING 2014-012**

Contact Person Responsible for Corrective Action: Federal Programs Administrator and Procurement Officer  
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective comparability analysis by the Federal Programs Administrator and procurement.

Anticipated Completion Date: December 2015

**FINDING 2014-013**

Contact Person Responsible for Corrective Action: Financial Advisor, Assistant Director of SPED a  
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices. The administration will recommend the hiring of an Assistant Director of Special Education to be funded from IDEA. The assistant will create internal controls for SPED and monitor the maintenance of effort and earmarking.

Anticipated Completion Date: December 2015

**FINDING 2014-014**

Contact Person Responsible for Corrective Action: Human Resources Administrator  
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices.

The Office of Innovation and Improvements does have a solid internal accountability plan in place for Provision of Participation of Private School Children services. All participating Title I Nonpublic School has a separate account which shows the balances, account fund number, and balance for all supplemental fund resources (i.e., Title I, Title IIA, and III), during the school year. The segregation of duties are designed to inform nonpublics of the amounts and how the services will be implemented for Title I students during the year.

Anticipated Completion Date: December 2015

**FINDING 2014-015**

Contact Person Responsible for Corrective Action: Financial Advisor, Sodexo-Magic and Gary Board of School Trustees  
Contact Phone Number: 219-881-5401

Description of Corrective Action Plan: The DISTRICT hereby retains SodexoMAGIC and grants to SodexoMAGIC the exclusive right to provide and manage the DISTRICT'S food service program {"Service," "Services," "Food Service" or "Food Service Program") at the DISTRICT's Premises to all of the students of the DISTRICT including but not limited to Pre-Kindergarten, Kindergarten, Elementary, Middle and High School Students. SodexoMAGIC shall render the Food Services within the facilities of the Premises, including but not limited to, the food preparation, serving, dining and storage areas {"Facilities" designated for the Food Service Program). SodexoMAGIC shall also operate the summer food program.

SodexoMAGIC shall be responsible for hiring all Food Service Employees and Lunch Room Matrons and management on its payroll including, but not limited to, responsibility for recruitment, employment, promotion, payment of wages, pension benefits, layoffs and termination. SodexoMAGIC shall comply with all applicable laws and regulations related thereto. SodexoMAGIC shall prepare and process the payroll for its employees and shall withhold and pay all applicable federal and state employment taxes and payroll insurance relating to its employees including, but not limited to, income, social security and unemployment taxes and worker's compensation costs and charges.

Anticipated Completion Date: July 1,2015

**FINDING 2014-016**

Contact Person Responsible for Corrective Action: Financial Advisor, Sodexo-Magic and Gary Board of School Trustees  
Contact Phone Number: 219-881-5401

Description of Corrective Action Plan: The DISTRICT hereby retains SodexoMAGIC and grants to SodexoMAGIC the exclusive right to provide and manage the DISTRICT'S food service program ("Service." "Services," "Food Service" or "Food Service Program") at the DISTRICT's Premises to all of the students of the DISTRICT including but not limited to Pre-Kindergarten, Kindergarten, Elementary, Middle and High School Students. SodexoMAGIC shall render the Food Services within the facilities of the Premises, including but not limited to, the food preparation, serving, dining and storage areas {"Facilities" designated for the Food Service Program). SodexoMAGIC shall also operate the summer food program.

SodexoMAGIC shall be responsible for hiring all Food Service Employees and Lunch Room Matrons and management on its payroll including, but not limited to, responsibility for recruitment, employment, promotion,

Please see following page for signatures.

July 2, 2015

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(Date)

By signing this corrective action plan document, I acknowledge my awareness and responsibility.

Antwan Clemmons

Official Name and Title (Printed)

Antwan Clemmons

Signature

Doretha Rouse

Official Name and Title (Printed)

Doretha Rouse

Signature

WILLIE COOK

Official Name and Title (Printed)

Willie Cook

Signature

Marianne Fidiushin, Ex. Dir of Sp. Ed. & Stud. Services

Official Name and Title (Printed)

[Signature]

Signature

Cordia P. Moore

Official Name and Title (Printed)

Cordia P. Moore

Signature

Assistant to the Superintendent

Official Name and Title (Printed)

[Signature]

Signature

Al J. [Signature] ex. Director

Official Name and Title (Printed)

Al J. [Signature]

Signature

Marie Adkins - Supervisor - Finance

Official Name and Title (Printed)

Marie Adkins

Signature

Mary Comer - SUPERVISOR

Official Name and Title (Printed)

Mary Comer

Signature

Dr. Cheryl Pratt

Official Name and Title (Printed)

Dr. Cheryl Pratt

Signature

Official Name and Title (Printed)

Signature

## BULLETIN NO. 07-03

**TO:** Title I Principals

**FROM:** Albert J. Holmes, Jr., Executive Director of Innovation and Improvements/  
Federal Grants and Programs

**RE:** Time and Effort and Periodic/Semi Certification Requirements (Updated)

**DATE:** Thursday, July 2, 2015

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The federal law requires all employees, including teachers, paraprofessionals, and other staff that are paid with federal funds to document the time and effort they spend within that program. The portion of the federally paid salary should be reflective of the time and effort the individual has put forth for that federal program. For instance, if a Title I teacher spends 100% of his/her time working with Title I students and on Title I responsibilities, then 100% of his/her salary is to be paid with Title I funds. On the other hand, if an individual is working as a principal 50% of the time and 50% as the coordinator for another program, only 50% of his/her salary is paid from Title I. The remaining 50% would be paid from district funding. The purpose of documenting time and effort is to ensure that a district does not use federal funds to compensate an employee for time spent on any other program.

Time and effort reporting guidelines are specified in the U.S. Office of Management and Budget (OMB) Circulars [A-87](#) and [A-133](#). The circulars provide instructions to auditors performing Single Audits of states, local governments, and non-profit organizations. OMB-87 establishes standards for charging employee compensation for federal grants. OMB A-133 lists the compliance requirements for federal education programs, including Title I Part A. Districts that receive other federal funds, such as Reading First, Migrant, Homeless, Neglected and Delinquent, Title II A, Title II D, Title III, Title IV A, Title V, Coordinated School Health, etc., must also ensure their employees are documenting their time and effort. School districts are required to maintain auditable "time and effort" documentation that show how each Title I employee spent his or her compensated time. Such documentation are written, after the fact (not estimated or budgeted) documentation of how the time was spent. Time and effort reports should be prepared by any Title I staff with salary charged (1) directly to a federal award, (2) directly to multiple federal awards, or (3) directly to any combination of a federal award and other federal, state or local fund sources.

- **Semi-annual certifications are required for Title I personnel whose compensation is funded solely from the Title I grant.** These certifications document that he/she has been working solely in activities supported by the Title I grant (although some district policies require monthly reports for such personnel). The certification must (1) cover a semiannual period (e.g., September-January and February-June, or September-February and March-August), (2) identify Title I as the program, and (3) be signed and dated by an employee and supervisor having first-hand knowledge of the work performed by the employee.

- **Monthly reports are required for Title I personnel whose time is charged in part to Title I and in part to other revenue sources (split-funded staff).** These reports document the portions of time and effort dedicated to Title I and to other revenue sources. Such records must (1) be completed after-the-fact, (2) account for the total time for which the employee is compensated, (3) be prepared at least monthly, (4) coincide with one or more pay periods, and (5) be signed by the employee and countersigned by an administrator or supervisor.

- **Stipends (and other supplemental contracts) must also be reported.** Record stipends on semi-annual certifications or monthly reports, whichever is utilized for the particular employee. Alternatively, permitted documentation includes (1) a signed supplemental contract that stipulates Title I work activity, (2) sign-in attendance logs approved by the supervisor (e.g., pay for professional development activities), and (3) employee time/pay slips that specify "Title I" and are approved by the supervisor.

#### **When is time and effort documentation required?**

All individuals being paid with federal funds must document their time and effort, no matter the percentage of time they are paid or if they are working in a Title I targeted assistance or schoolwide program. An employee dedicating 5% of his/her time to a federal program must document time and effort just as an individual employed 100% to a federal program would have to document time and effort. The difference is the type of documentation that each employee is responsible to complete.

#### **What type of documentation is required?**

- *Permanent Schedule* – A permanent schedule is most often used for teachers or individuals who are being paid with federal funds and hold a fixed schedule every day of the week. For instance, a Title I teacher’s schedule could document that he/she is being paid 100% with federal funds and 100% of his/her day is dedicated to Title I programming. A teacher who was 50% Title I and 50% reading coach could also use this method if his/her schedule was consistent, day after day. Permanent schedules should be on file and updated throughout the school year.

- *Periodic Certification* – Districts who have full-funded federal personnel or those that are partially funded with federal funds must have individuals submit an assurance every six months (at a minimum) documenting that the amount of time they worked for each particular federal program. This certification should also include documentation of time spent on the federal program (such as a copy of daily planner, schedules, time sheets, daily logs). A sample assurance could state, “From January 1, 2007 to June 30, 2007, Jane Doe spent 100% of her time on Title I Part A instructional activities as evidenced by the enclosed schedule.” – Signed by employee and supervisor.

- *Daily Log* – Individuals who work less than 100% for a particular federal program and whose schedule changes from day to day have the option of logging their time spent in the federal program each day. For instance, a principal who is paid 75% from the district

for principal duties and 25% from Title I to coordinate the district's Title I program could keep a daily log of the time spent on principal duties versus Title I coordinator duties. An individual in this situation does not hold a fixed schedule as principal duties are irregular and cannot be scheduled. Daily logs must be signed by the employee and their supervisor.

- *Monthly Certification* – Individuals who are funded from multiple funding sources can document their time and effort through monthly documentation. For this method, an assurance including time documentation would be submitted monthly. This sample assurance could state, “For the month of October 2007, Jane Doe spent 50% of her time on Title I Part A instructional activities and 50% on general fund instructional activities as evidenced by the enclosed schedule.” – Signed by employee and supervisor.

#### OTHER REPORT

In addition to this report, a Supplemental Compliance Report has been issued for the School Corporation. That report can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.