

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

AUDIT REPORT
OF

GAVIT MIDDLE/HIGH SCHOOL
SCHOOL CITY OF HAMMOND
LAKE COUNTY, INDIANA

July 1, 2003 to March 31, 2006



FILED
12/07/2006

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
School Corporation Officials.....	2
Transmittal Letter	3
Audit Results and Comments:	
Textbook Rental Receipts Not Deposited.....	4
Cash Necessary to Balance	4
Audit Costs – Missing Funds	5
Composition of Extra-Curricular Deposits.....	5
Textbook Rental (TBR) Controls.....	5-6
Personal Checks Cashed	6
Untimely Bank Reconcilements	6
Receipts Not Deposited Timely	6
Untimely Remittance of Athletic Receipts.....	6
Overdrawn Fund Balances	7
Nonprescribed Forms	7
Summer School Refunds.....	7
Computer Internal Controls.....	7-8
Exit Conference.....	9
Official Response	10-12
Summary	13
Affidavit	15

SCHOOL CORPORATION OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Extra-Curricular Treasurer	Jeanne Hayes	07-01-03 to 06-30-06
Principal of Gavit Middle/ High School	Charles Hall	07-01-03 to 06-30-06
Superintendent of Schools	Dr. Walter J. Watkins	07-01-03 to 06-30-06
President of the School Board	Albertine Dent James Hornak	07-01-03 to 06-30-04 07-01-04 to 06-30-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SCHOOL CITY OF HAMMOND, LAKE COUNTY, INDIANA

We have examined the records of Gavit Middle/High School for the period from July 1, 2003 to March 31, 2006, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments.

STATE BOARD OF ACCOUNTS

April 25, 2006

GAVIT MIDDLE/HIGH SCHOOL
SCHOOL CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS

TEXTBOOK RENTAL RECEIPTS NOT DEPOSITED

When a student makes a payment for textbook rental, the Extra-Curricular (ECA) Treasurer documents the payment on the student's Form TBR-2 and manually enters the payment into the computerized textbook rental system. The computer system generates a "Fee Payment Report" which details each of the payments received from students. The total amount posted to the extra-curricular Textbook Rental Fund, in turn, agrees to the amount deposited to the bank. Our review of textbook rental collections from July 1, 2003 to March 31, 2006 yielded the following:

	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>Total</u>
Total payments reported on Form TBR-2s	\$ 90,641.50	\$ 71,204.50	\$ 44,287.82	\$ 206,133.82
Add: Additional payments posted on "Fee Payment Report" that either could not be traced to Form TBR-2s provided for audit or exceed the amounts on the provided Form TBR-2s	7,891.00	9,759.00	413.62	18,063.62
Add: Additional payments noted from bank deposits or temporary receipts that were not posted to the "Fee Payment Report" and could not be traced to the Form TBR-2s provided for audit	<u>471.00</u>	<u>1,546.00</u>	<u>101.77</u>	<u>2,118.77</u>
Total calculated textbook rental collections	99,003.50	82,509.50	44,803.21	226,316.21
Amount receipted into textbook rental fund and deposited to bank	<u>97,132.10</u>	<u>67,436.55</u>	<u>39,107.40</u>	<u>203,676.05</u>
Total textbook rental receipts not deposited	<u>\$ 1,871.40</u>	<u>\$ 15,072.95</u>	<u>\$ 5,695.81</u>	<u>\$ 22,640.16</u>

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

We requested the Extra-Curricular Treasurer, Jeanne Hayes, to reimburse Gavitt Middle/High School \$22,640.16 for textbook rental receipts not deposited. (See Summary, page 13)

CASH NECESSARY TO BALANCE

Checks were issued to provide an audit trail when transferring money between funds. We noted on one transfer, a corresponding receipt was issued but not posted. We analyzed the deposit and found the check was included in the deposit. Recording all receipts increases the record balance and results in a cash necessary to balance to the bank of \$3,000.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

We have requested the Extra-Curricular Treasurer, Jeanne Hayes, to reimburse Gavitt Middle/High School \$3,000 for the check substituted for cash. (See Summary, page 13)

GAVIT MIDDLE/HIGH SCHOOL
SCHOOL CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

AUDIT COSTS - MISSING FUNDS

The State of Indiana incurred additional audit fees in the investigation of the missing funds at Gavit Middle/High School. The State of Indiana is requesting the Extra-Curricular Treasurer, Jeanne Hayes, to reimburse audit fees incurred in the amount of \$10,592.98. (See Summary, page 13)

Audit costs incurred because of theft or shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

COMPOSITION OF EXTRA-CURRICULAR DEPOSITS

We reviewed the bank compositions for all deposits made for Gavit Middle/High School between July 1, 2003 and February 28, 2004. We noted numerous instances where the payment classification (i.e. cash, check, money order) on the receipts did not agree to the composition of the deposits.

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 Extra-Curricular Accounts, Chapter 7)

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

TEXTBOOK RENTAL (TBR) CONTROLS

Individual textbook rental receipts (TBR-2, Official Receipt - Individual Textbook Rental List) are not prepared and issued at the time a student makes a payment for book rental. Payments are entered into the textbook rental computerized system, but the system is not able to generate a receipt at the time of payment. TBR-2s are also not issued for each partial payment of book rental. All TBR-2s are later mass printed for the whole school, whether or not payment has been made. Manual notations are made on the computer printed TBR-2 as to the type of payment received (cash, check, or money order) and the date received. Due to these procedures, we could not determine from the ECA's records whether all monies collected for textbook rental are accounted for in the system and deposited. We noted a severe drop in TBR collections during the 2004/2005 school year, a reduction of 30%, compared to the 2003/2004 school year. The reduction occurred while student enrollment increased 6% and TBR fees increased 20%. TBR collections were \$97,132.10 and \$67,436.55 in FY 2003/2004 and 2004/2005, respectively.

The ECA Treasurer inputs all the free and reduced information into the computer system that designates which students receive free textbooks. Segregation of duties has not implemented.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

GAVIT MIDDLE/HIGH SCHOOL
SCHOOL CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(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 Extra-Curricular Accounts, Chapter 7)

PERSONAL CHECKS CASHED

We found 291 personal checks totaling \$29,709 that were cashed by the Extra-Curricular Treasurer between July 1, 2003 and September 30, 2004, from daily cash collections. As a result, cash collections were not deposited in the same form as the collections were received.

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

UNTIMELY BANK RECONCILEMENTS

The ECA Treasurer as of April 5, 2006, had not prepared the monthly bank reconcilements since November 2005.

At the close of each month, the balance in the Extra-Curricular Account (control) shall be reconciled to the balance on the bank statement. The reconciliation will prove the accuracy of the records to those of the bank as maintained for the cash account. (Uniform Accounting and Compliance Manual for Extra-Curricular Amounts, Chapter 2)

RECEIPTS NOT DEPOSITED TIMELY

Deposits were noted to be made between 3 and 13 days after the receipt date. The School Corporation provides a teamster runner who stops at the schools and takes the deposits to the bank. However, the Treasurer neglected to use this service on a daily basis.

Indiana Code 20-26-6-6 states in part: ". . . receipts shall be deposited without unreasonable delay."

UNTIMELY REMITTANCE OF ATHLETIC RECEIPTS

Ticket sales and concession collections are not remitted to the Extra-Curricular Treasurer in a timely manner. The Athletic Department held collections up to 27 days after the event before remitting them to the treasurer.

A similar comment appeared in the prior audit report.

Indiana Code 20-26-6-6 states in part: ". . . receipts shall be deposited without unreasonable delay."

GAVIT MIDDLE/HIGH SCHOOL
SCHOOL CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

OVERDRAWN FUND BALANCES

Funds were overdrawn during the school year. When the annual reports were prepared (Form SA-5), money from another fund was transferred into the overdrawn fund to eliminate the overdraft. The next school year, a check was written to return the "loan."

A similar comment appeared in the prior audit report.

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

NONPRESCRIBED FORMS

The ECA Treasurer issues nonprescribed receipts called "Summer School Fees Receipt" for payments on summer textbook rental fees. "Lab Fee Receipt", a nonprescribed form, is also used for partial payments made by students for various school fees. These receipts are not pre-numbered; therefore, the accountability for all receipts issued is not possible.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SUMMER SCHOOL REFUNDS

The ECA Treasurer collects summer school fees and issues a "Summer School Fees Receipt." All summer school fees are held by the ECA Treasurer until summer school classes begin. Some classes are later cancelled. Upon cancellation of the class, the ECA Treasurer has the parent sign off on the "Summer School Fee Receipt" that the fee was refunded. Either cash or the parent's original check is returned to the parent. The summer school fees are not deposited upon collection and an extra-curricular check is not generated to refund the fees.

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Indiana Code 26-6-6 states in part: ". . . receipts shall be deposited without unreasonable delay."

COMPUTER INTERNAL CONTROLS

The ECA accounting software system allows the treasurer to re-use receipt numbers. We noted instances where a receipt number was used twice. The first receipt number was for the corresponding Form SA-3 receipt amount, but the same receipt number was used again for a deposit adjustment (credit and debit memos) from the bank. Also, the preprinted receipt number and preprinted check number do not always correspond to the computer generated number. Voided receipts do not always post the original and the voided transaction. The ECA Treasurer can assign any number (sometimes a date) to a receipt. Transfers between funds can also be done using non-computer generated receipt and check numbers. There are not controls in place to prohibit this activity.

GAVIT MIDDLE/HIGH SCHOOL
SCHOOL CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

The computerized accounting system must provide input edits and controls to assure that information entered into the system is accurate, that all appropriate information is entered into the system, that information is entered into the system only once, and that all information entered into the system is authorized by management. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 8)

GAVIT MIDDLE/HIGH SCHOOL
SCHOOL CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on May 9, 2006, with Dr. Stephen Johns, Assistant Superintendent of Business; Karen Wallisch, Corporation Treasurer; and Charles Hall, Principal. A copy of these comments was sent to Jeanne Hayes, Extra-Curricular Treasurer, via certified mail. The official response has been made a part of this report and may be found on pages 10 through 12.

May 17, 2006

State Board of Accounts
302 West Washington Street
4th Floor, Room E418
Indianapolis, IN 46204-2738

Dear Sir or Madam:

The School City of Hammond hired me on December 16, 1981 for the position of extracurricular treasurer at Gavit Middle/High School. During the past 25 years, I have kept very detailed and accurate Extra Curricular accounts and textbook rental receipts. I have always received very good audit reports and was recognized as having impeccable records several years ago by the auditors. I have worked very hard to gain the respect and trust of the administrators and sponsors of more than 200 accounts.

Never once have I had a complaint that my records were not in complete reconciliation with each sponsor.

It was not until a meeting I was summoned to on April 27, 2006, that I became aware of a problem with my current audit. Those in attendance were: Dr. Johns, Karen Wallisch, David Dixon, Dan Friel, and June Phillippe. They informed me of the large amount of personal checks written by Mr. Gary Culp and of the shortage in the textbook rental funds. I was completely unaware of the cashed personal checks or shortage in the textbook rental account. I asked for permission to review the individual textbook rental receipts. I was granted permission to review the receipts, with Karen, by those in attendance.. Because of her demanding schedule and my illness on May 8th & 9th, our first meeting is tomorrow and we will start reviewing the receipts.

I was hospitalized in August of 2003 with numerous cardiac problems and was not in attendance when school started that year. When I returned several weeks later, I became aware, very quickly, that I was obviously behind in my work. I was approached by Mr. Gary Culp and was asked by him if he could help me in any way. I was making a deposit at that time and took advantage of his offer to count and band the currency. I added up the extracurricular receipts and delinquent book rentals. Our totals had to match so I was never worried about the deposit.

In his spare time during the week, he would count the money, add the textbook rental receipts, and the extracurricular receipts to make sure "the deposit was on the dot". Never once did I question his activities and assumed he was being very detailed. Every Thursday we made our weeks' deposit. He would prepare the currency and coins. I would post and add the book rental receipts, run a tape of the extracurricular receipts and checks and prepare them for the deposit. Our totals would have to match exactly or we

would look for any mistakes until they matched. I trusted him completely.

Unfortunately I was hospitalized again for 2 weeks, in February of 2004, with a pulmonary disease. Mr. Culp continued to help me with the deposits until the end of that year.

My health has steadily declined during the past 2 ½ years. I have been diagnosed with Congestive Heart Failure, Pulmonary Fibrosis, Diabetes, Hypertension, Rheumatoid Arthritis, and I have micro bodies in my blood that are destroying my red blood cells.

When school started in August of 2004, Mr. Culp readily offered to help me again. We had a good working relationship from the previous year and I gratefully accepted his help again. He would do an early check of the money on hand, add the receipts and TBR receipts to make sure that our amounts were right. He and I continued to make a deposit together every Thursday. After our amounts were verified, I handed him the taped checks, to be included with the currency and change, for the deposit bag. This routine continued until I was relieved of my duties on April 27, 2006.

My extracurricular accounts generated totals in excess of \$2,000,000.00 each year for many years. I wrote approximately 4,000 checks and 4,000 receipts yearly. This is in addition to billing 1800 students twice a year and receipting all the current and delinquent textbook collections. I also had a split school (middle/high) which meant two athletic departments, activity accounts, and class accounts totaling more than 200 accounts. I also had 19 investments to handle. I work steadily from 7:30 to 4:00 and often worked through my lunch time and breaks. I did not accept Mr. Culp's help because I was lazy or wanted to depend on someone else to do my job - I needed his help and trusted him completely!

After I was shown the copies of the personal checks he cashed and the total of TBR money missing, I now know he was removing money from the deposit without my knowledge. He had full access to the money, checks, and textbook rental receipts which he must have removed in exchange for cash. I don't know how he did it but the receipts were eventually filed in the book of receipts, for the yearly records, and he had to have changed the tape from the checks and added his personal check to the total.

I did NOT take any money received for the extracurricular receipts during the entire time I was employed at Gavit. NEVER! I do not need any extra money. My house was paid in full when I bought it in 1969. I do not have a loan on my car. The only debt I have is a Visa account which I use to charge my medicine. My children are all adults and have not lived with me for many years. I have a payroll deduction annuity and live within my means. I will make my bank statements available for anyone who wants to review them. I continued working for the insurance and until I qualified for Medicare which is in June of 2006.

I cannot comment on the \$3,000.00 check without reviewing my records.

The bank compositions for the deposits obviously did not agree if he was substituting personal checks for cash.

The textbook rental money was receipted per instructions of the corporation and on forms prescribed by the corporation.

Deposits were made every Thursday. The last deposit of the month was made the day before the last day. The bank did not always deposit the money when they received it. Sometimes it took them several days to count and deposit the money.

In conclusion, I realize I am the bonded treasurer and should have not depended on anyone to help me. For this, I am truly sorry. I ask that you not make any decision, concerning the audit results, until Karen and I have time to review the rental receipts.

Thank you for reading my response.

Sincerely,

Jeanne Hayes
Jeanne Hayes

GAVIT MIDDLE/HIGH SCHOOL
SCHOOL CITY OF HAMMOND
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Jeanne Hayes, Extra-Curricular Treasurer:			
Textbook Rental Receipts Not Deposited, page 4	\$ 22,640.16	\$ -	\$ 22,640.16
Cash Necessary to Balance, page 4	3,000.00	-	3,000.00
Audit Costs - Missing Funds, page 5	10,592.98	-	10,592.98
 Totals	 \$ 36,233.14	 \$ -	 \$ 36,233.14

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AFFIDAVIT

STATE OF INDIANA)
)
LAKE COUNTY)

We, Jane Elder, Robert James, Lapreil Schwan, and Celia Orozco, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the School City of Hammond – Gavit Middle / High School, Lake County, Indiana, for the period from July 1, 2003 to March 31, 2006, is true and correct to the best of our knowledge and belief.

Jane Elder
Robert James
Lapreil Schwan
Celia Orozco
Field Examiners

Subscribed and sworn to before me this 30 day of October, 2006.

Geri L. Battle
(Notary Public)

My Commission Expires: June 12, 2007
County of Residence: Lake

GERRI L. BATTLE
NOTARY PUBLIC
SEAL
STATE OF INDIANA
COUNTY OF LAKE
MY COMMISSION EXPIRES JUNE 12, 2007