

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

AUDIT REPORT

OF

GARY COMMUNITY SCHOOL CORPORATION

LAKE COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
07/17/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Carolyn V. Keith Alesia Pritchett	07-01-04 to 02-16-07 02-17-07 to 06-30-07
Superintendent of Schools	Dr. Mary Steele-Agee	07-01-04 to 06-30-07
President of the School Board	Darren Washington Jesse Morris Alex Wheeler, Jr.	07-01-04 to 07-07-05 07-08-05 to 07-03-06 07-04-06 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gary Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated March 12, 2007, 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 and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

March 12, 2007



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

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

We have audited the financial statements of the Gary Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated March 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted certain immaterial instances of noncompliance that we have discussed with the management of the School Corporation on March 12, 2007. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School Corporation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1 and 2006-2.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider item 2006-1 to be a material weakness.

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the School Corporation on March 12, 2007. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 12, 2007

GARY COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 38,142,627
Restricted assets:	
Cash and investments	<u>1,182,408</u>
Total assets	<u>\$ 39,325,035</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,182,408
Unrestricted	<u>38,142,627</u>
Total net assets	<u>\$ 39,325,035</u>

The accompanying notes are an integral part of the financial statements.

GARY COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 40,433,779
Restricted assets:	
Cash and investments	<u>1,177,270</u>
Total assets	<u>\$ 41,611,049</u>
<u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,177,270
Unrestricted	<u>40,433,779</u>
Total net assets	<u>\$ 41,611,049</u>

The accompanying notes are an integral part of the financial statements.

GARY COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 71,527,608	\$ -	\$ 2,737,529	\$ (68,790,079)
Support services	144,501,048	1,032,390	4,473,045	(138,995,613)
Community services	667,344	-	-	(667,344)
Nonprogrammed charges	89,642	-	-	(89,642)
Debt service	40,671,790	-	-	(40,671,790)
Total governmental activities	\$ 257,457,432	\$ 1,032,390	\$ 7,210,574	(249,214,468)
General receipts:				
Property taxes				38,442,877
Other local sources				4,914,833
State aid				138,396,226
Grants and contributions not restricted				19,408,694
Bonds and loans				34,719,585
Sale of property, adjustments, and refunds				5,946,963
Investment earnings				978,092
Total general receipts				242,807,270
Change in cash and investments				(6,407,198)
Net assets - beginning				46,191,344
Prior period adjustment (note III.C.)				(459,111)
Net assets - beginning restated				45,732,233
Net assets - ending				\$ 39,325,035

The accompanying notes are an integral part of the financial statements.

GARY COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 67,074,253	\$ -	\$ 2,005,355	\$ (65,068,898)
Support services	122,548,478	797,107	6,893,918	(114,857,453)
Community services	644,048	-	-	(644,048)
Nonprogrammed charges	41,492	-	-	(41,492)
Debt service	45,015,015	-	-	(45,015,015)
Total governmental activities	\$ 235,323,286	\$ 797,107	\$ 8,899,273	(225,626,906)
General receipts:				
Property taxes				45,870,195
Other local sources				3,037,369
State aid				124,530,857
Grants and contributions not restricted				19,595,556
Bonds and loans				26,312,231
Sale of property, adjustments, and refunds				6,668,465
Investment earnings				1,898,247
Total general receipts				227,912,920
Change in cash and investments				2,286,014
Net assets - beginning				39,325,035
Net assets - ending				\$ 41,611,049

The accompanying notes are an integral part of the financial statements.

GARY COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Textbook Rental	Common School Loan - Williams	Debt Service	Capital Projects	Construction	Other	Totals
Receipts:									
Local sources	\$ 20,574,465	\$ 9,328,047	\$ 94,474	\$ -	\$ 5,031,393	\$ 6,817,024	\$ 84,347	\$ 1,192,821	\$ 43,122,571
Intermediate sources	999,879	-	-	-	-	-	-	-	999,879
State sources	120,818,076	-	980,319	8,901,660	-	-	-	11,412,294	142,112,349
Federal sources	1,146,004	759	-	-	496	685	-	21,755,203	22,903,147
Bonds and loans	25,430,063	1,622,006	-	-	2,249,025	5,418,491	-	-	34,719,585
Sale of property, adjustments and refunds	904,301	-	240	-	-	1,047,657	-	3,788,233	5,740,431
Interfund transfers	1,551,363	3,000,000	-	-	-	-	11,235	9,151,593	13,714,191
Total receipts	171,424,151	13,950,812	1,075,033	8,901,660	7,280,914	13,283,857	95,582	47,300,144	263,312,153
Disbursements:									
Current:									
Instruction	57,808,550	-	-	-	-	-	-	13,719,058	71,527,608
Support services	77,482,654	7,520,383	695,638	6,116,984	799,286	11,039,498	-	39,001,493	142,655,936
Community services	205,042	170,709	-	-	-	-	-	291,593	667,344
Nonprogrammed charges	13,910,816	-	-	-	-	1,046	-	2,674,382	16,586,244
Debt services	19,862,360	6,796,408	-	-	7,536,676	6,433,711	-	42,635	40,671,790
Total disbursements	169,269,422	14,487,500	695,638	6,116,984	8,335,962	17,474,255	-	55,729,161	272,108,922
Excess (deficiency) of total receipts over (under) total disbursements	2,154,729	(536,688)	379,395	2,784,676	(1,055,048)	(4,190,398)	95,582	(8,429,017)	(8,796,769)
Cash and investments - beginning	656,255	3,893,819	2,325,193	1,823,340	2,237,456	4,786,223	4,554,188	13,811,629	34,088,103
Prior period adjustment (note III.C.)	(459,111)	-	-	-	-	-	-	-	(459,111)
Cash and investment - beginning (restated)	197,144	3,893,819	2,325,193	1,823,340	2,237,456	4,786,223	4,554,188	13,811,629	33,628,992
Cash and investments - ending	<u>\$ 2,351,873</u>	<u>\$ 3,357,131</u>	<u>\$ 2,704,588</u>	<u>\$ 4,608,016</u>	<u>\$ 1,182,408</u>	<u>\$ 595,825</u>	<u>\$ 4,649,770</u>	<u>\$ 5,382,612</u>	<u>\$ 24,832,223</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ (8,796,769)
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>2,389,571</u>
Change in cash and investments of governmental activities	<u>\$ (6,407,198)</u>

GARY COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Textbook Rental	Common School Loan - Williams	Debt Service	Capital Projects	Construction	Other	Totals
Receipts:									
Local sources	\$ 24,729,689	\$ 10,725,627	\$ 115,823	\$ -	\$ 4,163,485	\$ 9,603,912	\$ 39,323	\$ 950,137	\$ 50,327,996
Intermediate sources	718,895	-	-	-	-	-	-	-	718,895
State sources	123,011,583	-	925,819	-	-	-	-	3,384,885	127,322,287
Federal sources	920,768	746	-	-	239	674	-	24,780,974	25,703,401
Bonds and loans	16,780,974	1,061,003	-	-	3,075,114	5,395,140	-	-	26,312,231
Sale of property, adjustments and refunds	3,467,135	-	178	-	-	202,248	-	1,711,390	5,380,951
Interfund transfers	10,157,040	-	-	-	-	8,118	-	8,001,809	18,166,967
Total receipts	179,786,084	11,787,376	1,041,820	-	7,238,838	15,210,092	39,323	38,829,195	253,932,728
Disbursements:									
Current:									
Instruction	55,000,271	-	-	-	-	-	-	12,073,982	67,074,253
Support services	82,396,079	10,117,517	1,092,780	2,532,676	130,257	6,846,388	4,689,093	12,997,791	120,802,581
Community services	184,749	167,552	-	-	-	-	-	291,747	644,048
Nonprogrammed charges	4,133,402	-	-	2,075,340	-	-	-	12,195,635	18,404,377
Debt services	29,444,121	2,305,689	-	-	7,113,719	6,151,486	-	-	45,015,015
Total disbursements	171,158,622	12,590,758	1,092,780	4,608,016	7,243,976	12,997,874	4,689,093	37,559,155	251,940,274
Excess (deficiency) of total receipts over (under) total disbursements	8,627,462	(803,382)	(50,960)	(4,608,016)	(5,138)	2,212,218	(4,649,770)	1,270,040	1,992,454
Cash and investments - beginning	2,351,873	3,357,131	2,704,588	4,608,016	1,182,408	595,825	4,649,770	5,382,612	24,832,223
Cash and investments - ending	\$ 10,979,335	\$ 2,553,749	\$ 2,653,628	\$ -	\$ 1,177,270	\$ 2,808,043	\$ -	\$ 6,652,652	\$ 26,824,677

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ 1,992,454
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>293,560</u>
Change in cash and investments of governmental activities	<u>\$ 2,286,014</u>

GARY COMMUNITY SCHOOL CORPORATION
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH AND INVESTMENTS
 PROPRIETARY FUND
 For The Year Ended June 30, 2005

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 1,245,741
Sale of property, adjustments and refunds	206,531
Transfers	<u>2,788,210</u>
Total receipts	<u>4,240,482</u>
Disbursements:	
Support services	1,845,112
Nonprogrammed charges	<u>5,799</u>
Total disbursements	<u>1,850,911</u>
Changes in cash and investments	2,389,571
Cash and investments - beginning	<u>12,103,241</u>
Cash and investments - ending	<u>\$ 14,492,812</u>

The accompanying notes are an integral part of the financial statements.

GARY COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUND
For The Year Ended June 30, 2006

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 556,025
Sale of property, adjustments and refunds	1,287,514
Transfers	<u>195,918</u>
Total receipts	<u>2,039,457</u>
Disbursements:	
Support services	<u>1,745,897</u>
Changes in cash and investments	293,560
Cash and investments - beginning	<u>14,492,812</u>
Cash and investments - ending	<u>\$ 14,786,372</u>

The accompanying notes are an integral part of the financial statements.

GARY COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Agency Funds</u>
Cash and investments	<u>\$ 1,054,899</u>

The accompanying notes are an integral part of the financial statements.

GARY COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUND
June 30, 2006

<u>Assets</u>	<u>Agency Funds</u>
Cash and investments	<u>\$ 702,151</u>

The accompanying notes are an integral part of the financial statements.

GARY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS

I. 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 School Corporation's financial reporting entity is composed of the following:

Primary Government: Gary Community School Corporation

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Joint Venture

The School Corporation is a participant in a joint venture to operate the Northwest Indiana Public School Study Council (Study Council) which was created December 10, 1969, for improvement of education and for the study of problems and issues involved in public education. A board composed of a member from each of the 24 participating school corporations governs the Study Council. The School Corporation pays \$1,000 annually to belong to the Study Council. Complete financial statements for the Study Council can be obtained through the Merrillville Community School Corporation, 6701 Delaware Street, Merrillville, Indiana, 46410.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash Activities displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business type activities are financed in whole or in part by fees charged to external parties for goods and services. However, there are no business-type activities to report at this time.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

GARY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The textbook rental fund accounts for receipts related to the rental of textbooks and workbooks furnished to students for a designated fee and for the purchase of textbooks, workbooks, and repair of textbooks.

The common school loan - Williams fund accounts for the loan proceeds to be used for the renovation of Williams Elementary School.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The construction fund accounts for the proceeds from the sale of general obligation bonds for the purpose of constructing three new elementary schools.

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for receipts and disbursements related to funding and payment of insurance claims related to torts, damage or destruction of assets and job related illness and injuries.

Agency funds account for assets held by the School Corporation as an agent for other governmental entities and insurance agencies.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The cash and investment 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. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

GARY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds. There is one internal service fund for self-insurance. This fund is supported by transfers from the General Fund.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. 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% 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 become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 10 to 13 days per year, dependent on job classification. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is paid to employees at a rate based upon number of years of service through cash payments upon separation of employment.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 to 25 days per year based upon the number of years of service. Vacation leave does not accumulated from year to year except for administrators. Unused vacation leave is paid to administrators at a rate based upon the number of years of service upon separation of employment.

GARY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

c. Personal Leave

School Corporation employees earn personal leave at the rate of 2 days per year. Administrative employees earn 3 personal leave days per year. Personal leave does not accumulate from year to year.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as receipts (bonds and loans) and payment of principal and interest is reported as disbursements (debt services).

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

GARY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

GARY COMMUNITY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

B. Cash and Investment Balance Deficits

At June 30, 2005, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines as referenced in state statute:

Fund	2005
Common School Fund Junedale (588-4)	\$ 767,167
QZAB Restoration (380-5)	31,834

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Investment Policies

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the School Corporation to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

GARY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Transfer From	Transfer To	2005	2006
General Fund	Transportation Operating	\$ 3,000,000	\$ -
	Construction	2,510	-
	Other governmental	8,030,454	3,895,992
	Internal Service	2,788,210	195,918
Common School Williams	Capital Projects	-	8,118
	Other governmental	-	2,067,222
Capital Projects	Construction	1,046	-
Other governmental	General Fund	1,551,363	10,157,040
	Construction	1,880	-
	Other governmental	1,121,139	2,038,595
Internal Service	Construction	5,799	-
Totals		<u>\$ 16,502,401</u>	<u>\$ 18,362,885</u>

The School Corporation typically uses transfers for cash flow purposes according to various statutes.

C. Restatements and Reclassifications

For the year ended June 30, 2004, certain changes have been made to the financial statements to more appropriately reflect financial activity of the School Corporation. The following schedule presents a summary of restated beginning balances by opinion unit. Prior period adjustments represent interest and investments transactions in the prior period that was not posted properly in the financial records.

Opinion Unit	Balance as Reported June 30, 2004	Prior Period Adjustments	Balance as Restated July 1, 2004
Statement of Cash Activities:			
Governmental activities	<u>\$ 46,191,344</u>	<u>\$ (459,111)</u>	<u>\$ 45,732,233</u>
Statement of Receipts, Disbursements, and Cash and Investment Balances:			
Governmental funds:			
General Fund	<u>\$ 656,255</u>	<u>\$ (459,111)</u>	<u>\$ 197,144</u>

IV. Other Information

A. Risk Management

The School Corporation is 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 (excluding postemployment benefits); and natural disasters.

GARY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

The risks of errors and omissions; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Self-Insurance Fund

The School Corporation has chosen to establish a risk financing fund for risks associated with torts, theft of, damage to, and destruction of assets and job related illnesses or injuries to employees. The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. There is no limit as to the amounts that can be paid from this fund. Amounts are transferred into the fund from the General Fund in amounts sufficient to establish a predetermined reserve. The Corporation maintains a one million dollar line of credit dedicated to auto liability claims.

B. Related Party Transaction

The School Corporation had material transactions with Carolyn Keith, Corporation Treasurer, in relation to payments made to Inner-City Computers and Consultants, Inc., in the amount of \$194,790.40. Mrs. Keith's husband is the President and co-owner of the company.

C. Holding Corporation

The School Corporation has entered into a capital lease with the 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. Lease payments during the year totaled \$1,383,500.

D. Subsequent Events

Property Taxes

Property tax rates and levies for 2004 taxes payable in 2005 were not established by February 15, 2005, as required by state statute due to the delay in the completion of the reassessment of Lake County. The 2005 property tax rates and levies were not established until October 2004; thus, the property taxes were not billed or collected timely. The final settlement of the 2004 taxes payable in 2005, were distributed to the various governmental entities in March 2006. The 2005 pay 2006 tax rates and levies were also not established when required. The 2005 pay 2006 property tax bills were mailed on August 1, 2006, with the spring installment due by August 29, 2006, and the fall installment due by November 14, 2006.

On June 28, 2005, the Lake County Council adopted Ordinance 1264I, which establishes a credit for the excessive residential property taxes. The credit will apply to "qualified residential property" in Lake County for 2004 taxes due and payable in 2005. A "qualified residential property" is defined as a property that is eligible for a homestead credit as defined in Indiana Code 6-1.1-20.9-1. The amount of the credit is the amount by which the person's property tax liability attributable to the person's "qualified residential property" for property taxes first due and payable in the calendar years provided in the Ordinance exceeds 2% of the gross assessed value of that same property.

GARY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

On August 23, 2005, the County Council adopted Ordinance 1266F, which allows the County Treasurer to borrow money repayable over a term not to exceed five years in an amount sufficient to compensate the political subdivisions located wholly or in part in the County for the reduction of property tax collections due and payable in 2005 that results from the application of the 2% credit authorized by Ordinance 1264I.

E. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF 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 member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF 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. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

GARY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 1,586,511
Interest on net pension obligation	(111,522)
Adjustment to annual required contribution	127,088
Annual pension cost	1,602,077
Contributions made	1,708,764
Decrease in net pension obligation	(106,687)
Net pension obligation, beginning of year	(1,538,240)
Net pension obligation, end of year	\$ (1,644,927)
Contribution rates:	
School Corporation	5.75%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 1,763,130	101%	\$ (801,526)
	06-30-04	1,147,814	164%	(1,538,240)
	06-30-05	1,602,077	149%	(1,644,927)

GARY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), 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 TRF 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 member's contributions, set by state statute at 3% 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.

TRF 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:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

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.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$2,060,553, \$2,234,006, and \$2,018,019, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

GARY COMMUNITY SCHOOL CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 34,768,295	\$ 34,708,015	\$ 60,280	100%	\$ 26,173,564	0%
07-01-04	35,367,705	39,113,275	(3,745,570)	90%	27,998,548	(13%)
07-01-05	36,716,666	43,463,221	(6,746,555)	84%	27,428,268	(25%)

GARY COMMUNITY SCHOOL CORPORATION
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 11,806,994
Buildings	87,000,869
Machinery and equipment	<u>45,138,066</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 143,945,929</u>

GARY COMMUNITY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Present Value of Net Minimum Lease Payments	Ending Balance	Due Within One Year
Governmental Activities:			
Capital leases:			
Junedale and Marquette Elementary School Buildings	\$ <u>19,935,000</u>	\$ 31,124,500	\$ 585,000
Other long-term debt:			
Notes and loans payable:			
Tax Anticipation Warrants		26,312,231	26,312,231
Common School Loans		25,730,499	2,528,999
Bonds payable:			
General obligation bonds:			
School Improvement Bonds, 2001		1,166,670	166,666
School Improvement Bonds, 2006		1,395,000	155,000
School Improvement Bonds, 2004		<u>2,315,000</u>	<u>905,000</u>
Total governmental activities long-term debt		<u>\$ 88,043,900</u>	<u>\$ 30,652,896</u>

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

TRANSFER TUITION

The calculations and billing for transfer tuition for the school year ended June 30, 2006, were not completed until November 8, 2006; therefore, the final settlement collections were not performed.

Indiana Code 20-26-11-14(b) states: "Not later than October 1 following the end of a school year, a school corporation shall send a final statement of the amount of transfer tuition due to the state agency and to any school corporation that owes transfer tuition to the school corporation."

AVERAGE DAILY MEMBERSHIP (ADM) - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates enrollment figures on Form 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school years ending June 30, 2005 and 2006.

We were unable to determine count discrepancies by school, because the summary listings from the individual schools did not always agree to the individual listings by school maintained at the School Corporation. School Corporation Officials explained that each school is to maintain a list of students attending that school on the dates indicated. School building officials are supposed to make adjustments to the computerized documentation from which the ADM Count Reports for the entire School Corporation are generated. School Corporation Officials also indicated the assumption that the corrections are being made in the system, but there is not any oversight to ensure that the corrections are made.

The enrollment count dates for the 2004-2005 and 2005-2006 school years were September 17, 2004, and September 16, 2005, respectively. The difference between the count reported on the ADM and the verified figures are shown below:

<u>School Years</u>	<u>Grade</u>	<u>Count as Reported on Form Number 30A</u>	<u>Actual Enrollment Figures</u>	<u>Difference</u>
2004-2005	Kindergarten	557.50	560.50	(3)
	1 Through 12	15,097	15,088	9
2005-2006	Kindergarten	524	525	(1)
	1 Through 12	14,273	14,098	175

One school did not provide a listing of the students to support the ADM Counts for the 2004-2005 school year. Two schools did not maintain lists of students to support the ADM Counts for the 2005-2006 school year. We used the summary count sheets provided from the School Corporation for those schools in order to determine if the School Corporation under or over reported.

The honors diploma counts did not agree to counts reported, for the 2004-2005 and 2005-2006 school years, which would have been determined in June 2004 and June 2005, respectively. The difference between the count reported on the Form 30A and the verified figures are shown below:

GARY COMMUNITY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

School Years	Honors Diplomas as Reported on Form 30A	Actual Honors Diplomas	Difference
2004-2005	31	33	(2)
2005-2006	45	44	1

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

SCHOOL LUNCH

The School Corporation prints monthly reports that record the number of free, reduced and paid meals served for breakfast and lunch each day. Reports for seven out of ten months indicated more free lunches were served than were claimed for reimbursement from the Indiana Department of Education. Reports for three out of ten months indicated more reduced priced meals served than were reported to the Indiana Department of Education for reimbursement. The School Corporation's computer system only allows a certain percentage of free and reduced priced lunches served to be claimed. Each school has a predetermined percentage of free and reduced priced meals that can be claimed which is based on the number of applicants. Since the control is in place, the School Corporation had to decrease the number of meals claimed for free and reduced priced meals to agree with the percentage. Thus, the actual number of students who receive free or reduced priced lunches while on the federal school lunch program are not being claimed. Instead, the School Corporation is reporting the numbers based on a percentage that they are allowed to claim.

7 CFR 210.8(c) states in part: "Content of claim. The Claim for Reimbursement shall include data in sufficient detail to justify the reimbursement claimed and to enable the State agency to provide the Report of School Program Operations required under Sec. 210.5(d) of this part. Such data shall include, at a minimum, the number of free, reduced price and paid lunches and meal supplements served to eligible children. The claim shall be signed by a school food authority official."

ACCOUNTABILITY FOR TEXTBOOK PURCHASES

Textbook invoices dated July 25, 2005, were not paid until February 15, 2006. The delay in payment was due to the lack of signatures on the receiving reports. The purchasing department indicated that they make numerous phone calls and requests for signatures on the receiving reports so that the bills can be paid. Textbooks are delivered to each of the schools during the summer when most staff members are not working. Procedures have not been established to designate who should be responsible for inventorying new textbooks, and signing the receiving reports. Thus, the books are distributed to the students prior to the receiving reports being verified and signed.

Indiana Code 5-11-10-1.6 (c) states in part:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
 . . ."

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

PAYMENTS NOT POSTED TO THE RDS SYSTEM

The School Corporation's "Textbook Rental Fee Collection Procedures," states in part: "The school treasurer will issue a State Board of Accounts approved receipt and post all payments on the RDS system." The RDS system is the School Corporation's financial accounting computerized software. Administrators and parents are given information as to student textbook rental fee billings, collections, and balances due from the RDS software.

We compared (by school) amounts posted to the extra-curricular account records as collected for textbook rental to amounts entered in the RDS system for collections on textbook rental and noted significant differences. The accumulated total for all schools from the RDS report showed \$55,609.99 in collections for the 2004-2005 school year, while the sum of the extra-curricular account records showed \$84,697.47 in collections. The Form 9, the School Corporation's financial report to the State, shows the total received by the School Corporation from all of the schools shows \$89,329.17. The RDS reported total was \$99,995.84, the extra-curricular account records total was \$108,387.17, and the Form 9 total was \$107,450.22 for the 2005-2006 school year.

The variances by individual schools for the 2004-2005 school year ranged from the RDS report being over the extra-curricular account totals by \$120.00 for an elementary school to the RDS report being less than the extra-curricular account records by \$10,696.97 for a high school. The variances by individual school for the 2005-2006 school year ranged from the RDS report being over the extra-curricular account totals by \$141 for a middle school to the RDS report being less than the extra-curricular account records by \$1,332 for the same high school noted for the 2004-2005 school year. Therefore, all payments are not entered into the RDS system, or are entered incorrectly.

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 School Corporations, Chapter 9)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

STUDENTS ENTITLED TO FREE TEXTBOOKS

The School Corporation maintains computerized records on students entitled to free textbooks, as well as computerized records on students who have paid for textbooks. "Payment History" reports also exist which document, by student, amounts billed for textbook rental, amounts paid, and balances due. We found students entitled to free textbooks who had also paid for the textbooks. The payments were made prior to determining eligibility for free textbooks. Both of the payments have been posted to the student's account, which results in a negative balance due, but none of the overpayments are refunded. According to the School Corporation's "Textbook Rental Fee Collection Procedures" waiver of fees section, "Parents/guardians who

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

complete the free and reduced lunch applications, and qualify for lunch assistance, receive a waiver of book rental fees." The Fee Changes From Schedule Changes section states in part: "At the end of the school year, students with credits due may request a refund, provided the book rental fees were NOT on an income eligibility waiver."

Indiana Code 20-33-5-3 (a) states: "If a parent of a child or an emancipated minor who is enrolled in a public school, in kindergarten or grades 1 through 12, meets the financial eligibility standard under section 2 of this chapter, the parent or the emancipated minor may not be required to pay the fees for school books, supplies, or other required class fees. The fees shall be paid by the school corporation that the child attends."

TEXTBOOK RENTAL REIMBURSEMENT CLAIM TO STATE

The "Financial Assistance for Student Textbook Reimbursement 2005-2006 School Year" did not agree to audited computations based upon book costs and consumables. We computed amounts due for textbooks and consumables based on reports given to us by School Corporation Officials for kindergarten through grade 6. Except for grade 5, amounts claimed were less than the actual costs.

Records could not be located for audit to support the amounts claimed for reimbursement for the 2004-2005 school year.

Indiana Code 20-33-5-7(c) states in part:

"To be guaranteed some level of reimbursement from the department, the governing body of a school corporation shall request the reimbursement before November 1 of a school year. (d) In its request, the governing body shall certify to the department:

- (1) the number of students who are enrolled in that school corporation and who are eligible for assistance under this chapter;
- (2) the costs incurred by the school corporation in providing:
 - (A) textbooks (including textbooks used in special education and high ability classes) to these students;
 - (B) workbooks and consumable textbooks (including workbooks, consumable textbooks, and other consumable instructional materials that are used in special education and high ability classes) that are used by students for not more than one (1) school year; and
 - (C) instead of the purchase of textbooks, developmentally appropriate material for instruction in kindergarten through the grade 3 level, laboratories, and children's literature programs; . . ."

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

DISTRIBUTION OF TEXTBOOK RENTAL RECEIPT BOOKS

Textbook rental receipt books are ordered by the School Corporation and distributed as requested to the Extra-Curricular Treasurers. A listing is maintained of the textbook rental receipt books that are distributed to each of the schools, but the log was inaccurate. Receipt books with the same number sequence were listed more than once as having been distributed to more than one school, and receipt books used by some Extra-Curricular Treasurers were not listed at all. Extra-Curricular Treasurers can request books without having used all receipts in a book, and the used books are not returned to the School Corporation upon completion.

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. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CONFLICT OF INTEREST

Some individuals have not been filing conflict of interest disclosure statements in potentially applicable situations. A similar comment appeared in the prior audit report.

Indiana Code 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony. . . ."

"(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served . . . (3) if the public servant; (A) is an elected public servant . . . and (B) makes a disclosure under subsection (d)(1) through (d)(6). . . ."

"(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase . . ."

"(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant."

"(k) As used in this section, 'dependent' means any of the following: (1) The spouse of a public servant. (2) A child, stepchild, or adoptee (as defined in IC 31-3-4-1) of a public servant who is: (A) unemancipated; and (B) less than eighteen (18) years of age. (3) Any individual more than one-half (1/2) of whose support is provided during a year by the public servant."

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

TRAVEL/CREDIT CARD CLAIMS

The Board of School Trustees has approved the use of credit cards by certain selected School Corporation Officials. The policy states in part: "... credit cards may be used for any purpose covered by the travel policy. They may also be used for any school related purchases including but not limited to educational periodicals, and materials; and/or any other expenses authorized by the Board. The Board also recognizes the need for individual Board members to meet with their constituents at dining establishment to discuss school-related business. To that end, the Board will approve such meal expenditures."

A review of the credit card statements and travel claims paid by the School Corporation revealed the following:

1. The travel policy did not address the School Corporation's boundaries for purposes of reimbursing travel (i.e., outside a 50-mile radius of the office, outside of the county, etc). A hotel bill for one individual was reimbursed for The Palmer House Hilton in Chicago for 2 nights at \$275.81 per night which is located 40 miles away.
2. Detail receipts were not submitted for meals charged directly to hotel bills (i.e., room service, hotel restaurants). Dining charges of \$57.99 were included on a hotel bill, but itemized receipts were not provided to show what was purchased.
3. Many meal charges/reimbursements were paid based solely on a charge card slip. The reason and attendees of the meetings were not always noted. One board member had a \$59 meal at Red Lobster in Merrillville, which is only about 10 to 15 miles from Gary, on a Sunday with no explanation as to the nature of the business or who was present at this meal. The same Board member had an \$84 meal at the Merrillville Olive Garden on a Sunday with clergy without noting the nature of the business purpose. Another Board member, also charged meals to local restaurants such as Miller Bakery Cafe' on a Friday night for a cost of \$81.60 with no explanation as to the business purpose, or who was present at this meal.
4. Local business lunches were paid by the School Corporation from the travel accounts, rather than the designated promotional account. One individual charged the travel account for meals purchased from Key Market in the amount of \$61.59 for staff during a boil alert. Additionally, the individual purchased food from Kentucky Fried Chicken and Key Market for a total cost of \$191.76 for the Emerson VPA Choir and the University choir members. Both were posted to the travel account.
5. Some School Corporation administrators did not use the prescribed Mileage Claim, Form 101, for travel reimbursements. We noted instances of using Form 101 incorrectly by not recording the odometer readings from start to finish.
6. Some administrators and School Board members use the credit card to charge for gasoline when only individuals driving School Corporation owned vehicles are allowed to claim for actual cost of gasoline.
7. Administrators and School Board members purchased various items with the credit cards and, therefore, were able to bypass the claims process for purchases. Examples of such items include professional literature/books, office supplies, candy, internet service, photo copies, and software packages.

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(Continued)

8. The School Corporation credit card was used to make payments for a rental car, which was for personal use. The administrator reimbursed the School Corporation through bi-weekly payroll deductions. The total cost exceeded \$1,800. Additionally, the administrator used the credit card to pay for home internet service and currently still owes the School Corporation \$107.50 for these charges. Furthermore, the administrator purchased a vocabulary audio program with the credit card for \$165.90.
9. A trip to Tokyo, Japan, was charged to the School Corporation credit card at a cost to the School Corporation of \$3,144.65. Approval by the School Board was not presented for audit for the trip. Also, an Apple computer part was purchased using the credit card for \$90.10 when the School Corporation does not own apple computers. The School Corporation has requested that \$3,234.75 be refunded. As of December 12, 2006, no payment has been received.
10. Reimbursements to the School Corporation from credit card users totaled over \$7,200 for purchases made that were either for personal use items or lacked a charge slip or receipt. Numerous requests were made by the purchasing department for documentation to support the purchases made on the School Corporation credit cards.
11. Many of the charges for hotels were supported by confirmations as opposed to an itemized vendor receipt.
12. The School Board hosted a two day retreat/training for ten people in Indianapolis, which consisted only of Gary School Corporation Board members and administrators. The total cost of the two day retreat exceeded \$3,000. Costs included: at least \$154.10 per night per person for a hotel room, \$742 rental for the conference room, and \$803.84 for meals provided for one of the conference days.
13. The School Corporation does not have a policy approved by the School Board on the reimbursement rate for mileage. There is only a memorandum dated January 18, 2000, to principals and administrators from the executive director of business services indicating the increase from \$0.25 per mile to \$0.31 per mile. The memorandum was signed and approved by the Superintendent and Assistant Superintendent.
14. The travel policy states in part that reimbursement of "meals not to exceed the total of fifty dollars per day. Exception for cities with a high index cost requires prior approval." We noted instances of meals reimbursed for over \$50 a day.

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Each governmental unit should adopt a written travel policy in conformity with applicable statutes. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 20-26-5-4 states in part:

"In carrying out the school purposes of a school corporation, the governing body acting on the school corporation's behalf has the following specific powers: . . .

(3) To appropriate from the school corporation's general fund an amount . . . to promote the best interests of the school corporation through:

(A) the purchase of meals, decorations, memorabilia, or awards . . ."

The Mileage Claim (General Form 101) is designed to serve as a claim for mileage reimbursement to be presented to the school board for allowance. Administrators, teachers and other employees may be reimbursed for actual miles traveled in their own motor vehicles on official business of the school corporation at a reasonable rate per mile as fixed by a resolution of the school board. Reimbursement mileage shall not include travel to and from the employee's home and place of employment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 2)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

All claims, invoices, receipts, and accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim, may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

PROMOTION OF SCHOOL BUSINESS

The School Corporation has established a promotion of school business appropriation as authorized by Indiana Code 20-26-5-4. Items are being paid from the travel budget line item instead of from the promotional appropriation. These included disbursements for local lunches with other local officials, graduation dinners and awards, and food for office staff. Items reviewed indicated disbursements paid from the travel appropriation totaled in excess of \$3,000 for 2004-2005 and in excess of \$6,000 for 2005-2006. Posting these items to the promotional appropriation, would have had disbursements in excess of the \$12,500 statutory limitation by about \$1,000 in 2004-2005 and \$2,100 in 2005-2006.

Indiana Code 20-26-5-4 (3) concerning promotion of school provides a board of school trustees the authority:

"To appropriate from the school corporation's general fund an amount, not to exceed the greater of three thousand dollars (\$3,000) per budget year or one dollar (\$1) per pupil, not to exceed twelve thousand five hundred dollars (\$12,500), based on the school corporation's previous year's ADM, to promote the best interests of the school corporation through:

GARY COMMUNITY SCHOOL CORPORATION
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(Continued)

- (A) the purchase of meals, decorations, memorabilia, or awards;
- (B) provision for expenses incurred in interviewing job applicants; or
- (C) developing relations with other governmental units."

ERROR CORRECTIONS THROUGH NEGATIVE DISBURSEMENTS

Numerous corrections were made to transfer disbursements from one fund to another. Officials made these corrections by posting negative disbursements. The net effect of the negative disbursements was \$5,417,319.45 for the six month period from July 1, 2005 to December 31, 2005. Additionally, reviews were not performed prior to final posting of disbursements to ensure that the disbursement is being posted to the correct fund to avoid such error correction procedures. A similar comment was in the prior audit report.

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)

PAYMENTS NOT POSTED TO CORRECT FUND OR ACCOUNT

The School Corporation for the fiscal years ended June 30, 2005, and June 30, 2006, posted \$578,642.79 and \$171,833.33, respectively, of expenditures for remodeling projects and equipment purchases to the Capital Projects Fund (035), Purchase of Movable Equipment (253700) which is not a prescribed account within the Capital Projects Fund. Additionally, the School Corporation paid the union dues of various building trades' personnel from the Capital Projects Fund, Staff Services - Employment and Placement (264500).

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CAPITAL ASSETS

Some accounts payable vouchers reviewed were for purchases of capital assets totaling \$108,624, which were not recorded as additions in the capital asset records. Items that were not included were not coded properly in order to be included in the capital asset listing.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Assets Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

GARY COMMUNITY SCHOOL CORPORATION
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(Continued)

OFFICIAL BOND

The School Corporation filed the official bonds with the Lake County Recorder in December of 2002. The bond is a blanket bond with coverage for named individuals instead of by position. Some of the individuals listed are no longer employees. Additionally, new employees have been hired and not included in the bond coverage since the blanket bond has not been updated since December 2002. The bond is made payable to the School Corporation instead of the State of Indiana.

For each school year commencing July 1, the treasurer of the school corporation, and the deputy treasurer if one is appointed, shall each give a bond for the faithful performance of duty, written by an insurance company licensed to do business in the State of Indiana, in an amount determined by the governing body. The treasurer shall be responsible under the treasurer's bond for the acts of any deputy treasurer appointed as provided in Indiana Code 20-26-4-5. All bonds must be made payable to the State of Indiana, Indiana Code 5-4-1-10; approved by the governing body of the school corporation, and filed and recorded in the office of the county recorder within ten (10) days after approval, Indiana Code 5-4-1. No charge is made for recording official bonds, Indiana Code 36-2-7-10.

The treasurer of each extra-curricular account shall provide a faithful performance of duty bond for one year, the term of the office. The amount of the bond shall be fixed and approved by the school superintendent and principal approximating the total amount of anticipated funds which will come into the hands of the treasurer at any one time during the regular school year, Indiana Code 20-26-6-5. The bond shall be filed in the office of the county recorder, and a new bond shall be issued and filed each year. If either school lunch funds or textbook rental funds are handled through an extra-curricular account, the governing body of the school corporation shall approve the amount of the bond of the treasurer, Indiana Code 20-26-5-17. The bond may be either an individual bond for each extra-curricular treasurer or a single blanket position bond for all extra-curricular treasurers, Indiana Code 20-26-6-5.

Whenever deemed necessary to bond any other employee of a school corporation, the governing body may bond or cause to be bonded such employee or employees by either individual or blanket bonds conditioned upon faithful performance of duties, and in amounts and with surety approved by the school board. We recommended bond coverage for any employee handling funds. A blanket bond should not include any officer, deputy or employee for whom an individual bond is required by statute. Individual bonds are required for the school corporation treasurer and the deputy treasurer. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

MISSING RECORDS, MISSING OR ERRONEOUS SA-5 FINANCIAL REPORTS AND LEDGERS (Applies to Emerson Visual Performing Arts High School, Gary Area Career Center, Lincoln Achievement Center, Dunbar-Pulaski and Bailly Middle, Brunswick Elementary, Drew Elementary, Jefferson Elementary, Williams Elementary and Melton Elementary Schools)

Emerson Visual Performing Arts

Records not presented for audit included:

1. Control ledgers for the period from December 2004 through May 2005.
2. Fund ledgers for the calendar year 2005.
3. Prescribed Purchase Orders (Form SA-1) for the period from July 2004 through January 2005.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Gary Area Career Center

Financial Reports were not presented for audit for the periods of January 1, 2005 to June 30, 2005, July 1, 2005 to December 31, 2005, and January 1, 2006 to June 30, 2006.

Postings to the ledgers did not indicate to whom checks were issued or from whom money was received.

Lincoln Achievement Center

Records not presented for audit included: Original and duplicate receipts, duplicate deposit tickets indicating the composition (cash, check, and money order), the original receipts for voided receipts, some original checks which cleared the bank, and some purchase orders.

Dunbar-Pulaski Middle School

A Financial Report Form SA-5 was not presented for audit for the period of July 1, 2004 to December 31, 2004.

A transfer in the amount of \$47 between the PTI and the Student Affairs accounts, and a transfer of \$1,308.25 between the GAA and the Homecoming accounts were not posted; Officials changed the subsequent month's beginning balances of those funds to reflect the transfers.

Bailly Middle School

Receipts and disbursements for many funds listed on the Financial Reports Form SA-5 did not agree to the individual funds ledgers.

Mathematical errors were noted when recalculating the overall total of the receipts and disbursements on the Financial Reports, as well as errors noted in recalculating the ending individual fund balances.

Brunswick Elementary School

We were informed most financial record information from September 1, 2004 to December 31, 2004, was destroyed due to a leak in the roof at the School having damaged the records; thus making the records unavailable for audit.

Drew Elementary School

Records not presented for audit included:

1. Financial Reports for the periods from July 1, 2004 to December 31, 2004, and January 1, 2005 to June 30, 2005.
2. Bank statements, reconcilements, and cancelled checks for the period from July 1, 2004 to June 30, 2005.
3. Duplicate check copies for July 1, 2004 to September 30, 2005.

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(Continued)

4. Duplicate bank deposit slips for July 1, 2004 to February 28, 2006.
5. Purchase orders and supporting documentation for the purchases from July 1, 2004 to September 30, 2005.
6. Control and subsidiary ledgers for October 1, 2004 through September 30, 2005.
7. Duplicate receipts for those issued from July 1, 2004 through September 30, 2005.
8. Meal count sheets for July 1, 2004 to June 30, 2005.

Jefferson Elementary School

The Financial Report for the period of January 1 to June 30, 2005, was not presented for audit.

Additionally, duplicate deposit tickets for the period from March 10, 2005 to April 10, 2005, were not presented for audit.

Williams (formerly Carver) Elementary School

A series of checks in the name of Carver Elementary School were not presented for audit. Officials stated the checks were not used. We did not find any of the checks clearing the bank.

Melton Elementary School

Duplicate deposit tickets were not presented for audit for the period from October 30, 2004 to March 26, 2006. Therefore, receipt composition could not be verified to the deposit composition (i.e., cash or check receipted and cash or check deposited).

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

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)

Indiana Code 20-41-1-9 states in part: "(a) The treasurer shall deposit all receipts in one (1) bank account. The receipts shall be deposited without unreasonable delay. . . ."

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

RECEIPT COMPOSITION AND DEPOSITS (Applies to Gary Area Career Center, Lincoln Achievement Center, Martin Luther King Academy, Wirt High School, Bailly and Dunbar-Pulaski Middle Schools, Jefferson, Kuny, Ivanhoe, and McCullough Elementary Schools)

Gary Area Career Center

Receipts did not always indicate from whom the money was received. Also, many receipts examined were deposited over one week after the receipt date.

Receipts are not issued by sponsors for the collection of GED fees.

Lincoln Achievement Center:

The receipt composition did not always agree to the bank deposit composition. Four of the deposits examined included cash as opposed to the checks indicated on the receipts.

Receipts were deposited from 10 to 49 days after the receipt date.

Five deposits examined did not agree to the accumulated total of the receipts which were to have been included in those deposits.

Martin Luther King Academy

Receipts were not always issued when money was collected.

Wirt High School

Wirt High School did not designate the receipt composition on all receipts issued, or when collections included both cash and checks the amounts of each were not indicated on the receipts.

We noted instances where receipts collected for three separate days totaled \$1,363, \$9,084 and \$651.

Bailly Middle School

Five of the deposits examined revealed that the receipt composition did not agree to the bank composition. The total deposit amount exceeded the total of the receipts for two of the five.

Dunbar-Pulaski Middle School

The receipt composition in six deposits examined did not agree to the bank deposit composition. All six of the cases revealed that the Treasurer was found to be cashing her own personal checks.

Additionally, for three deposits, composition could not be compared because the deposit slips were not provided for audit.

Jefferson Elementary School

Some receipts were issued up to 19 days after the deposit of the collections. Some receipts were deposited up to 31 days after the date indicated on the receipt as received.

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(Continued)

Receipt numbers posted to the ledger for a given time period did not agree to the receipts issued for that same time period. The receipt number range according to the receipt books for February 2005 was 424132 to 424168, while the receipt numbers posted to the ledgers included receipt number 424088 dated December 9, 2004. Receipt numbers 424153 to 424155 dated February 16, 2005, were posted to the ledger in January 2005. Similar examples were found during the July 1, 2005 to June 30, 2006, school year.

Kuny, Ivanhoe and McCullough Elementary Schools

The composition of the receipts did not always agree to the composition indicated on the bank deposit tickets.

The treasurer shall deposit without unreasonable delay, all receipts in one bank account to be known as the "(name of school) School Extra-Curricular Account." (Accounting and Uniform Guidelines Compliance Manual for Extra-Curricular Accounts, Chapter 1)

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."

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)

The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of payors. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

BANK ACCOUNT RECONCILIATIONS (Applies to Martin Luther King Academy, Bethune Early Childhood Development Center, and Bailly Middle School)

Martin Luther King Academy

Depository reconciliations of the bank account balances to the ledger or reported balances did not agree. The reconciled bank balance was in excess of the reported balance by \$247.51 at the end of July 2005 when the School closed.

Review of other monthly reconcilments showed that differences were adjusted monthly by the Treasurer by posting an entry in the ledger for the amount that account was cash short or long.

Bethune Early Childhood Development Center

Bank account reconciliations are not prepared monthly.

The July 30, 2006, bank reconciliation includes \$12,073.06 of outstanding checks all payable to Laidlaw Bus Service with some dating back to August 6, 2004. No documentation was presented for audit substantiate the payments. The Treasurer issued checks based upon an estimate. Laidlaw Bus Services was contacted to provide invoices. The invoices accounted for only \$6,350.93 of the amount paid. Officials at the bus company indicated that the person handling the matter left employment and they are currently trying to sort through the items.

Additionally, generic checks are being used in lieu of the prescribed form, Check and Register of Checks Form SA-2.

GARY COMMUNITY SCHOOL CORPORATION
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(Continued)

Bailly Middle School

The June 30, 2005, reconciliation as prepared by the Treasurer indicates a cash necessary to balance in the amount of \$319.69. The June 30, 2006, bank account reconciliation for the extra-curricular account was not presented for audit.

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

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

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)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

DEPOSIT IN TRANSIT (Applies to Tolleston Middle School)

The bank reconciliation performed and verified as of June 30, 2006, included a deposit in transit in the amount of \$382.18 which had been carried over from April 2005. We determined that the \$382.18 was a deposit that was picked up by an armored truck but never deposited into the bank account. We also determined that the deposit was comprised of three checks. The Treasurer contacted the issuers of the checks and found that the checks had not cleared their bank accounts either.

As of December 4, 2006, only one of the issuers is processing a replacement check. The other vendors are reviewing their records.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

CONDITION OF RECORDS (Applies to Emerson Visual Performing Arts and Roosevelt High School)

Emerson High School

The individual funds ledger is not in agreement with the control ledger of all funds. The SA-5 Schedule of Balances as of June 30, 2006, is in agreement with the control ledger. We have determined that the transactions recorded in the control ledger are accurate. We noted the following discrepancies in the individual fund ledgers:

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(Continued)

1. The June 2006 receipts and disbursements recorded in the Cafeteria Fund did not agree with the receipts and disbursements recorded in the control ledger.
2. Balances reported for some funds did not agree to the ledger balances as of the date of the report.
3. The Class of 2010 fund had a receipt in the amount of \$4,247.51 recorded in the June 2006 control ledger, but the receipt was not recorded in the Class of 2010 Fund ledger. The error caused the Class of 2010 Fund ledger balance at June 30, 2006, to be a negative \$2,926.57; however, the ending balance on the SA-5 report at June 30, 2006, was \$1,320.94.
4. A deposit dated September 23, 2005, in the amount of \$7,860.96 was deposited in the bank 31 days after the issuance of the receipts.
5. Nine receipts were written out of sequential order.
6. Four receipts dated August 23, 2005, were not posted in the Control Ledger.
7. One receipt was indicated as "void" in the receipt book. A check number was indicated on the receipt. The check number was listed on the deposit ticket; however the receipt was not recorded in the Control Ledger.

Roosevelt High School

The following items were not presented for audit:

1. Financial Reports (Form SA-5) for the periods of January to June 2005, July to December 2005, and January to June 2006.
2. Control Ledgers for the period of January to June 2006.
3. Bank Reconciliations for July 2005 to present.
4. Fund ledgers for July 2005 to present.

The composition of the receipt (cash, check, or money order) was not always designated. If a combination of cash, check, and/or money orders were received, the fields on the receipts were simply marked with an "X" rather than designating the amount of each payment type received.

The beginning balances of one of the funds could not be verified to the ledgers and records are not being maintained timely.

Deposits in transit could not always be traced to receipts or subsequent deposits. The deposit in transits listed on the bank reconciliations appeared to be utilized as a "plug" figure.

Indiana Code 20-41-1-3 (a) states:

"A person who has charge of the collection, custody, and disbursement of funds collected and expended to pay expenses incurred in conducting any athletic, social, or other school function, the cost of which is not paid from public funds, shall:

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (1) keep an accurate account of all money received and expended, showing the:
 - (A) sources of all receipts;
 - (B) purposes for which the money was expended; and
 - (C) balance on hand; and
- (2) file a copy of the account with the township trustee, board of school trustees, or board of school commissioners within two (2) weeks after the close of each school year."

OLD OUTSTANDING CHECKS (WARRANTS) (Applies to Ivanhoe, Williams, and Marquette (formerly Nobel) Elementary Schools, Bailly Middle School, and Roosevelt High School)

The bank reconcilements listed checks outstanding in excess of two years.

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states in part:

"Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the:

- (1) board of finance of a political subdivision; or
- (2) fiscal body of a city or town.

The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

GARY COMMUNITY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

OVERDRAWN CASH AND INVESTMENT BALANCES (Applies to Gary Area Career Center, Lincoln Achievement Center, Tolleston and Bailly Middle Schools, Emerson Visual Performing Arts, and West Side High School)

The following schools had overdrawn cash and investment balances as listed below:

School/Fund	Balance as of June 30, 2005	Balance as of June 30, 2006
Gary Area Career Center:		
Cafeteria	\$ (813.55)	\$ -
Night School	(498.00)	(163.00)
Lincoln Achievement Center:		
Food Service Fund	(2.40)	(62.82)
Tolleston Middle School:		
Booster	(304.31)	-
Student Council	(69.06)	-
T. Steppers/Pom Pom's	(944.51)	-
Bailly Middle School:		
Lost Book	(97.00)	-
Emerson Visual Performing Arts:		
Concert Choir	-	(11,858.22)
Instrumental Band	-	(2,808.96)
West Side High School:		
Class of 2006	(2,218.55)	-
Alteration Limited	(78.90)	-

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)

EXTRA-CURRICULAR FUNDS (Applies to Trustee Account)

The Extra-Curricular Trustee Account maintained at the administration office includes funds which are not extra-curricular in nature. The funds are for a summer foreign language program, service center furniture and equipment, summer health science program, and a general trust fund.

Travel claims for administrators that were not related to an extra-curricular activity were paid from the Trustee Account. \$3,022.62 was paid to Swan Lake Resort in September of 2004 for a retreat for School Board members. \$483 in hotel expenses were paid in November of 2004 for the School Corporation Superintendent to attend a conference in Texas.

The accounting system and procedures detailed herein are based on Indiana Code 20-41-1-1 et seq.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Activity or activities as used herein has reference to conducting any athletic, social, class, or other school function and the collection, custody and disbursement of any money in connection therewith, other than functions conducted solely by any organization of parents and teachers, which does not include public money. The collection, custody, and disbursement of the money for an activity are represented in the accounting records by a fund and the control account for all of the activity funds is designated as the "School Extra-Curricular Account." (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

All financial transactions related to the school corporation should be accounted for in the School Corporation Records. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

CERTIFICATE OF DEPOSIT (Applies to Gary Area Career Center and Roosevelt High School)

The schools invest in certificates of deposit which automatically roll over at maturity if not otherwise stated. Quotes are not obtained when the certificates mature. The interest is being automatically added to the balance of the investment at Roosevelt High School. The investment is not being reported on any of the semi-annual Financial Reports at the Gary Area Career Center.

General Form 350, Investment Register, is not currently in use for the accounting of these certificates of deposit.

Indiana Code 5-13-9-4(b) states in part: "The investing officer making a deposit in a certificate of deposit shall obtain quotes of the specific rates of interest for the term of that certificate of deposit that each designated depository will pay on the certificate of deposit. Quotes may be solicited and taken by telephone. A memo of all quotes solicited and taken shall be retained by the investing officer as a public record of the political subdivision under IC 5-14-3. A deposit made under this subsection shall be placed in the designated depository quoting the highest rate of interest. If more than one (1) depository submits a quote of the highest interest rate quoted for the investment, the deposit may be placed in any or all of the designated depositories quoting the highest rate in the amount or amounts determined by the investing officer, in the investing officer's discretion."

Interest on investments should not be automatically added into the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

General Form Number 350, Register of Investments is the prescribed form for recording investments and all investments should be recorded on Form 350. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 5)

TEXTBOOK RENTAL DEPOSITS (Applies to Roosevelt and Wirt High Schools, Dunbar-Pulaski Middle School, Jefferson, and Melton Elementary Schools)

Textbook rental is collected at each school building. Generally, each school will issue a Textbook Rental Receipt (Form TBR-2) to the individual from whom the payment is received. Then, the Treasurer at each school will issue a Receipt (Form SA-3) to whomever the Treasurer receives the textbook rental collections from, but sometimes the receipt is for a group of textbook rental receipts. The money is deposited into the Extra-Curricular Account bank account and posted to a textbook rental fund. Based upon a policy of the Gary Community School Corporation, a check is to be written and transmitted to the School Corporation by Wednesday of the following week to transfer the collections to the School Corporation for payment of the textbooks.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Roosevelt High School

1. Textbook rental receipts totaling \$4,139 were not posted to the ledgers.
2. Corresponding receipts (Receipt Form SA-3) could not be located for \$292 of textbook rental receipts issued.
3. Collections totaling \$2,276 for 23 of the textbook rental receipts examined were not remitted to the School Corporation by Wednesday of the following week.
4. Textbook rental receipts totaling \$953 could not be traced to the "Daily Fee Payments Report," which is a report generated by the School Corporation of payments received. The report is to be posted by the Extra-Curricular Treasurer at the time the payment is received.
5. Receipt composition could not be verified to the deposit composition for 83 of the textbook rental receipts. The composition could not be compared because there was no indication as to which receipts made up a deposit for 40 of the receipts.

Wirt High School

Some textbook rental collections were not receipted on a Textbook Rental Receipt (Form TBR-2), but were receipted directly to a Receipt (Form SA-3).

Textbook rental receipts were not remitted to the School Corporation on a timely basis. Textbook rental receipts were deposited in the bank up to 32 days after receipt. The receipts were remitted to the School Corporation up to 169 days after deposit.

Dunbar-Pulaski Middle School

Eight of the Textbook Rental Fund remittances to the School Corporation could not be traced to textbook rental receipts. The Treasurer indicated that all receipt books were provided for audit.

Jefferson Elementary School

1. Three deposits were made up to 17 days after the receipt date.
2. The receipt composition on four receipts did not agree to the composition on the bank deposit slip.
3. Composition could not be examined for six of the receipts because the duplicate deposit tickets were not available for audit.
4. One receipt was deposited 22 days before the date on the receipt.
5. Ten receipts were not remitted by Wednesday of the following week as required by the Gary Community School Corporation Policy.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Melton Elementary School

Four of the textbook rental receipts examined were not remitted to the School Corporation by Wednesday of the following week.

The original of Form TBR-2 is to be given the payer (student or parent). The duplicate is to be retained by the issuing officer and the triplicate is to remain intact in the book. The duplicate, together with rental fees collected, must be transmitted daily to the treasurer of the extra-curricular account. The treasurer may direct the issuing officer to deposit all fees collected each day and submit an acknowledged, duplicate deposit slip with the duplicate copies of Form TBR-2. The treasurer may also require the issuing officer to submit a summary or recap sheet of all fees collected by grade or other designated categories. If this is done, the total of the summary or recap sheet must agree with the amount on the duplicate deposit slip as well as the total of all TBR-2 forms submitted for the day. All duplicates of Form TBR-2 shall be filed alphabetically, by student last names, in the office of the treasurer for audit purposes. A separate TBR-2 should be issued for each payment. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 4)

The treasurer shall deposit without unreasonable delay, all receipts. . . . (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of payors. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

INADEQUATE INTERNAL CONTROLS OVER RELIGIOUS BROADCAST RECEIPTS (Applies to Gary Area Career Center)

The Radio Station Manager established a program to broadcast religious programs for the area churches. The Extra-Curricular Account Treasurer collects the broadcast payment, issues a receipt and notifies the Radio Station Manager that a payment has been made for a certain broadcast period. The Radio Station Manager prepares the program log for the programs that will air.

Beginning in January 2003, a ledger was maintained for each individual church which showed the date, check/money order number submitted for payment, amount, and the broadcast dates covered by the payment. The ledgers submitted for audit covered the period from May 2006 to present.

A signed contract was not presented for audit for one church for 2005 services. Ten contracts for 2004 were not signed until September and October 2004 and one contract for 2005 was not signed until December of 2005.

We noted that two programs were paid for after the program aired, 14 payments were not covered by a contract, and the timeliness of 16 payments were indeterminable (i.e., receipts did not designate the air dates the payment covered).

GARY COMMUNITY SCHOOL CORPORATION
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. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

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)

"FEE.. In consideration of the Station agreeing to broadcast the Program at the times provided in Exhibit A. The Programmer agrees to pay, in advance, fee of \$115 for each of the hour or \$57.50 for each half hour of the Program to be broadcast. The fees applicable to a particular month shall be paid in advance, no later than the first business day in the month. Each such payment shall be nonrefundable and shall be deemed earned by the Station in all circumstances upon payment." (WGVE Weekend Broadcast Programming Agreement, page 1)

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

FUNDRAISER INTERNAL CONTROLS (Applies to Lew Wallace High School and Bailly Middle School)

Lew Wallace High School

The fundraisers conducted for the Class of 2006, the Band and the Community Fund did not realize a profit for the school years audited. Also, we noted receipts for a Krispy Kreme fundraiser for the Cheerleading Fund held during the 2005-2006 school year, but no disbursements were made for the purchase of the donuts. We were unable to determine from the information presented for audit how the donuts were purchased.

Bailly Middle School

Fundraisers were held for the Cheerleading Fund, Charm Club Fund, Majorettes Fund, and Pom Pons for which there were not any associated disbursements. We were unable to determine from the information presented for audit how the merchandised was purchased.

Governmental units which conduct fund raising events should have the express permission of the governing body for conducting the fund raiser as well as procedures in place concerning the internal controls and the responsibility of employees or officials. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

SA-4 TICKET SALES REPORTS (Applies to Emerson Visual Performing Arts, West Side, Wirt, and Roosevelt High Schools, Bailly Middle School, Franklin, Ivanhoe, Jefferson, Melton, and Norton Elementary Schools, and Academically Gifted)

Emerson Visual Performing Arts High School

Numerous receipts were noted for "performances", dances, or sporting events for which ticket sale reports were not presented for audit. There were 48 such receipts which totaled \$18,593.43 for the 2004-2005 school year. The receipts for 16 events for the 2005-2006 school year totaled \$19,645.21 for which ticket sale reports were not presented for audit.

Ticket sale reports that were presented for audit were retained in an envelope with the report attached to the envelope; however, for two events, envelopes were sealed without any report attached. When the envelopes were opened, they contained the ticket sales reports and the cash collected. The total cash collected, but not deposited was \$280. The cash collections were turned over to the Treasurer for receipt and deposit.

Most receipts issued for events were made after the date of the event indicating that receipts are not issued timely or collections are not remitted to the Treasurer timely.

One instance was observed in which vendor invoices were included with the ticket stubs which totaled \$1,083.59. Money collected according to the ticket sale report was \$840. The sponsor included a note indicating that none of the money would be remitted, as she reimbursed herself for the expenses from the ticket sale proceeds. The sponsor also indicated that she paid \$243.59 with her personal funds. The note also stated, "still have an outstanding balance of \$650 for souvenirs and other decorations. Will be paid at the beginning of the new school year 06-07."

West Side High and Jefferson and Norton Elementary Schools

The Ticket Sales Reports (Form SA-4) were not used. A school computer generated form was used at West Side High School, for the 2005-2006 school year, titled "Game Financial Report." The form has not been approved by the State Board of Accounts for use.

The same color of tickets were used at Jefferson Elementary, for two of the events for both adults and children. Since the attendance fee is different for adults and children, we could not determine the accountability of collections. Also, for three of the events, the calculated sales did not agree with the money receipted.

There was not any indication that anyone is responsible for accounting for revenue generated by admissions to athletic or social events, as ticket sales reports were not used at Norton Elementary.

Wirt High School

Pre-numbered tickets presented for audit in some instances did not match the number of tickets documented on the SA-4 Ticket Sales Reports. The pre-numbered tickets in the accompanying envelopes in all cases were less than the number documented on the SA-4 Reports. Student tickets in several instances were in the accompanying envelopes but neither the number of student tickets nor the price of the tickets was documented on the SA-4 Reports.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Bailly Middle School

The ticket stubs included with the reports multiplied by the price per ticket did not always agree to the dollar amounts receipted as collections. More money was receipted than the calculation supported in two cases; however, in one instance, the ticket stubs supported a cash necessary to balance in the amount of \$50.

Roosevelt High School

One event was noted in which 584 adult ticket stubs and 83 student ticket stubs were included for audit while the ticket sales report showed 590 adult tickets and 2 student tickets sold. The tickets stubs multiplied by the entrance prices accounted for \$2,585; however, only \$2,362 was receipted into the fund, for a difference of \$223. The adult ticket stub numbers agreed with number sequence reported, but student ticket number sequences did not agree to the sequences reported.

Ivanhoe Elementary School

Events are held in which an admission fee is charged, but tickets are not used to support the admissions.

Franklin Elementary School and Academically Gifted

Ticket stubs were not retained for audit.

Melton Elementary School

A fashion show was held on May 30, 2006. Tickets to this event were \$2 for adults, and \$1 for children. Both prenumbered and computer generated tickets were used. The computer generated tickets were not prenumbered. Neither the prenumbered tickets nor the computer generated tickets were a different color for each price group. The tickets were simply marked child or adult, but some were left undesignated.

Serially prenumbered tickets by the printing supplier should be used for all athletic and other extra-curricular activities and events for which admission is charged. Part of the prenumbered ticket should be given to the person paying for the ticket upon admission to the event. The other part of the ticket (which should also be prenumbered, referred to as the stub) should be retained. All tickets (unused tickets and stubs) should be retained for audit.

Tickets for each price group should be different colors and/or different in their series number.

Ticket sales conducted by any activity should be accounted for as follows:

The treasurer should be responsible for the proper accounting for all tickets and should keep a record of the number purchased, the number issued for sale, and the number returned. The treasurer should see that proper accounting is made for the cash received from those sold. All tickets shall be prenumbered, with a different ticket color and numerical series for each price group. When cash for ticket sales is deposited with the treasurer, the treasurer's receipt issued therefore should show the number of tickets issued to the seller, the number returned unsold and the balance remitted in cash. All tickets (including free or reduced) must be listed and accounted for on the SA-4 Ticket Sales Form. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

SCHOOL LUNCH RECEIPTS (Applies to Roosevelt High,
Dunbar Pulaski Middle, and Chase Alternative Schools)

School lunch receipts tested were not remitted to the School Corporation by the Wednesday of the following week as required by Gary Community School Corporation policy.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

DONATIONS NOT APPROVED BY SCHOOL BOARD (Applies to Lincoln Achievement Center)

Donations received by Lincoln Achievement School were not approved by the School Board. A similar comment appeared in the prior audit report.

Cash donations that are extra-curricular in nature may be accounted for in the Extra-Curricular Account. Any School Corporation donations shall be accounted for in the school corporation records. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

PRESCRIBED FORMS (Applies to All Schools)

A generic form titled "School Receipt" is used as receipt for the payment of miscellaneous fees, such as prepaid lunches, caps and gowns, class obligations, locker fees and gym fees.

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)

PAYMENTS TO STAFF AND STUDENTS (Applies to Lew Wallace, Roosevelt, West Side,
and Wirt High Schools, Bailly Middle School and Beveridge Elementary School)

Lew Wallace High School

Members of the Business Club work at a branch of First Midwest Bank during the lunch hour. The bank remits a check to the high school for the time the students worked. The students are paid a stipend from the extra-curricular fund based upon the number of hours worked.

Students who worked as monitors during the Scholastic Aptitude Test (SAT) received gift certificates to a local department store as a stipend. The gift certificates were purchased from the Juice Fund. Other workers for various tests were also paid stipends from the Juice Fund.

Students who worked during the "open house" and on "report card day" received monetary stipends from the Juice Fund.

Roosevelt High School

Students who work at the concession stands are compensated from the Concession Fund.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

West Side High School

Students who work at events held at the School whereby an outside organization pays a rental fee, such as a fashion show, are paid a stipend from the Rental Fund. The amount is then deducted from the money remitted to the School Corporation for the rental of the facilities.

Students who work for school sponsored theatre events are paid compensation from the Theatre Guild Fund.

Wirt High School

Students who work on the stage crews are compensated from the Drama Fund. The fees were compiled on a payroll form titled "Gary Community School Corporation Rental Events: Pay Roster."

Bailly Middle School

Payments were made to two teachers in the amounts of \$100 and \$50 for services as a talent/fashion show coordinator and commentator, respectively.

Beveridge Elementary School

A claim was issued from the Coke Fund in which the only documentation attached was a list of teachers and their signatures indicating that they agreed to distributing the balance in the fund equally among the staff. A check was made payable to the teacher, who cashed the check, and indicated that she paid each of the teachers in cash. The amount withdrawn from the fund was \$2,065, which resulted in a disbursement of \$35 to each of the staff.

Distribution of extra-curricular funds to students, teachers or others should not occur unless authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual, Chapter 11)

EXTRA-CURRICULAR DISBURSEMENTS (Applies to Gary Area Career Center,
Bailly Middle, Tolleston Middle, and Banneker Elementary Schools)

Extra-Curricular Account disbursements should support the function or purpose of the fund, and should generally benefit all members of that activity. Below are some disbursements which do not seem to support the objectives.

Gary Area Career Center

A retired teacher and a current teacher accompanied four students on a trip to Nashville, Tennessee in June 2005 for a Health Occupation Studies Conference. The invoice for the hotel was addressed to the current teacher, and indicated an arrival date of June 13, 2005, and a departure date of July 1, 2005 for a party of one. An attachment to that invoice indicated an arrival date of June 21, 2005, and a departure date of June 26, 2005. The invoice was dated June 21, 2005. The attachment also indicated that six people and six rooms were paid for. The hotel bill for just the six rooms for the six people was \$5,133.75 or \$855.63 per person, and was paid by the School Corporation from the Perkins Vocational Educational Grant (Federal Funds). All other expenses were paid from the Cosmetology Extra-Curricular Fund. Two checks were issued, each in the amount of \$1,750 payable

GARY COMMUNITY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

to the teacher and retired teacher. The two individuals, upon return, submitted receipts to document how the funds were spent and also returned excess cash to the Treasurer. Below is a listing of disbursements considered personal in nature:

<u>Purchased From</u>	<u>Purchased For</u>	<u>Description</u>	<u>Amount</u>
Old Navy Store	Student	Sequined wrap sandal	\$ 11.88
General Jackson Showboat (Cruise Ship)	Two staff/four students	Buffet Cruise	346.95
General Jackson Showboat (Cruise Ship)	Two staff/four students	Tip for Cruise	30.00
General Jackson Showboat (Cruise Ship)	One staff	Photo	20.00
Sharp Shooter (Photography Studio of the Cruise Ship)	One staff/four students	Five photos	100.00
Bath and Body Works	Student	Body splash	10.93
Delta Gifts and Décor	Student	Martini magnet and snack plate	13.00
Payless Shoe Source	One staff	Women and children's shoes	27.29
Gap Outlet Store	One staff	Shorts and two flare skirts	46.95
Dress Barn (Fashion Store)	One staff	"Solid Fx Wrap Tops" (2)	52.75
Total			<u>\$ 659.75</u>

Another disbursement which did not have full supporting documentation was the purchase of five "I-Pod Nano's" (electronic media storage devices) and related accessories. The items were purchased from the WGVE Video Club fund. The Treasurer stated that these I-Pods's were given away to the students. The total cost of the "I-Pod Nano's" was \$1,168.95.

Bailly Middle School

<u>Activity</u>	<u>Fund</u>	<u>Number in Attendance</u>	<u>Amount</u>
Building Fund prayer breakfast	Student Activities	Four students	\$ 100
Year end party for office aides	Student Activities	Unknown	56
Total			<u>\$ 156</u>

Banneker Elementary School

All of the following items were paid for from the Student Activity Fund at the direction of the School Principal.

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 AUDIT RESULTS AND COMMENTS
 (Continued)

Payee	Event Description	Amount
Embassies of Christ	2nd Annual Hair Show ten adult tickets	\$ 250
Northwest Indiana Alliance of Black School Educators (NIABSE)	Five tickets to Friday Banquet at Bennigan's Restaurant, Speaker: Honorable Judge Deidre L. Monroe	125
Allen's Florist	Bouquet/Corsage for Principal's Birthday	97
The Upper Room Church	Congratulatory message to the Pastor on 10 year anniversary (full page ad), and 2 adult tickets and 5 children tickets	150
New Friendship Baptist Church	Principal participated in fashion show and reserved a table for 10	150
Delta Sigma Theta Sorority	Two tickets to "The Rebirth of Jabberwock 2006"	100
Gary Alumnae Chapter	1/2 page ad for a former student in the Rebirth of Jabberwock 2006 souvenir booklet	50
The Friends of Richard Logon	10 tickets for sheriff candidate fundraiser dinner	500
YWCA	14th Annual Women of Distinction Banquet full page ad to congratulate "Mrs. Jenette McKnight"	100
Gary Alumnae Chapter	1/2 page ad for a 1st grade student in the Rebirth of Jabberwock 2006 souvenir booklet	<u>50</u>
Total		<u>\$ 1,572</u>

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Indiana Code 20-41-1-4 further provides that no money shall be transferred from the fund of any organization, class or activity except by a majority vote of its members, if any, and by the approval of the principal, sponsor and treasurer of the organization, class or activity; except that in the case of athletic funds, approval of the transfer shall be made by the athletic director, principal and treasurer. However, see Approval of expenditures, Page 1-4. Payments should not be made to any member. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

DISBURSEMENTS NOT EXTRA-CURRICULAR ACCOUNT RELATED (Applies to Dunbar-Pulaski Middle, McCullough Elementary, and Jefferson Elementary Schools)

The following disbursements were made which did not appear to be either extra-curricular in purpose, or for the benefit of the entire student body:

Food purchases at Dunbar-Pulaski Middle School for a "back to school brunch," registration and reimbursement for items purchased for a "safe school forum," and calculators for ISTEP Plus testing.

A fax machine was purchased at Jefferson Elementary School for \$147.97 from the Coca-Cola Fund for the office.

A picture was purchased at McCullough Elementary School totaling \$105, and a payment was made from the Picture Fund for teacher supplies totaling \$1,121.10.

Activity or activities as used herein has reference to conducting any athletic, social, class, or other school function and the collection, custody and disbursement of any money in connection therewith, other than functions conducted solely by any organization of parents and teachers, which does not include public money. The collection, custody, and disbursement of the money for an activity are represented in the accounting records by a fund and the control account for all of the activity funds is designated as the "School Extra-Curricular Account."

Please note from the definition above, that the extra-curricular account is to be used only for functions which are not educational in nature. Accounts for educational functions must be maintained in the school corporation records. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

JUICE FUND (VENDING MACHINE) DISBURSEMENTS (Applies to Lew Wallace High School)

We noted in our review of the Juice Fund expenditures for the benefit of persons other than the entire student body as follows:

School year ended June 30, 2005:

1. \$2,110.92 for staff luncheons, parents night and committee meetings; stipends for ISTEP workers preparing tests; a brief case on wheels for the office; and flowers for individuals who renovated the front entrance of the school.
2. \$627 for supplies for the girls softball team and hotel rooms for a girl's basketball player and coach which should have been paid from Athletic Fund.
3. \$150 for an advance check for gas purchases to Carmel, IN for a Title I workshop.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

School year ended June 30, 2006:

1. \$1,227.67 for a camera and film processing; repair work around the school; electric pencil sharpeners and stop watches for ISTEP testing; stipends for ISTEP workers for preparing tests; food purchases for parent open house and report card day; and a subscription to Legal Update for teachers.
2. \$2.11 for batteries for AV equipment.
3. \$630 for seven banners for the gym, and dry cleaning for the mascot uniform.
4. \$200 for dry cleaning of robes used at Honor Society inductions.
5. \$35.76 for newspaper subscriptions for the publications students.

The State Board of Accounts consistently has been of the audit position to not take an audit exception to a school extracurricular account having a general fund if the fund consists of revenues received from functions (vending machines or sales of a similar nature, etc.) not generated by students for a specific class or organization (for which a fund should be established). Our audit position has been with the provision that the functions for which the expenditures are made benefit the student body as a whole (as opposed to a select group of students, school employees or administrators). Examples of appropriate expenditures in the past would be convocations, field trips which the entire student body has the opportunity to take during the course of the school year, etc. Our audit position has been based in part upon the substance of the transaction (the revenues are primarily from students or parents paying into vending machines, picture money, etc.). Naturally, we would not take audit exception to a public policy of a school corporation which would provide that a general fund does not exist and that money from these types of functions be used to offset the cost of the function (reduced prices of vending machine items, reduce the costs of pictures, etc.). (The School Administrator and Uniform Compliance Guidelines, Vol. 153, March 2001)

DISBURSEMENTS LACKING SUPPORTING DOCUMENTATION (Applies to Gary Area Career Center, Martin Luther King Academy, Emerson Visual Performing Arts, Roosevelt High, Bailly Middle, Dunbar-Pulaski Middle, Watson Elementary, Melton Elementary, Jefferson Elementary Schools)

Some disbursements reviewed lacked proper supporting documentation, such as an original itemized invoice. Examples include a staff donation to a scholarship fund in the amount of \$40, the purchase of retirement dinner tickets and an advance to purchase a retiree gift, all of which were paid from the Pepsi Fund at Melton Elementary School. Some instances were observed at Emerson Visual Performing Arts of payments being made based upon a memorandum from the school sponsor requesting that a payment be made.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

GARY COMMUNITY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

DISBURSEMENTS MADE IN ADVANCE OF RECEIPT OF GOODS OR SERVICES (Applies to Jefferson Elementary School, Roosevelt High School, and Martin Luther King Academy)

Some disbursements were made prior to the receipt of the goods or services.

A check was written as an advance at Jefferson Elementary School in the amount of \$240 for a "boys breakfast." Receipts were returned in the amount of \$211.10 leaving an unaccountable amount of \$28.90.

A check was written at Roosevelt High School as an advance to pay for a movie and meals for students taking part in an academic competition. Invoices attached to the purchase order were short of the advance by \$17.21. Another disbursement was noted for the purchase of clay for the Art Club. The invoice indicated the cost to be \$99.44, but the check was written in the amount of \$102. No information was presented for audit indicating the return of excess cash.

A sponsor at Martin Luther King Academy was issued a check in the amount of \$533.33. The check was cashed and a receipt was provided for a luncheon totaling \$438.82 leaving \$96.51 unaccounted for.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

PENALTIES, INTEREST, AND OTHER CHARGES (Applies to Lew Wallace High School)

Penalties were in the amount of \$73.95 were incurred and paid due to the late payment of an invoice to a sportswear company.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 9)

UNPAID BILLS (Applies to Emerson Visual Performing Arts, and Lew Wallace High School)

Unpaid bills or invoices as of June 30, 2006, were as follows:

<u>Vendor</u>	<u>Fund</u>	<u>Amount</u>
Emerson Visual Performing Arts:		
Accurate Imaging	Not indicated	\$ 391.94
Stumps Printing Incorporated	Not indicated	400.20
NASSP	Not indicated	<u>11.00</u>
 Total		 <u><u>\$ 803.14</u></u>

GARY COMMUNITY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

Vendor	Fund	Amount
Lew Wallace High School:		
Walsworth Publishing Company	Yearbook	\$ 9,227.71
Riddell Company	Athletic	1,375.61
Total		\$ 10,603.32

The Yearbook and the Athletic Funds did not have sufficient balances to pay the invoices.

Before the activity is permitted to use the Purchase Order and Accounts Payable Voucher (SA-1), the sponsor of the extra-curricular account treasurer must determine if there is sufficient balance in the fund of the activity to make payment upon receipt of the merchandise. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the Gary Community School Corporation (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements 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 2006-3, 2006-4, and 2006-5.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School Corporation's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-3 and 2006-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 12, 2007

GARY COMMUNITY SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
U.S. DEPARTMENT OF AGRICULTURE				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 839,169	\$ 885,172
National School Lunch Program	10.555		3,382,479	3,264,661
Total for cluster			4,221,648	4,149,833
Pass-Through Indiana Department of Education				
Team Nutrition Grants	10.574	CNTN-04-IN-1	-	1,109
Total for federal grantor agency			4,221,648	4,150,942
U.S. DEPARTMENT OF DEFENSE				
Direct Grant				
Marine Corps Junior Reserve Officer Training Corps (MC JROTC) Unit FY 04-05 (MC JROTC) Unit FY 05-06	12.Unknown		158,288	-
Total for federal grantor agency			158,288	143,229
U.S. DEPARTMENT OF LABOR				
Pass-Through IVY State College Northwest				
WIA Cluster				
WIA Youth Activities	17.259	WIA-03-GCS	9,407	-
U.S. DEPARTMENT OF EDUCATION				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States	84.027			
FY 03-04		14204-019-PN01	101,411	-
FY 04-05		14205-019-PN01	2,980,000	656,372
FY 05-06		14206-019-PN01	-	3,373,231
FY 03-04 Carryover		14203-019-PY02	45,261	-
FY 04-05 Carryover		14204-019-PY02	1,001,300	-
FY 03-04 CSPD		14203-019-DY08	10	-
FY 03-04 Sliver		14204-019-SN01	500	-
FY 04-05 Sliver		14205-019-SN01	38,312	9,625
FY 05-06 Sliver		14205-019-DY01	-	44,614
Total for program			4,166,794	4,083,842
Special Education - Preschool Grants	84.173			
FY 04-05		45705-019-PN01	118,228	22,723
FY 05-06		45706-019-PN01	-	125,726
FY 03-04 Carryover		45703-019-PY02	5,203	-
FY 04-05 Carryover		45704-019-PY02	26,923	-
Total for program			150,354	148,449
Total for cluster			4,317,148	4,232,291
Direct Grant				
Twenty-first Century Community Learning Centers	84.287			
FY 02-03		S287A010056	396	-
FY 03-04		S287A010056	429,274	27,902
Total for program			429,670	27,902

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, 2005 and 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
U.S. DEPARTMENT OF EDUCATION (continued)				
Pass-Through Indiana Department of Education				
Adult Education - State Grant Program	84.002			
FY 03-04		V002A030014	18,738	-
FY 03-04			41,580	-
FY 04-05		V002A040014	263,858	848
FY 04-05			107,428	5,554
FY 05-06		V002A050014	-	222,847
FY 05-06			-	64,780
Total for program			<u>431,604</u>	<u>294,029</u>
Title 1 Grants to Local Educational Agencies	84.010			
		04-4690	5,821,198	-
		S010A020014	70,297	-
		S010A010014	8,787	-
		05-4690	6,607,527	1,937,173
		05-4690	251,806	1,231,392
		06-4690	-	7,051,161
		06-4690	-	203,883
Total for program			<u>12,759,615</u>	<u>10,423,609</u>
Impact Aid	84.041			
FY 02-03		S041Z-2002-1597	79,916	-
FY 03-04		S041B-2003-1597	27,517	43,903
FY 04-05		S041B-2004-1597	-	32,932
FY 05-06		S041B-2005-1597	-	-
Total for program			<u>107,433</u>	<u>76,835</u>
Vocational Education - Basic Grants to States	84.048			
FY 96-97		97-4500	-	295
FY 02-03		01-1303-4690	136	-
FY 03-04		04-4700-4-4690	302,648	-
FY 04-05		05-4700-4690	418,961	269,512
FY 05-06		06-4700-4690	-	322,894
Total for program			<u>721,745</u>	<u>592,701</u>
Safe and Drug Free Schools and Communities - State Grants	84.186			
01-03		S186A020015	40,000	-
		S186A020015	1,500	-
		S186A030015	91,002	-
02-04		S186A040015	199,078	118,435
		S186A040015	-	267,835
Total for program			<u>331,580</u>	<u>386,270</u>
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276			
		S276A80014	4,703	-
		1999-2000	5,610	-
Total for program			<u>10,313</u>	<u>-</u>
State Grants for Innovative Programs	84.298			
		S298A000014	219	-
		S298A010014	58,300	-
		S298A030015	61,905	132,553
		S298A040015	-	169,746
		S298A040015	-	48,972
Total for program			<u>120,424</u>	<u>351,271</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, 2005 and 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>				
Pass-Through Indiana Department of Education (continued)				
Education Technology State Grants	84.318			
		S318X020014	38,283	-
		S318X030014	211,273	58,844
		S318X030014	-	239,647
		S318X020014	107,334	-
		S318X030014	144,100	6,880
		S318X030014	-	58,562
Total for program			<u>500,990</u>	<u>363,933</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334			
		P334S990558-03	70,894	-
		P334S990558-04	564,365	120,801
		GU109	30,362	19,638
Total for program			<u>665,621</u>	<u>140,439</u>
Reading Excellence	84.338			
		S338A010016A	590,726	-
Literacy Through School Libraries	84.364			
		S364A030452	117,319	-
Improving Teacher Quality State Grants	84.367			
		S376A020013	387,353	-
		S376A030013	1,123,018	1,122,235
		S376A030013	-	1,299,487
Total for program			<u>1,510,371</u>	<u>2,421,722</u>
Total for federal grantor agency			<u>22,614,559</u>	<u>19,311,002</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Indiana Department of Health				
Maternal and Child Health Services Block Grant to the States	93.994			
		6B04MC00292-08	16,435	-
		6B04MC00292-08	71,994	7,495
		MCH 433-2	-	99,637
Total for federal grantor agency			<u>88,429</u>	<u>107,132</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>				
Pass-Through Indiana Department of Health				
Learn and Serve America - School and Community Based Programs	94.004			
FY 04-05			2,933	2,067
FY 01-04			2,093	-
FY 03-04			5,634	-
Total for federal grantor agency			<u>10,660</u>	<u>2,067</u>
Total federal awards expended			<u>\$ 27,102,991</u>	<u>\$ 23,714,372</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

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Gary Community School Corporation (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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 the Indiana Code (IC 5-11-1 et seq.), audits of School Corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Subrecipients

Of the federal expenditures presented in the schedule, the School Corporation provided federal awards to subrecipients as follows for the years ended June 30, 2005 and 2006:

Program Title	Federal CFDA Number	2005	2006
Adult Education – State Grant Program	84.002	\$ 63,214	\$ 82,939

III. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2005 and 2006. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2005	2006
National School Lunch Program	10.555	\$ 308,049	\$ 88,487

GARY COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	yes

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Special Education Cluster Title 1 Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$1,524,521

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2006-1, INTERNAL CONTROLS OVER TEXTBOOKS

Textbook invoices dated July 25, 2005, were not paid until February 15, 2006. The delay in payment was due to the lack of signatures on the receiving reports. Textbooks are delivered to each of the schools during the summer when most staff members are not working. Procedures have not been established to designate who should be responsible for inventorying new textbooks, and signing the receiving reports. Therefore, the books are distributed to the students prior to the receiving reports being verified and signed.

There is a possibility when the textbooks are being distributed prior to verification of the receiving report, that not all items ordered have been received or that items will be misplaced. Additionally, when invoices are not being paid timely there is the potential to incur penalties and interest, which cannot be paid with governmental funds.

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

Indiana Code 5-11-10-1.6 (c) states in part:

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

- (2) the invoice or bill is approved by the officer or person receiving the goods and services . . ."

We recommended that Officials establish procedures for inventorying textbooks and other supplies received so that the receiving reports can be properly attested.

FINDING 2006-2, DISTRIBUTION OF TEXTBOOK RENTAL RECEIPT BOOKS

Textbook rental receipt books are ordered by the School Corporation and distributed as requested to the Extra-Curricular Treasurers. A listing is maintained of the textbook rental books that are distributed to each of the schools, but the log was inaccurate. Receipt books with the same number sequence were listed more than once as having been distributed to more than one school, and receipt books used by some Extra-Curricular Treasurers were not listed at all. Treasurers can request books without having used all receipts in a book, and the used books are not returned to the School Corporation upon completion.

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. (Accounting and Uniform Compliance Guidelines Manual for Indiana School Corporations, Chapter 9)

We recommended that Officials adopt a policy requiring textbook rental receipt books to be returned to the School Corporation upon completion. Additionally, an accurate and complete log should be maintained of the textbook rental books distributed and returned.

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-3, ALLOWABLE COSTS FOR CONTRACTUAL SERVICES

Federal Agency: U.S. Department of Education

Federal Program: Special Education Grants to States

CFDA Numbers: 84.027

Federal Award Numbers: 14204-019-PN01, 14205-019-PN01, 14206-019-PN01, 14203-019-PY02,
14204-019-PY02

Pass-Through Entity: Indiana Department of Education

Officials maintain that accounts payable vouchers (voucher or claims) are verified for accuracy and are certified as such by signing off on the vouchers. Vouchers tested were signed off by three different individuals, including the grant program director, verifying that the vouchers are true and correct. Three of the claims tested were all paid to the same vendor, who has a contract with the School Corporation to provide special educational services. Support for these claims include a billing summary which shows the dates of services provided, the hours worked, the hourly rate, the computed cost, and the total cost for the period being billed.

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

The claims also include the time sheets for the individuals paid by the contractor to support the billing summary. We noted that officials reviewing the invoices are not verifying the time sheets to the billing summaries. The billing summary for one of the three claims tested indicated dates of services which did not agree to the time sheets dates worked. The billing summaries for all three claims tested included more and less hours by date than those included on the time sheets. Overall for the three claims tested, the School Corporation was overcharged 2 hours and 8 minutes, or \$170.88.

When controls are established, they must be properly followed to ensure that vouchers are complete and accurate; to avoid vendors being overpaid.

34 CFR 80.20 (b)(3) Standards for financial management systems, states in part: "Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. . . . (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

We recommended that Officials establish and maintain controls for verifying the accuracy of all supporting documentation.

FINDING 2006-4, ALLOWABLE COSTS FOR HOMELESS ASSISTANCE

Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Numbers: 84.010
Federal Award Numbers: 05-4690, 06-4690, S010A010014, S010A020014
Pass-Through Entity: Indiana Department of Education

School Corporations are allowed to use some of the federal funds under Title 1 to provide extraordinary or emergency assistance to assist homeless children and youth in enrolling, attending, and succeeding in school. The approved funds at Gary Community School Corporation are remitted to each qualifying school. The money is remitted by the School Corporation to the extra-curricular accounts, where claims are processed for payment. The social worker at each school then makes the determination as to who will receive assistance. Very few guidelines have been provided and there is minimal oversight by the School Corporation as to how these funds are to be used.

The School Corporation issued checks to one school in April 2006. The school equally split their \$2,500 allotment in April and May 2006 among three families. Each family received assistance in the amount of \$833.33. Two of the families received checks payable to Wal-Mart for the \$833.33. Another family received two checks, one payable to Paylow Foods for \$348.87 and the other payable to A.J. Wright for \$484.46. Each family is required to provide receipts to document how the funds were spent. Some of the items purchased, which are not addressed under the guidelines, included curtains, rugs, tablecloths, placemats, bath rugs, shower curtains, shower curtain hooks, towels, candles, eye pencils, pumice stones, sheet sets, Easter candy and pails, cookies, snow crab legs, cooked and peeled shrimp, and various decorative statues. Additionally, the families who received the checks payable to Wal-Mart purchased gift cards with the remaining funds in the amounts of \$12.05 and \$33.53.

A letter was provided at another school to the School Corporation requesting \$1,000 from the "Temporary Homeless Assistance." The letter indicated that \$600 would be used for clothing, \$150 for hygiene items, \$100 for sheet sets, \$50 for towels, and \$100 for laundry supplies. \$800 was given to this school from the School Corporation, and the money was used as follows:

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

\$450 for tuition deposit and housing/dorm deposit to the Indiana Technology School;

\$225 was used for prom tickets, and junior and senior class dues; and

\$125 for clothes.

Another request was made at this same school for assistance which indicated the money would be used "in the areas of clothing to include attire for senior week, Junior and Senior class dues, and personal hygiene items." The items purchased were as follows for which no receipts were provided since the school extra-curricular accounts actually received the money:

\$198 purchase of miscellaneous items for Senior Week and other activities;

\$10 junior class dues;

\$130 prom tickets;

\$150 senior obligations;

\$26 senior honor society cord and stole; and

\$86 senior prom pictures (sweetheart package and 2 keychains with pictures).

Finally, at this same school, \$100 was paid to Indiana University for a "rooming fee deposit." The Extra-Curricular Treasurer also made a check payable to the social worker in the amount of \$1,306.50. The social worker then cashed the check to provide cash to the same student who received the "rooming fee deposit." The student returned receipts to support the cash spent; however, \$99.96 was unaccountable. Items purchased with the cash provided included, fast food from Burger King and Taco Bell, gasoline, "Curlmaster" ceramic curlers, sheet sets, batteries, five pairs of shoes, school supplies (even though the items were purchased on June 9th, and the student had graduated), bath towels, utensils, luggage, ironing board, blankets, umbrella, pillows, hangers, laundry basket, fry pan, and a hair dryer.

Part C Homeless Education Sec. 723 (d) (16) states in part: "Authorized Activities-A local educational agency may use funds awarded under this section for activities that carry out the purpose of this subtitle, including the following: The provision of other extraordinary or emergency assistance needed to enable homeless children and youths to attend school."

We recommended that Officials provide detailed guidelines to each of the schools of items that can be purchased, as well as providing guidelines as to how the funds should be distributed.

FINDING 2006-5. CASH MANAGEMENT

Federal Agency: U.S. Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Numbers: 84.010

Federal Award Numbers: 04-4690, 05-4690, 06-4690, S010A010014, S010A020014

Pass-Through Entity: Indiana Department of Education

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

The Title I grant cash balances as of July 30, 2005 and 2006, were in excess of \$2.8 million and \$3.7 million, respectively. The School Corporation received a large cash drawdown in July of each year of \$4.6 million and \$4.1 million, respectively, causing the large cash balances. Officials have indicated that the last cash drawdown allowed by the State is in July, but the grant expenditures are allowed through September; thus, a large drawdown is requested to allow the School Corporation to pay invoices through the end of the grant period.

When excessive cash balances are maintained the program has the potential to earn interest income, which should then be returned to the program or refunded to the federal agency.

34 CFR 80.20(b)(7) states: "Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter of credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees. (c) An awarding agency may review the adequacy of the financial management system of any applicant for financial assistance as part of a preaward review or at any time subsequent to award."

We recommended that Officials only request funds as needed. Officials may need to contact the Indiana Department of Education to determine if grant funds can either be drawn down after July, or if the funds can be allocated to the grant award and grant period.

GARY COMMUNITY SCHOOL CORPORATION



**A NEW DIRECTION: Focus on Accountability and
Continuous School Improvement**

(219) 881-5424 • Fax (219) 886-6418

CAROLYN V. KEITH, Executive Director

ckeith@garycsc.k12.in.us

BUSINESS SERVICES DEPARTMENT

620 East 10th Place - Gary, IN 46402

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number 2004.1

Original SBA Audit Report Number:

B24957

Fiscal Year:

2002 - 2004

Auditee Contact Person:

George Comer (Title I & Improving Teacher
Quality (Title II) - State Grants); Jerome
Hurt (Vocational Education)

Title of Contact Person:

Comer-Director of Federal Programs; Hurt -
Director of Vocational Education,

Phone Number:

(219) 881-5477 and 962-7571

Status of Finding:

We took corrective action. We are
monitoring our Title I, Title II and
Vocational Education expenditures on a
monthly basis. We have established a new
Cash Management spreadsheet, which is
used as tool for making modifications to
our Title I and Title II cash requests as
needed. As mentioned previously, we have
no control over the cash remitted for the
Vocational Education grant. The Workforce
Development Agency automatically remits
25% of the grant award each quarter to the
district. We have alerted and informed the
grant director through correspondence that
25% of the grant award should be expended
each quarter to avoid cash management
violations.

The Title I 05-4690 cash balance of
\$1,265,167.35 was transferred to 06-4690
fund immediately after the Final Report
deadline (due October 30, 2005).

Submitted By: Carolyn V. Keith, Treasurer
October 10, 2006



620 East 10th Place - Gary, IN 46402

March 12, 2007

Finding Number 2006-1 INTERNAL CONTROLS OVER TEXTBOOKS

Fiscal Year:	2004 - 2006
Auditee Contact Person:	Kerry Triplett
Title of Contact Person:	Purchasing Director
Phone Number:	(219) 881-5484

Status of Finding:

As of March 12, 2007 the new procedure for receiving goods per location is as follows.

- 1) Upon receiving goods, each location is responsible for verifying shipped goods as per the purchase order immediately.
- 2) If all goods have been received in good condition, the *receiving report copy (pink)* of the purchase order shall be signed and returned to the Purchasing Department as soon as possible.
- 3) If the Purchasing Department has not received the *receiving report copy (pink)* upon getting an invoice from the vendor, the Purchasing Department will send a memo to the principal requesting the *receiving report copy (pink)*.
- 4) If the Purchasing Department has not received the *receiving report copy (pink)* after 15 working days of the 1st memo, the Purchasing Department shall send a 2nd memo to the Principal and a copy to the appropriate Executive Director.

Finding Number 2006-2 DISTRIBUTION OF TEXTBOOK RENTAL RECEIPT BOOKS

:

Fiscal Year:	2004 - 2006
Auditee Contact Person:	Kerry Triplett
Title of Contact Person:	Director of Purchasing
Phone Number:	(219) 881-5484

Status of Finding:

As of March 8, 2007 the new procedure for the issuance of Textbook rental receipt books is as follows.

- 1) The school treasurer or principal will request a new textbook rental receipt book from warehouse stock.
- 2) Upon receipt of this request, the Lead Warehouse Person will contact the Internal Auditor (IA) who will contact the school treasurer to bring in the old receipt book to the IA office.
- 3) The IA will examine the receipt book to determine that all pages of the receipt book have been used.
- 4) The IA will record the beginning and ending number of the receipt book being issued as well as the school and forward the receipt book to the school.
- 5) The school will keep the old receipt book for future audits and requests for proof of payments i.e. parent requests for copies of receipts.

Finding Number 2006-3 ALLOWABLE COSTS FOR CONTRACTUAL SERVICES

Fiscal Year:	2004 - 2006
Auditee Contact Person:	Dianna Younger
Title of Contact Person:	Director of Special Education
Phone Number:	(219) 881-5493

Status of Finding:

To correct this exception the OT Therapist will be required to sit with the Trade Winds accountant to translate her handwriting. When the typed version reaches the Special Education Director, she will review the document again with OT Therapist at her side to ensure the comparative analysis is accurately recorded. We have deducted the 2 hours 59 minutes overcharges from the December 2006 invoice.

Finding Number 2006-4 ALLOWABLE COSTS FOR HOMELESS ASSISTANCE

Fiscal Year:	2004 - 2006
Auditee Contact Person:	George Comer
Title of Contact Person:	Director of Federal Programs
Phone Number:	(219) 881-5778

Status of Finding:

Receipts

We met with auditors to show that we had receipts for all homeless expenditures. They reviewed the receipts and agreed. The problem appeared to be that the auditors had asked the building level secretary in charge of extra-curricular accounts for receipts. However,

the secretary had returned the receipts to the social worker and the Federal Programs office without keeping copies for her files.

The auditor also mentioned that additional (more detailed) information must be attached to the voucher “receipt” that is issued at the building level.

Questions Regarding Expenditures

Homeless guidelines provide us with a great deal of flexibility in terms of what a family can purchase to ensure that a student can continue in school without interruption. When the guidelines are not clear, we make contact with our State homeless consultant for clarification. The auditors questioned the appropriateness of several purchases. We are in the process of reviewing these items with our State consultant. At this point, we are waiting for a return call.

According to the McKinney-Vento homeless guidelines, students can receive support for food, clothing, personal hygiene, school obligations, and some household articles such as linen, etc. Additionally, the guidelines clearly state that we can provide “extraordinary or emergency services to eligible students as necessary to enroll and retain such children and youth in school.”

I should note that the audit included \$12.05 and \$33.53 for gift cards. The social worker explained that these were the amounts left over after the primary expenditures. The social worker purchased the gift cards and gave them to the student so that the student could purchase other needed items later. We ask social workers to spend all allocated funds to the penny. This helps with recordkeeping. When small amounts of money are returned, there is a great deal of paperwork involved in processing these funds.

Corrective Action

We will maintain what we think are good procedures with the following adjustments:

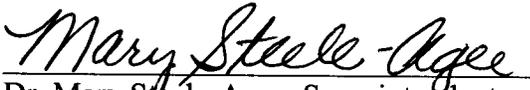
- 1. Requests will be sent to the Supervisor of Student and Family Services instead of the Federal Programs office. We now have a person in place who can provide additional monitoring.**
- 2. Receipts will be maintained by the social worker, treasurer, Student and Family Services, and Federal Programs.**

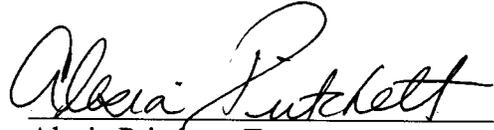
Finding Number 2006-5 CASH MANAGEMENT

Fiscal Year:	2004 - 2006
Auditee Contact Person:	Alesia Pritchett
Title of Contact Person:	Finance/Special Projects Supervisor Phone
Number:	(219) 881-5477

Status of Finding:

The only option for the corporation to request anticipated Title I funds as needed for August and September is in the month of July, per the Cash Request form received from the state. The Cash Request form does not allow for cash request to occur beyond July. Also, the Cash Request form must match the Total Budget page form. The corporation does not have the authority to change the state form.


Dr. Mary Steele-Agee, Superintendent


Alesia Pritchett, Treasurer

GARY COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 12, 2007, with Alesia Pritchett, Treasurer; Dr. Mary Steele-Agee, Superintendent of Schools; Nellie Moore, Vice President of the School Board; and Alex Wheeler, Jr., President of the School Board. The official response has been made a part of this report and may be found on pages 83 through 88.

A copy of the contents of this report were mailed to Carolyn V. Keith, former Treasurer, on March 14, 2007.



620 East 10th Place - Gary, IN 46402

March 23, 2007

Charles Johnson III, State Examiner
State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204-2765

RE: 2004-2006 AUDIT RESPONSES

Dear Mr. Johnson:

**AUDIT RESULTS AND COMMENTS
CORRECTIVE ACTION PLAN**

Transfer Tuition

The Transfer Tuition Statement will be completed independently from the Tuition Rate Schedule to meet the October 1st deadline.

Average Daily Membership (ADM) – Incorrect Reporting to the State

Actual data will be reviewed and compared to what was submitted to the state. After the data has been verified, the Indiana Department of Education will be contacted and any necessary adjustments to reports will be made.

School Lunch

There were four schools (Brunswick, Williams, Glen Park Academy, and Career Center) that over claimed meals during this period. The Food Service Accountant will send notification to the Principals and Executive Director that no student should be given a free/reduced meal that is not coded in the system. If the attendance factor exceeds the 95% state default, the state will be contacted to adjust our eligibility allowance. We will verify the attendance factor with the state, which might be a factor in the over claiming of meals at Glen Park Academy and Williams.

Payment not Posted to the RDS System

Reconciliation by the treasurer will be made of the textbook monthly balance of the Summary of Student Payments per RDS to the monthly Schedule of Balances (form SA5-1). Appropriate training will be provided to treasurers.

Students Entitled to Free Textbooks Also Paying

A complete textbook waiver list will be forwarded to the treasurer after the October 1st deadline. The treasurer will use the list to identify any student who has paid prior to October 1st and is due a refund. The treasurer will be issued an updated list at the end of the school year to identify if any additional waivers have been made, and additional refunds are due.

Textbook Rental Reimbursement Claim to State

The auditor used 2006-2007 figures to compute reimbursements for SY 2005-2006, therefore the computation did not agree to the district's calculations. All figures (textbook costs), provided to the audit team were found to be correct. It was discovered that the auditors inadvertently used the enrollment figures from SY 2006 – 2007 with the textbook costs from SY 2005- 2006. Calculations should be computed using textbook costs and enrollment figures from the same school year. As we have done in the past, we will continue to consult with the IDOE to ensure that future calculations are reconciled with final figures.

Conflict of Interest

After receiving further information, the Board of School Trustees will file a conflict of interest statement every year before July 1.

Travel /Credit Card Claims

The Board of School Trustees will look at amending the current travel reimbursement policy (Policy 625) to reflect the necessary changes.

Promotional School Business

The Business Service Department will monitor the expenditures, spending levels and any budget adjustments made to this account to ensure that neither appropriations nor the expenditures exceed the legal limitations and are properly recorded.

Error Corrections through Negative Disbursements

A monthly preliminary financial review will be performed by Business Services Managers prior to the close of each month. This procedure should identify and minimize potential errors prior to closings.

Payments not Posted to Correct Fund or Account

The problems identified in the audit will be corrected through the implementation of FINMAR. Our chart of accounts will be in compliance with the state. The usage for function codes are posted in the Operating Budget book. Expenditures will be monitored for correct bookings.

Capital Assets

Two Fixed Assets were ordered from the wrong account. All Fixed Assets must be ordered from (0830) equipment account to appear on the Fixed Asset Expenditure Report. Property Control will conduct annual training of requisition secretaries with emphasis on the equipment account (0830); and review all expenditures rather than equipment only to improve accuracy.

A small parcel of land was included in the original asset record for Bannerker's land. Due to an error caused by the county, the small strip of land was repurchased through a tax sale. Therefore, the repurchase has been recorded again on the system.

Official Bond

The Official Bond was filed March 14, 2007. We have requested the broker to have the insurance company reissued the bond reflecting the State of Indiana as the payee. We will file the policy with the Records Office within 10 days of effective date per IC 36-2-7-10 whenever changes are made.

Position Bonds are not available after the terrorist attack on 9/11/01. As covered employees changed, we had new applications completed by the replacements. The insurance company drops the employees no longer in these positions once a year at renewal time. The bond amount does not change because the person being replaced is no longer active. According to our broker, the amount of the bond stays the same as long as the exposure is the same. Only if you diminish the number of covered employees, would the premium be affected.

Sincerely,



Dr. Mary Steele-Agee, Superintendent



620 East 10th Place - Gary, IN 46402

March 23, 2007

Charles Johnson III, State Examiner
State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204-2765

Dear Mr. Johnson:

**RE: AUDIT RESULTS: EXTRA-CURRICULAR ACCOUNTS
CORRECTIVE ACTION PLAN**

**Missing Records, Missing or Erroneous SA-5 Financial Reports and Ledger
(Emerson, Gary Career Center, Lincoln, Pulaski, Bailly, Brunswick, Drew,
Jefferson, and Williams)**

During 2004-2005 Spring Break, Pulaski had a flood in the building where audit and financial records were housed. The ceiling caved in and many records were destroyed.

The district has implemented an automated system for extracurricular treasurers which will eliminate the mathematical errors that were noted during the audit. All records have been transferred to the new ECA system. The internal auditor will audit reports for errors and omissions prior to the State Board of Accounts audit.

Receipt Composition and Deposits (Gary Career Center, Lincoln, Martin Luther King Academy, Wirt, Bailly, Pulaski, Jefferson, Kuny, Ivanhoe, and McCullough)

In services will be held to review the requirements for preparing receipts and deposits. All collections/deposits must be made in conjunction with the armoured pick ups which occurs one or more times a week.

Bank Account Reconciliations (Martin Luther King Academy, Bethune Early Childhood Development Center, and Bailly)

The internal auditor will review as part of in-house audits to detect inconsistencies.

Old Outstanding Checks (Warrants) (Ivanhoe, Williams, Marquette, Bailly, and Roosevelt)

The necessary measures have been taken to remove the stale dated check at Marquette. The principal will double check to make sure all stale dated checks are removed on the appropriate date. The internal auditor will review as part of future audits.

Overdrawn Cash and Investment Balances (Gary Career Center, Lincoln, Tolleston, Bailly, Emerson, and West Side)

Fund balances will be checked prior to making any disbursements. No checks will be written unless there are available funds.

Extra-Curricular Funds (Trustee Account)

The Instructional Support and Miscellaneous Program (Unrestricted Donations) Funds are new funds established in accordance with fund structure set forward in Part 3 of the State Board of Accounts' Accounting Manual. Expenditures cited by the auditors in their findings as improperly paid from the Trust Fund Accounts would in the future be paid from the Instructional Support and Miscellaneous Program (Unrestricted Donations) Funds; thus eliminating any audit findings in the future.

Inadequate Internal Controls over Religious Broadcast Receipts (Gary Career Center)

The new treasurer will be trained on controls and records that must be maintained for the religious broadcast. The Station Manager will meet monthly with the Internal Auditor to audit records for compliance.

SA-4 Ticket Sales Report (Emerson, West Side, Wirt, Roosevelt, Bailly, Franklin, Ivanhoe, Jefferson, Melton, Norton, and Academically Gifted)

All admission ticket stubs received by the treasurer will be attached to the receipt to document and verify the accuracy of fees. West Side High School will submit a new form titled "Game Financial Report" to the State Board of Accounts for approval to use in lieu of SA-4.

Donations (Lincoln Achievement Center)

The principal will be reminded that donations must be approved by the School Board. All schools have procedures that are to be followed when donations are received.

Payments to Staff and Students

All payments for staff and students will be paid through the corporation's payroll system. The administrator will closely monitor all funds distributed.

Objectionable Extra-Curricular Disbursements (Gary Career Center, Bailly, Tolleston, and Banneker)

We have requested repayment of funds from the Former Career Center Director, Former Bailly Principal, and Banneker's Principal. We will continue with annual mandatory training for administrators regarding the allowable expenditures per the ECA guidelines.

Disbursements made in advance of receipt of goods or services (Jefferson, Roosevelt, and Martin Luther King Academy)

We have requested repayment of funds from the treasurer at Jefferson and Roosevelt. Funds were returned to the treasurer at Martin Luther King Academy totaling \$96.51. Receipt No. 230119 was written on June 20, 2005 for the return of funds.

Unpaid Bills (Lew Wallace and Emerson)

Fund balances will be reviewed prior to placing orders. If funds are not available, orders will be delayed until there are enough available funds on hand to cover the disbursements. The schools are required to pay all outstanding bills.

Sincerely,



Dr. Mary Steele-Agee, Superintendent