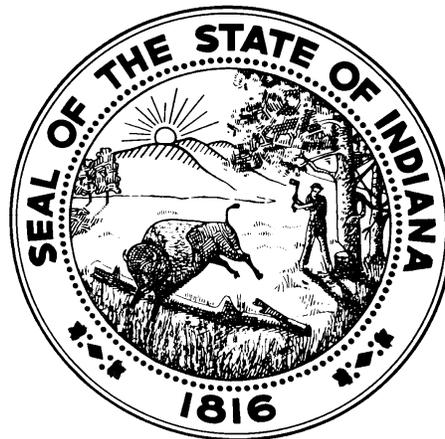


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
GREATER CLARK COUNTY SCHOOLS
CLARK COUNTY, INDIANA
July 1, 2007 to June 30, 2008



FILED
11/20/2009

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Michael F. Hodgson (Vacant) Frank Collesano	07-01-07 to 05-12-09 05-13-09 to 08-02-09 08-03-09 to 06-30-10
Superintendent of Schools	Dr. Tony Bennett Travis Haire (Interim) Dr. Stephen Daeschner	07-01-07 to 12-01-08 12-02-08 to 06-30-09 07-01-09 to 06-30-10
President of the School Board	Robert McEwen Ernie Gilbert	07-01-07 to 06-30-09 07-01-09 to 06-30-10



STATE OF INDIANA
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TO: THE OFFICIALS OF THE GREATER CLARK COUNTY SCHOOLS, CLARK COUNTY, INDIANA

We have examined certain records as described in the Examination Result and Comment titled "Background Information" for the period July 1, 2007 to June 30, 2008, and for other periods as considered necessary.

The results of our examination are stated in the Examination Results and Comments.

STATE BOARD OF ACCOUNTS

October 8, 2009

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GREATER CLARK COUNTY SCHOOLS
EXAMINATION RESULTS AND COMMENTS

BACKGROUND INFORMATION

School Corporation Officials expressed concerns on the following items:

1. A significant decline in the General Fund's cash balance since June 30, 2001.
2. Possible violations of the School Corporation's travel policy and the Uniform Compliance Guidelines Manual for Indiana Public School Corporations as related to floating cafeteria managers.
3. Expenditures of the Greater Clark County School Building Corporation's funds.
4. Other significant noncompliance with State statutes, Uniform Compliance Guidelines Manual for Indiana Public School Corporations, and School Board policies.

DECLINE IN GENERAL FUND CASH BALANCE

The General Fund is the primary operating fund of the School Corporation, and accounts for all financial resources of the general government, except those required to be accounted for in another fund. Approximately 90% of the General Fund expenditures are for salaries and employee benefits.

The following schedule shows the General Fund's cash balance for the years ended June 30, 2001 through June 30, 2008, and additional items that could have an effect on the June 30 cash balances.

	<u>06-30-01</u>	<u>06-30-02</u>	<u>06-30-03</u>	<u>06-30-04</u>	<u>06-30-05</u>	<u>06-30-06</u>	<u>06-30-07</u>	<u>06-30-08</u>
Cash Balance, June 30	\$ 23,600,000	\$ 19,300,000	\$ 8,200,000	\$ 6,500,000	\$ 500,000	\$ 7,600,000	\$ 1,600,000	\$ 6,300,000
Additional Items (Note 1):								
Outstanding Tax								
Anticipation Warrants*	-	-	-	(8,800,000)	-	(4,400,000)	(10,000,000)	(14,000,000)
Outstanding Loans Made to Other Funds*	-	-	100,000	2,200,000	3,400,000	2,300,000	6,100,000	-
Property Tax Distributions Not Received by June 30	-	-	8,200,000	16,500,000	9,500,000	5,800,000	9,100,000	10,400,000

*Not repaid at the end of the period.

Note 1: The School Corporation experienced significant delays in the receipt of property tax distributions from Clark County beginning in calendar year 2003 (property taxes are normally levied and are to be distributed on a calendar year basis). The delays resulted in the School Corporation obtaining temporary loans for cash flow purposes in the form of tax anticipation warrants. The amount of borrowing each year varied depending on the General Fund's available cash balance. Borrowing funds for cash flow purposes began in the school year ending June 30, 2004. The School Corporation's practice was to record all tax anticipation proceeds in the General Fund, including tax anticipation warrants due to other funds. The General Fund would then loan the tax anticipation warrants to the applicable other funds. The records presented for examination did not allow for a determination of the correct amounts of tax anticipation warrants which should have been receipted to and retained in other funds.

GREATER CLARK COUNTY SCHOOLS
EXAMINATION RESULTS AND COMMENTS
(Continued)

The Appendix following on page 15 is a schedule of greater than normal expenditures for period July 1, 2001 through June 30, 2008. These expenditures were identified based on our comparison of school year 2000-2001 expenditures with subsequent years' expenditures. School year 2000-2001 was used as a base year for comparison purposes because the School Corporation ended with a cash balance of \$23,600,000 (see above schedule).

School Corporation Officials' Analysis

School Corporation Officials also attempted to explain the reasons for the decline in the General Fund cash balance. The following is presented as additional information. However, we did not perform any verification procedures on the following information:

Dr. Tony Bennett, former Superintendent of Schools:

A memorandum dated March 11, 2008, from Dr. Tony Bennett to the School Board listed the following items that he believed contributed to the decline in the General Fund cash balance:

1. Decreases in state funding and inconsistent tax collections.
2. Reduction in interest earnings.
3. Implementation of full day kindergarten.
4. The use of block class scheduling between the years 2002-2003 and 2006-2007 causing increased staffing of 20 to 25 positions per year.
5. Additional elementary Assistant Principals/Interns in school year 2006-2007.
6. Additional middle school Deans in school year 2006-2007.
7. One-time payment from the General Fund in school year 2004-2005 to cover costs payable from the Transportation Operating Fund.

Mike Hodgson, former Treasurer:

Mike Hodgson, former Treasurer, presented us with a power point presentation on the calendar year 2008 budget that he stated was presented to the School Board. Mike Hodgson's stated that his presentation showed the causes in the decline in the General Fund's cash balance.

Robert McEwen, former President of the School Board, stated that Mike Hodgson presented the power point presentation to the School Board.

The presentation provided a variety of statistical data that was used to support one part of the presentation titled "Where Did the Money Go?" The presentation attributed the decline in the General Fund cash balance from school year 2002-2003 to school year 2006-2007 to the following:

GREATER CLARK COUNTY SCHOOLS
EXAMINATION RESULTS AND COMMENTS
(Continued)

Description	Amount
Teachers Salaries Greater than State Average and Teacher to Student Ratios Greater Than State Average	\$ 9,800,000
Net Unfunded Cost of Full Day Kindergarten	3,000,000
Net Unfunded Cost of Summer School	400,000
Employee Benefits	<u>5,800,000</u>
 Total	 <u>\$ 19,000,000</u>

Mike Hodgson's presentation also included the following information:

1. A comparison of average teacher salaries for Greater Clark County Schools for school year 2005-2006 (\$50,400) with various other school corporations in the State of Indiana and with the State wide average (\$47,300).
2. A comparison of the student per teacher ratio for Greater Clark County Schools (16.00:1) with area school corporations and with the state wide average (17.5:1).
3. A chart showing that personal services (salaries) and employee benefits represented 92.5% of General Fund budgeted expenditures for the year 2008.
4. A graph showing General Fund actual expenditures exceeding adjusted receipts since calendar year 2001.
5. A chart showing that projected receipts for calendar year 2008 consisted of 63.4% from state sources, 35.4% from local sources, and 1.2% from federal sources.
6. A chart showing a decline in the basic state grant for the General Fund beginning in the year 2005 and a chart showing an increase in average daily membership (student attendance) from school year 2004-2005 through school year 2007-2008.

CALENDAR YEAR 2009 BUDGET AND JUNE 30, 2009 CASH BALANCES

The School Corporation changed from budgeting on a fiscal year basis (July to June) to a calendar year basis beginning in the year 2009. Our review of the original General Fund budget for calendar year 2009 showed budgeted expenditures in excess of budgeted receipts of \$900,000. The review was based on budgeted receipts of \$72,200,000 and budgeted expenditures of \$73,100,000. The estimated budgeted receipts included \$2,000,000 in property tax receipts the School Corporation had proposed to collect through a tax levy. We requested School Corporation Officials determine the status of their requested tax levy. Officials determined that the School Corporation had not filed an appeal as required by the Indiana Department of Local Government Finance. Accordingly, the School Corporation determined they would not be receiving any property tax distributions to help fund their 2009 calendar year budget.

GREATER CLARK COUNTY SCHOOLS
EXAMINATION RESULTS AND COMMENTS
(Continued)

School Corporation Officials, concerned about their General Fund's financial condition, proposed a reduction in the calendar year 2009 budgeted expenditures in the amount of amount of \$2,500,000. The \$2,500,000 reduction was to be achieved primarily by funding calendar year 2009's future retirement/severance benefit payments in the amount of \$850,000 from the Rainy Day Fund instead of the General Fund and by delaying the payment of one payroll for certified personnel, approximating \$1,500,000, until calendar year 2010. Additionally, a General Fund encumbrance from the year 2008 (in the amount of \$1,300,000) was reduced by School Corporation Officials in the amount of \$850,000 by authorizing the payment of the prior year's obligation for future retirement/severance benefit from the Rainy Day Fund.

The following is a schedule that provides information regarding cash balances for the General Fund and the Rainy Day Fund at June 30, 2009. A review of the cash balances of both funds was considered necessary because of the aforementioned actions of the School Corporation to use both funds to finance General Fund type of expenditures.

	General Fund	Rainy Day Fund
Cash Balance at June 30, 2009	\$ 5,200,000	\$ 5,200,000
Additional items:		
Tax Anticipation Warrants Outstanding	(4,100,000)	-
Amount Due Other Funds (Note A)	(600,000)	(600,000)

Note A: The funding of post-retirement/severance future benefits is derived primarily by transfers from the General Fund to the Post-Retirement/Severance Future Benefits Fund. Due to the possibility of sufficient funds not being available in the General Fund and past practice of the School Corporation, \$600,000 is shown as due to the Post-Retirement/ Severance Future Benefits Fund as of June 30, 2009, for both the General and Rainy Day Funds (See Examination Result and Comment titled "Deficit Balance - Post-Retirement/Severance Future Benefits Fund).

DEFICIT BALANCE – POST-RETIREMENT/SEVERANCE FUTURE BENEFITS FUND

The School Corporation established a Post-Retirement/Severance Future Benefits Fund to account for the financial activity related to post-retirement/severance future benefits paid to retirees and the related buy-out of these benefits. The primary source of revenue for the Fund was transfers made from the General Fund. Sufficient transfers were not always made from the General Fund to cover the expenditures and resulted in a deficit cash balance. Therefore, when evaluating the financial condition of the School Corporation's General Fund, the financial condition of the Post-Retirement/Severance Future Benefits Fund should be taken into consideration (See Examination Result and Comment titled "Declining Financial Condition"). The following schedule summarizes the financial activity for the Post-Retirement/Severance Future Benefits Fund for the period July 1, 2000 to June 30, 2009.

GREATER CLARK COUNTY SCHOOLS
EXAMINATION RESULTS AND COMMENTS
(Continued)

Post-Retirement/Severance Future Benefits Fund				
Fiscal Year	July 1 Cash Balance	Receipts	Expenditures	June 30 Cash Balance
07-01-00 to 06-30-01	\$ 1,800,000	\$ 1,200,000	\$ 500,000	\$ 2,500,000
07-01-01 to 06-30-02	2,500,000	4,000,000	1,600,000	4,900,000
07-01-02 to 06-30-03	4,900,000	-	1,900,000	3,000,000
07-01-03 to 06-30-04	3,000,000	-	1,100,000	1,900,000
07-01-04 to 06-30-05	1,900,000	800,000	3,100,000	(400,000)
07-01-05 to 06-30-06	(400,000)	1,400,000	1,300,000	(300,000)
07-01-06 to 06-30-07	(300,000)	-	1,100,000	(1,400,000)
07-01-07 to 06-30-08	(1,400,000)	700,000	900,000	(1,600,000)
07-01-08 to 06-30-09	(1,600,000)	1,700,000	700,000	(600,000)

The financial activity shown in the above schedule does not include financial activity related to the buy-out of retirement/severance benefits that were financed from pension bond proceeds during fiscal year July 1, 2004 to June 30, 2005, and accounted for in a separate fund.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

BUILDING CORPORATION

The Greater Clark County School Building Corporation (Building Corporation) was organized as a not-for-profit corporation for the purpose of financing and constructing improvements to school facilities and leasing the improved facilities back to the School Corporation.

The Building Corporation issued two bonds totaling \$97,340,000 on September 11, 2007 and December 27, 2007. The proceeds from the bonds were for the purpose of making additions and improvements to the New Washington Middle/High School, Jeffersonville High School, and Charlestown High School. The Building Corporation had expenditures totaling \$44,866,118 during the period December 27, 2007 to January 31, 2009.

No information was presented for examination that would indicate any instances of expenditures not being processed in accordance with Building Corporation's procedures for processing expenditures; paid without adequate supporting documentation, not paid in accordance with approved contracts, or unrelated to the purposes of the bond issues.

TRAVEL REIMBURSEMENT FROM HOME TO WORK

School Corporation Officials brought to our attention information that two floating cafeteria managers (identified as Manager A and Manager B) were reimbursed for traveling from their home to their actual work site and return. The reimbursements were based on an approved rate per mile times the number of miles traveled and showed the floating managers were paid from their homes to their actual work locations as follows:

GREATER CLARK COUNTY SCHOOLS
EXAMINATION RESULTS AND COMMENTS
(Continued)

<u>Floating Manager</u>	<u>From</u>	<u>To</u>	<u>Work Locations</u>	<u>Amount</u>
Manager A	09-29-08	12-19-08	Charlestown High School	\$ 661.64
Manager B	08-11-08	02-13-09	Various (Note 1)	<u>463.54</u>
Total				<u>\$ 1,125.18</u>

Note 1: Work locations included eleven (11) different schools.

Michael F. Hodgson, former Chief Financial Officer and Cafeteria Director, stated that the administration building was the designated work station for the above floating managers and travel reimbursements paid to the floating managers were determined as follows:

Manager A

The regular cafeteria manager at Charlestown High School was temporarily off work and Michael F. Hodgson requested that another manager work at Charlestown High School. Manager A expressed concerns about working at Charlestown High School because of the long distance from her home to Charlestown High School and because of high gasoline prices.

Due to the need for a cafeteria manager at Charlestown High School and due to Manager A's concern about travel costs, the following verbal arrangement was approved by Michael F. Hodgson:

The manager was not required to report to the administration building. Michael F. Hodgson selected a station northwest of the administration building that was a point on the manager's main route between the manager's home and Charlestown High School.

Michael F. Hodgson stated the new station was made because the manager would charge fewer miles from the designated station to Charlestown High School than from the administration building to Charlestown High School.

Manager A reported on her Mileage Claim that she was reimbursed for miles traveled from her home to Charlestown High School. However, Manager A only claimed the number of miles from the station approved by Michael F. Hodgson to Charlestown High School and return.

The station approved by Michael F. Hodgson was not an actual place that Manager A reported to prior to going to her actual work location. The station was created for the purpose of calculating travel reimbursement.

Manager B

Manager B resided close in proximity to the administration building. According to the Mileage Claim, Manager B was paid to drive from her home to the actual work location and return. Manager B stated that even though her Mileage Claim showed her destination points as home to her work locations, the actual mileage she claimed reimbursement for was from the administration building to her actual work locations. Manager B stated that she was not required to report to the administration building prior to going to her cafeteria work locations.

GREATER CLARK COUNTY SCHOOLS
EXAMINATION RESULTS AND COMMENTS
(Continued)

Reimbursed mileage shall not include travel to and from the officer's or employee's home and the governmental office in which he works, unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

OTHER INSTANCES OF TRAVEL REMIMBURSEMENT FROM HOME TO WORK

We also noted other instances when cafeteria employees were reimbursed for travel from their home to the administration building and return for meetings. The meetings were called to discuss cafeteria operations prior to the school year and to address emergency situations. The travel reimbursement noted totaled \$165.56 for eight employees. Michael F. Hodgson stated that mileage was paid to these employees because the administration building was not these cafeteria workers' normal work station.

Reimbursed mileage shall not include travel to and from the officer's or employee's home and the governmental office in which he works, unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

OTHER ITEMS

Internal Controls Over Financial Transactions and Reporting

We noted the following deficiencies in the internal control system of the School Corporation related to financial transactions and reporting:

1. Lack of Segregation of Duties: Control activities were not developed at various levels of the School Corporation to reduce risks to achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.
2. Controls are not in place whereby the adjusting/correcting transactions are reviewed for propriety and approved by someone outside of the person responsible for entering the initial transaction. Deficiencies were noted in the central financial office as well as in individual school buildings responsible for maintaining financial records related to the school lunch program.
3. No documentation exists indicating verification of amounts invoiced by vendors agree with the amounts per bids or quotes received. Based on our interviews, the accounts payable department assumes that the person receiving the goods/service has made verification prior to submitting amounts invoiced for payment.
4. The School Corporation does not have a policy in place for further follow up on delinquent payments for transfer tuition and kindergarten fees. After two notices are sent notifying the responsible party as to the delinquent bill, no further action is taken on the delinquent accounts.

GREATER CLARK COUNTY SCHOOLS
EXAMINATION RESULTS AND COMMENTS
(Continued)

5. Proper procedures and controls are not in place documenting time worked by certified personnel. Actual hours worked by certified personnel are not documented and approved by the immediate supervisor. Instead, only records of leave time taken is maintained and sent to the payroll department for processing.
6. The School Corporation has not established certain output controls related to their computerized accounting system regarding the sequential numbering of receipts and checks.
7. The School Corporation's accounting application system has the ability to include report headings specifying parameters used when generating reports. However, the School Corporation has chosen to omit the report headings.

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)

Reconciliation of Subsidiary Records

Proper procedures were not in place to reconcile the subsidiary record to the control accounts for the school lunch program and payroll deductions.

1. Financial activity related to the school lunch and breakfast programs is not being properly reconciled in the financial records. The School Corporation does record prepayment on account for students and staff in a trust account. As meals are purchased transactions are recorded in the financial records to remove the monies from the trust account and record the cash sale in the School Lunch Fund. However, a detail record of monies being held on behalf of individuals (subsidiary record) is not being reconciled with the trust control account in the financial records.

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). Subsidiary records by student should be routinely reconciled to the cash balance and at month end. (The School Administrator and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, September 2008)

Subsidiary ledger balances must reconcile to the control ledger fund balance. Every transaction should be posted to the control ledger and to the appropriate subsidiary ledger. Fund balances should reconcile between the control ledger and the subsidiary ledger. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

2. The balance of the payroll control account did not agree with the amounts per the payroll subsidiary records. Proper procedures were not in place to identify and correct differences between the control and the subsidiary records.

GREATER CLARK COUNTY SCHOOLS
EXAMINATION RESULTS AND COMMENTS
(Continued)

Subsidiary ledger balances must reconcile to the control ledger fund balance. Every transaction should be posted to the control ledger and to the appropriate subsidiary ledger. Fund balances should reconcile between the control ledger and the subsidiary ledger. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

Delinquent Facility Rental

The School Corporation charges a facility rental fee for the use of school facilities. Robbie Valentine, School Board member, used school facilities to conduct private basketball camps. The following is a schedule of delinquent amounts invoiced to Robbie Valentine as of April 30, 2009:

<u>Invoice Date</u>	<u>Invoice Number</u>	<u>Amount</u>	<u>Number of Delinquent Notices Sent</u>
04-02-08	3360	\$ 240	3
04-08-08	3362	320	3
07-18-08	3382	320	2
04-02-09	3409	<u>400</u>	0
Total		<u>\$ 1,280</u>	

A policy on facility rental adopted by the School Board on August 8, 2006, states: "Final billing will be made to the applicant after the conclusion of the event and payment is expected not later than 10 days from the billing date."

The policy also authorizes the denial of facility rentals to renters who have past due accounts in the two years prior to the application for facility rental.

Governmental unit have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

The delinquent amounts had not been paid as of October 8, 2009.

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Appendix A

	Notes	Greater Than Normal Expenditures							Totals
		School Year							
		2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	
Greater Than Normal Expenditures:									
Health Insurance Costs Retirement/Severance Benefits	(A)	\$ 200,000	\$ 1,200,000	\$ 2,000,000	\$ 2,900,000	\$ 2,700,000	\$ 3,100,000	\$ 2,900,000	\$ 15,000,000
TERF Payments	(B)	2,700,000	(1,100,000)	(1,100,000)	(500,000)	(500,000)	(100,000)	200,000	(400,000)
Additional TERF Payment	(C)	-	-	500,000	700,000	1,000,000	1,200,000	1,300,000	4,700,000
Special Co-op Payment	(D)	-	-	-	500,000	-	-	-	500,000
Full Day Kindergarten	(E)	-	-	(1,100,000)	-	-	-	-	(1,100,000)
Transportation Costs	(F)	-	-	-	600,000	600,000	700,000	700,000	2,600,000
Land Purchase	(G)	-	-	-	500,000	-	-	-	500,000
	(H)	-	500,000	-	-	-	-	-	500,000
Total Greater Than Normal Expenditures		\$ 2,900,000	\$ 600,000	\$ 300,000	\$ 4,700,000	\$ 3,800,000	\$ 4,900,000	\$ 5,100,000	\$ 22,300,000

Notes to Schedule:

(A) The amount reported represents yearly increases in health insurance costs and the cumulative effect of those yearly cost increases. The average yearly percentage increase in health insurance costs was 16.5% between school year 2000-2001 and school year 2007-2008.

(B) Changes in retirement/severance benefit payments consisted of the difference between retirement/severance benefit payments made in school year 2000-2001 and subsequent school years. A decrease in actual retirement/severance benefits occurred in some years because of new retirement/severance benefit plans offered to employees and the financing of retirement/severance pay benefits with a bond issue.

Retirement/severance benefit payments were also made from the Post-Retirement/Severance Future Benefits Fund. The primary source of revenue for the Post-Retirement/Severance Future Benefits Fund was transfers made from the General Fund; however, sufficient transfers were not being made beginning in school year 2004-2005 to finance future retirement/severance benefit payments made from the Post-Retirement/Severance Future Benefits Fund. Retirement/severance benefit payments reported in the above schedule due to the underfunding, do not include an additional \$1,600,000 of retirement/severance pay benefits paid from the Post-Retirement/Severance Future Benefits Fund (See Examination Result and Comment titled "Deficit Balance – Post-Retirement/Severance Future Benefits Fund").

(C) The employer's share of Teacher Retirement Fund (TRF) payments for teachers hired prior to July 1, 1995, are paid by the State of Indiana while the employer share of TRF payments for teachers hired after July 1, 1995, are paid by the School Corporation. The School Corporation offered retirement/severance benefit packages to teachers. The retirement/severance benefit packages could cause an increase in TRF payments due to the retirement of teachers, whose employer's share of TRF payments were funded by the State of Indiana, and being replaced with new teachers, whose employer's share of TRF payments were funded by the School Corporation.

The average yearly percentage increase in TRF payments between school year 2000-2001 and 2007-2008 was 11.8% compared to average yearly percentage increase in teacher salaries of 3.3% for the same period of time. The 11.8% increase in TRF payments between school year 2000-2001 and 2007-2008 was comparable to the percentage increase in TRF payments made by another local school corporation.

(D) The 2004-2005 school years included an additional \$500,000 one time TRF payment caused by a change in the School Corporation's accounting software system that began accruing the expenditures for the employer share of TRF. This change in accounting resulted in approximately in three months of additional TRF payments being transferred from the General Fund to the School Corporation's payroll clearing account.

(E) The School Corporation historically paid the special education co-op a year in advance prior to school year 2003-2004. The School Corporation did not make any significant payments to the special education co-op during school year 2003-2004, which represented a one-time savings for special co-op payments. Beginning in school year 2004-2005, payments were made when scheduled.

(F) The School Corporation implemented full day kindergarten during school year 2004-2005, which resulted in the hiring of approximately 15 new teachers. Based on annual average salary increases of 4% each year and related employee benefits, the personnel costs of implementing the program for the period July 1, 2004 to June 30, 2008, was estimated at approximately \$2,600,000 assuming the new employees were hired at entry level positions and a benefit rate of 27%.

(G) One-time transportation costs were paid from the General Fund in school year 2004-2005 due to insufficient funds being available in the School Corporation's Transportation Operating Fund.

(H) The \$500,000 expenditure in school year 2002-2003 represents one-time expenditures for costs associated with a land purchase.

GREATER CLARK COUNTY SCHOOLS
CLARK COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 30, 2009, with Dr. Stephen Daeschner, Superintendent of Schools; Frank Collesano, Treasurer; Sandra W. Lewis, School Corporation General Counsel; and Martin Bell, Chief Operating Officer. The official response has been made a part of this report and can be found on pages 17 through 19.

The contents of this report were discussed on October 8, 2009, with Ernie Gilbert, President of the School Board; Melissa DeArk, School Board member; and Robbie Valentine, School Board member.

The contents of this report were provided to Michael F. Hodgson, former Treasurer.



Greater Clark County Schools

Administration Building
2112 Utica-Sellersburg Road
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STEPHEN DAESCHNER, Ph.D.
Superintendent

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October 22, 2009

State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, Indiana 46204-2769

Dear Sir:

This correspondence is written in an attempt to respond to your findings regarding Robbie Valentine's rental expense in the amount of \$1,280. As you know, I am new to GCCS and was not a participant during the transaction. I do support your recommendation of a paper trail to account for all transactions. Upon my investigation, I found a paper trail does not exist. However, I have spoken with several individuals familiar with the Valentine transaction.

My understanding is that Mr. Valentine owned a basketball retrieving machine. The previous administration and Mr. Valentine had a verbal agreement that the rental expense that Mr. Valentine occurred was off-written by the cost of the basketball retrieving machine that is now in GCCS possession. At first it was believed that the machine was lost or stolen. Last week (October 14, 2009) the machine was identified and resides at Charlestown High School. We have contacted the manufacturer of the "shoot-a-way" and a seven year old unit is worth approximately \$1,500.00.

My conclusion is this matter has been resolved to our satisfaction and that the machine expense is of approximate value to the rental Mr. Valentine owes. I hope this meets with your satisfaction.

Sincerely,

Stephen Daeschner, Ph.D
Superintendent

cc: Board Members

Audit Response from Michael Hodgson

I am very unhappy about what I perceive as the accusatory tone of this audit as well as several factual errors and omissions that exist in the document.

A large part of the audit appears to be attempting to place blame on why the school corporation's cash balance decreased over the past several years. While there is mention about information that I presented to the school board in 2007 concerning the 2008 budget and the declining cash balance, there was no mention in this audit report of the same type of information presented to the school board each of the preceding four years. I find this omission troublesome because the auditors were provided with this information and where they could obtain copies of those reports last February. Each year the board, superintendent, and public was warned that the school corporation was spending more than it was receiving.

Decisions that were made that led to the decline in the cash balance were made with the knowledge and approval of both the school board and the superintendent of schools, Tom Rohr. My warnings of the consequences of those decisions were dismissed as being overly pessimistic, or that the state would increase our funding (particularly with regard to full day kindergarten.)

Specific inaccuracies and omissions in the report include the following:

- The omission that a significant increase in the number of staff hired in 2003 led directly to an increased level of spending that the district still has not adjusted to. This was the primary cause of the school corporation's budget issues and was made with the full knowledge of the superintendent, but that fact is not mentioned in the audit.
- The lack of inclusion of the cost of aides required for the full day kindergarten program that caused the costs to be far higher than this audit suggests. This also was directly discussed with the superintendent and the curriculum director, but was dismissed because the need was so significant and the assumption was made by the superintendent that the state would increase funding for the program far faster than they actually did. Again, this does not appear in the audit.
- It is misleading to suggest that \$2 million of property taxes were not collected because they were not applied for. The school corporation did not qualify for any of the allowable appeals so no additional tax money could have been received.
- Payments to the "floating" cafeteria managers were to have only been for the lesser of travel from the office to their temporary work location or from their home to their temporary work location. This would have saved the managers time and would have saved the school corporation money. If this practice was changed after I left, I can not be held responsible for that.
- In the discussion of segregation of duties, the essential duties (such as cash handling and receipting) were indeed segregated. Other duties in the department were significantly more segregated until the Business Office was required to downsize one position due to budget constraints.

- In the discussion about lack of review of payments for bids and quotes, the Purchasing Manager and the CFO would do this at the time the Purchase Order was written and approved. As had been the practice since before I arrived at the school district, the Accounts Payable manager would question variations between an invoice and a purchase order. So in essence, what is requested by the audit, does exist, but at a different point in the process.
- Finally, in the discussion of the documentation of time by Certified Employees, since these employees are not subject to the Fair Labor Standards Act, I am unclear as to what requirement exists for documentation. However, the audit never mentions that payroll and human resources issues were outside the scope of responsibility of the CFO, and instead were the responsibility of the Director of Human Resources and the General Counsel who she reported to. This omission leads the reader to assume that the CFO was responsible for these areas when that was not the case.