

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

VALPARAISO COMMUNITY SCHOOLS
PORTER COUNTY, INDIANA

July 1, 2009 to June 30, 2011



FILED
02/27/2012

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Joanne Boyer Joyce Nicholas	07-01-09 to 08-01-09 08-02-09 to 06-30-11
Chief Financial Officer And Treasurer	Lynn Kwilasz	07-01-11 to 06-30-12
Superintendent of Schools	Dr. Michael P. Benway Dr. Andrew Melin	07-01-09 to 06-30-10 07-01-10 to 06-30-12
President of the Board of Education	Mary Idstein A. James Sarkisian	07-01-09 to 06-30-10 07-01-10 to 06-30-12



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENT
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE VALPARAISO COMMUNITY SCHOOLS, PORTER COUNTY, INDIANA

We have audited the accompanying financial statement of the Valparaiso Community Schools (School Corporation), for the years ended June 30, 2010 and 2011. This financial statement is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 opinion.

As discussed in Note 1, the School Corporation prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the School Corporation for the years ended June 30, 2010 and 2011, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated December 15, 2011, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

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

This report is intended solely for the information and use of the School Corporation's management, Board of Education, others within the entity, 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

December 15, 2011



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AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE VALPARAISO COMMUNITY SCHOOLS, PORTER COUNTY, INDIANA

We have audited the financial statement of the Valparaiso Community Schools (School Corporation), for the years ended June 30, 2010 and 2011, and have issued our report thereon dated December 15, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2011-01 and 2011-02 to be material weaknesses.

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

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2011-02.

The School Corporation's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, Board of Education, others within the entity, 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

December 15, 2011

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FINANCIAL STATEMENT

The financial statement and accompanying notes were prepared by management of the School Corporation. The financial statement and notes are presented as intended by the School Corporation.

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VALPARAISO COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended June 30, 2010 and 2011

	Cash and Investments 07-01-09	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-10	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-11
General	\$ 210,471	\$ 38,930,294	\$ 39,007,968	\$ (126,569)	\$ 6,228	\$ 36,419,814	\$ 39,872,484	\$ 3,463,938	\$ 17,496
Debt Service	2,698,017	16,202,435	15,233,101	(1,204,524)	2,462,827	13,480,485	15,187,628	-	755,684
Retirement/Severance Bond Debt Service	157	3,021,273	2,444,108	(261,000)	316,322	1,999,739	2,337,723	21,682	20
Capital Projects	32,410	12,105,774	8,441,886	(700,000)	2,996,298	7,852,918	6,632,532	-	4,216,684
School Transportation	1,389,565	6,392,059	3,682,504	(2,000,000)	2,099,120	3,283,269	2,848,660	(1,211,848)	1,321,881
School Bus Replacement	69,862	340,793	333,059	-	77,596	276,997	359,903	5,330	20
Special Education Preschool	22	105,698	-	(105,720)	-	-	-	-	-
Rainy Day	1,068,509	-	-	4,080,945	5,149,454	-	450,500	(3,087,497)	1,611,457
Retirement/Severance Bond	14,892,625	169,387	1,141,726	-	13,920,286	86,568	1,289,216	-	12,717,638
Post Retirement/Severance Future Benefits	-	-	-	341,373	341,373	-	999,600	810,000	151,773
School Lunch	1,062,460	2,697,593	2,592,570	-	1,167,483	2,757,826	2,614,668	-	1,310,641
Textbook Rental	572,501	809,474	761,013	-	620,962	580,786	556,109	-	645,639
Self-Insurance	5,472,420	4,728,893	4,019,524	-	6,181,789	4,633,315	3,878,090	-	6,937,014
Alternative Education	22,117	12,749	6,707	-	28,159	11,036	6,248	-	32,947
SAFE School Haven	-	15,000	15,000	-	-	15,000	15,000	-	-
Little Bears	150	-	-	-	150	-	-	-	150
Peace Village	670	-	100	-	570	-	-	-	570
Construction, Remodeling, and Equipping Buildings	453,504	3,249	-	-	456,753	1,359	-	-	458,112
Gifts/Donations	31,971	19,026	16,531	-	34,466	16,473	11,640	-	39,299
High Ability 08-09	28,581	52,850	79,152	-	2,279	52,055	25,474	-	28,860
Non-English Speaking Programs P.L. 273-1999	2,032	21,461	21,461	-	2,032	17,175	14,999	-	4,208
School Technology	20,755	100,247	89,060	-	31,942	64,022	85,490	-	10,474
Miscellaneous Programs	-	-	-	-	-	-	33,570	-	(33,570)
Excess PTRC Distributions	-	53,139	-	-	53,139	125,822	-	-	178,961
Title I	33,576	638,992	618,023	-	54,545	428,382	465,171	-	17,756
Title I Part D Delinquent	27,128	48,479	57,034	-	18,573	25,098	31,770	(1,426)	10,475
P.L. Innovative Education Program									
Strategies Title V (Part A)	6,749	-	6,749	-	-	-	-	-	-
Learn and Serve American 05-06	9,227	-	1,996	-	7,231	-	-	-	7,231
Serve America	23,364	-	-	-	23,364	-	-	-	23,364
Points of Lights Program	3,382	-	158	-	3,224	-	-	-	3,224
Drug Free Schools	1,926	18,455	18,208	-	2,173	-	2,173	-	-
Team Nutrition Training Grants	-	-	-	-	-	6,075	6,075	-	-
Improving Teaching Quality, No Child Left, Title II, Part A	31,057	238,841	167,689	(9,101)	93,108	8,242	150,780	-	(49,430)
Title III, Language Instruction	1,468	17,550	18,693	-	325	16,903	17,754	-	(526)
Fiscal Stabilization - Education	2,423,948	1,312,852	3,736,800	-	-	-	-	-	-
Title I - Grants to LEAs	-	393,144	226,154	-	166,990	-	144,285	-	22,705
Special Education - Part B	-	281,511	281,511	-	-	-	253,714	-	(253,714)
Title I - Part D, Subpart 2	-	16,901	7,287	-	9,614	-	7,551	-	2,063
Clearing Account	22,366	9,990,271	10,012,483	-	154	9,769,780	9,769,764	-	170
Totals	\$ 30,612,990	\$ 98,738,390	\$ 93,038,255	\$ 15,404	\$ 36,328,529	\$ 81,929,139	\$ 88,068,571	\$ 179	\$ 30,189,276

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

VALPARAISO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

The accompanying financial statement presents the financial information for the School Corporation (primary government).

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

C. Cash and Investments

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

D. Receipts

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

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

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

VALPARAISO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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

Interfund loans which include money temporarily transferred from one fund to a depleted fund for use in paying current operating expenses. Such advancement shall not be made for a period extending beyond the budget year.

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

E. Disbursements

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

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

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

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

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

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

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

Interfund loans which include money temporarily transferred from one fund to a depleted fund for use in paying current operating expenses. Such advancement shall not be made for a period extending beyond the budget year.

VALPARAISO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

F. Other financing sources and uses

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

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

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

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

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

G. Fund Accounting

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

Note 2. Budgets

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

Note 3. Property Taxes

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

VALPARAISO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. Deposits and Investments

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

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

Note 5. Risk Management

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

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

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

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

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

VALPARAISO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

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

B. Teachers' Retirement Fund

Plan Description

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

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

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 286-3544

Funding Policy and Annual Pension Cost

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

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the School Corporation's Financial Reports can be found on the Indiana Department of Education website: <http://mustang.doe.state.in.us/TRENDS/fin.cfm>. This website is maintained by the Indiana Department of Education. More current financial information is available from the School Corporation Treasurer's office.

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

The supplementary information presented was prepared and/or approved by management of the School Corporation. It is presented as intended by the School Corporation.

VALPARAISO COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010

	General	Debt Service	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Special Education Preschool	Rainy Day	Retirement/ Severance Bond	Post Retirement/ Severance Future Benefits
Cash and investments - beginning	\$ 210,471	\$ 2,698,017	\$ 157	\$ 32,410	\$ 1,389,565	\$ 69,862	\$ 22	\$ 1,068,509	\$ 14,892,625	\$ -
Receipts:										
Local sources	4,051,794	13,108,435	2,315,273	8,430,774	5,447,931	340,793	3,949	-	169,387	-
State sources	33,979,861	-	-	-	128	-	101,749	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-	-
Temporary loans	-	3,094,000	706,000	3,675,000	944,000	-	-	-	-	-
Other	898,639	-	-	-	-	-	-	-	-	-
Total receipts	38,930,294	16,202,435	3,021,273	12,105,774	6,392,059	340,793	105,698	-	169,387	-
Disbursements:										
Current:										
Instruction	23,548,872	-	-	-	-	-	-	-	-	-
Support services	11,384,274	-	-	1,676,604	2,733,608	333,059	-	-	1,141,726	-
Noninstructional services	787,692	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	3,074,561	-	-	-	-	-	-
Debt services	2,000,000	15,233,101	2,444,108	3,690,721	948,896	-	-	-	-	-
Nonprogrammed charges	1,287,130	-	-	-	-	-	-	-	-	-
Total disbursements	39,007,968	15,233,101	2,444,108	8,441,886	3,682,504	333,059	-	-	1,141,726	-
Excess (deficiency) of receipts over disbursements	(77,674)	969,334	577,165	3,663,888	2,709,555	7,734	105,698	-	(972,339)	-
Other financing sources (uses):										
Sale of capital assets	15,404	-	-	-	-	-	-	-	-	-
Transfers in	661,821	-	818,000	727,000	727,000	-	-	5,800,318	-	341,373
Transfers out	(803,794)	(1,204,524)	(1,079,000)	(1,427,000)	(2,727,000)	-	(105,720)	(1,719,373)	-	-
Total other financing sources (uses)	(126,569)	(1,204,524)	(261,000)	(700,000)	(2,000,000)	-	(105,720)	4,080,945	-	341,373
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(204,243)	(235,190)	316,165	2,963,888	709,555	7,734	(22)	4,080,945	(972,339)	341,373
Cash and investments - ending	\$ 6,228	\$ 2,462,827	\$ 316,322	\$ 2,996,298	\$ 2,099,120	\$ 77,596	\$ -	\$ 5,149,454	\$ 13,920,286	\$ 341,373

VALPARAISO COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010
 (Continued)

	School Lunch	Textbook Rental	Self- Insurance	Alternative Education	SAFE School Haven	Little Bears	Peace Village	Construction, Remodeling, and Equipping Buildings	Gifts/ Donations	High Ability 08-09
Cash and investments - beginning	\$ 1,062,460	\$ 572,501	\$ 5,472,420	\$ 22,117	\$ -	\$ 150	\$ 670	\$ 453,504	\$ 31,971	\$ 28,581
Receipts:										
Local sources	1,904,601	673,813	4,728,893	-	-	-	-	3,249	19,026	-
State sources	-	135,661	-	12,749	15,000	-	-	-	-	52,850
Federal sources	792,992	-	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total receipts	<u>2,697,593</u>	<u>809,474</u>	<u>4,728,893</u>	<u>12,749</u>	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>3,249</u>	<u>19,026</u>	<u>52,850</u>
Disbursements:										
Current:										
Instruction	-	-	-	6,707	-	-	100	-	16,531	79,152
Support services	-	761,013	-	-	15,000	-	-	-	-	-
Noninstructional services	2,592,570	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	4,019,524	-	-	-	-	-	-	-
Total disbursements	<u>2,592,570</u>	<u>761,013</u>	<u>4,019,524</u>	<u>6,707</u>	<u>15,000</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>16,531</u>	<u>79,152</u>
Excess (deficiency) of receipts over disbursements	<u>105,023</u>	<u>48,461</u>	<u>709,369</u>	<u>6,042</u>	<u>-</u>	<u>-</u>	<u>(100)</u>	<u>3,249</u>	<u>2,495</u>	<u>(26,302)</u>
Other financing sources (uses):										
Sale of capital assets	-	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>105,023</u>	<u>48,461</u>	<u>709,369</u>	<u>6,042</u>	<u>-</u>	<u>-</u>	<u>(100)</u>	<u>3,249</u>	<u>2,495</u>	<u>(26,302)</u>
Cash and investments - ending	<u>\$ 1,167,483</u>	<u>\$ 620,962</u>	<u>\$ 6,181,789</u>	<u>\$ 28,159</u>	<u>\$ -</u>	<u>\$ 150</u>	<u>\$ 570</u>	<u>\$ 456,753</u>	<u>\$ 34,466</u>	<u>\$ 2,279</u>

VALPARAISO COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010
 (Continued)

	Non-English Speaking Programs P.L. 273-1999	School Technology	Miscellaneous Programs	Excess PTRC Distributions	Title I	Title I Part D Delinquent	P.L. Innovative Education Program Strategies Title V (Part A)	Learn and Serve American 05-06	Serve America	Points of Lights Program
Cash and investments - beginning	\$ 2,032	\$ 20,755	\$ -	\$ -	\$ 33,576	\$ 27,128	\$ 6,749	\$ 9,227	\$ 23,364	\$ 3,382
Receipts:										
Local sources	-	100,247	-	-	-	-	-	-	-	-
State sources	21,461	-	-	53,139	-	-	-	-	-	-
Federal sources	-	-	-	-	638,992	48,479	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total receipts	21,461	100,247	-	53,139	638,992	48,479	-	-	-	-
Disbursements:										
Current:										
Instruction	21,461	8,241	-	-	502,039	38,833	-	1,996	-	158
Support services	-	80,819	-	-	21,391	18,201	6,749	-	-	-
Noninstructional services	-	-	-	-	94,593	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-	-
Total disbursements	21,461	89,060	-	-	618,023	57,034	6,749	1,996	-	158
Excess (deficiency) of receipts over disbursements	-	11,187	-	53,139	20,969	(8,555)	(6,749)	(1,996)	-	(158)
Other financing sources (uses):										
Sale of capital assets	-	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	11,187	-	53,139	20,969	(8,555)	(6,749)	(1,996)	-	(158)
Cash and investments - ending	\$ 2,032	\$ 31,942	\$ -	\$ 53,139	\$ 54,545	\$ 18,573	\$ -	\$ 7,231	\$ 23,364	\$ 3,224

VALPARAISO COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010
 (Continued)

	Drug Free Schools	Improving Teaching Quality, No Child Left, Title II, Part A	Title III, Language Instruction	Fiscal Stabilization - Education	Title I - Grants to LEAs	Special Education - Part B	Title I - Part D, Subpart 2	Clearing Account	Totals
Cash and investments - beginning	\$ 1,926	\$ 31,057	\$ 1,468	\$ 2,423,948	\$ -	\$ -	\$ -	\$ 22,366	\$ 30,612,990
Receipts:									
Local sources	-	-	-	-	-	-	-	-	41,298,165
State sources	-	-	-	-	-	-	-	-	34,372,598
Federal sources	18,455	238,841	17,550	1,312,852	393,144	281,511	16,901	-	3,759,717
Temporary loans	-	-	-	-	-	-	-	-	8,419,000
Other	-	-	-	-	-	-	-	9,990,271	10,888,910
Total receipts	18,455	238,841	17,550	1,312,852	393,144	281,511	16,901	9,990,271	98,738,390
Disbursements:									
Current:									
Instruction	18,208	162,369	18,693	2,891,464	215,399	-	7,287	-	27,537,510
Support services	-	-	-	171,126	7,242	-	-	-	18,350,812
Noninstructional services	-	-	-	-	3,513	-	-	-	3,478,368
Facilities acquisition and construction	-	-	-	-	-	-	-	-	3,074,561
Debt services	-	-	-	-	-	-	-	-	24,316,826
Nonprogrammed charges	-	5,320	-	674,210	-	281,511	-	10,012,483	16,280,178
Total disbursements	18,208	167,689	18,693	3,736,800	226,154	281,511	7,287	10,012,483	93,038,255
Excess (deficiency) of receipts over disbursements	247	71,152	(1,143)	(2,423,948)	166,990	-	9,614	(22,212)	5,700,135
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	15,404
Transfers in	-	-	-	-	-	-	-	-	9,075,512
Transfers out	-	(9,101)	-	-	-	-	-	-	(9,075,512)
Total other financing sources (uses)	-	(9,101)	-	-	-	-	-	-	15,404
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	247	62,051	(1,143)	(2,423,948)	166,990	-	9,614	(22,212)	5,715,539
Cash and investments - ending	\$ 2,173	\$ 93,108	\$ 325	\$ -	\$ 166,990	\$ -	\$ 9,614	\$ 154	\$ 36,328,529

VALPARAISO COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011

	General	Debt Service	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	Retirement/ Severance Bond	Post Retirement/ Severance Future Benefits	School Lunch
Cash and investments - beginning	\$ 6,228	\$ 2,462,827	\$ 316,322	\$ 2,996,298	\$ 2,099,120	\$ 77,596	\$ 5,149,454	\$ 13,920,286	\$ 341,373	\$ 1,167,483
Receipts:										
Local sources	1,612,767	7,674,241	1,359,739	5,536,918	3,283,269	276,997	-	86,568	-	1,858,062
State sources	34,749,674	21,244	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-	899,764
Temporary loans	-	5,785,000	640,000	2,316,000	-	-	-	-	-	-
Other	57,373	-	-	-	-	-	-	-	-	-
Total receipts	36,419,814	13,480,485	1,999,739	7,852,918	3,283,269	276,997	-	86,568	-	2,757,826
Disbursements:										
Current:										
Instruction	26,086,737	-	-	-	-	-	300,000	-	-	-
Support services	10,007,729	-	-	2,213,685	2,848,660	359,903	150,500	1,289,216	999,600	-
Noninstructional services	846,044	-	-	-	-	-	-	-	-	2,614,668
Facilities acquisition and construction	-	-	-	4,418,847	-	-	-	-	-	-
Debt services	-	15,187,628	2,337,723	-	-	-	-	-	-	-
Nonprogrammed charges	2,931,974	-	-	-	-	-	-	-	-	-
Total disbursements	39,872,484	15,187,628	2,337,723	6,632,532	2,848,660	359,903	450,500	1,289,216	999,600	2,614,668
Excess (deficiency) of receipts over disbursements	(3,452,670)	(1,707,143)	(337,984)	1,220,386	434,609	(82,906)	(450,500)	(1,202,648)	(999,600)	143,158
Other financing sources (uses):										
Sale of capital assets	179	-	-	-	-	-	-	-	-	-
Transfers in	4,390,759	260,000	21,682	860,000	-	5,330	3,047,000	-	810,000	-
Transfers out	(927,000)	(260,000)	-	(860,000)	(1,211,848)	-	(6,134,497)	-	-	-
Total other financing sources (uses)	3,463,938	-	21,682	-	(1,211,848)	5,330	(3,087,497)	-	810,000	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	11,268	(1,707,143)	(316,302)	1,220,386	(777,239)	(77,576)	(3,537,997)	(1,202,648)	(189,600)	143,158
Cash and investments - ending	\$ 17,496	\$ 755,684	\$ 20	\$ 4,216,684	\$ 1,321,881	\$ 20	\$ 1,611,457	\$ 12,717,638	\$ 151,773	\$ 1,310,641

VALPARAISO COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011
 (Continued)

	Textbook Rental	Self- Insurance	Alternative Education	SAFE School Haven	Little Bears	Peace Village	Construction, Remodeling, and Equipping Buildings	Gifts/ Donations	High Ability 08-09
Cash and investments - beginning	\$ 620,962	\$ 6,181,789	\$ 28,159	\$ -	\$ 150	\$ 570	\$ 456,753	\$ 34,466	\$ 2,279
Receipts:									
Local sources	471,000	4,633,315	-	-	-	-	1,359	16,473	-
State sources	109,786	-	11,036	15,000	-	-	-	-	52,055
Federal sources	-	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	<u>580,786</u>	<u>4,633,315</u>	<u>11,036</u>	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>1,359</u>	<u>16,473</u>	<u>52,055</u>
Disbursements:									
Current:									
Instruction	-	-	6,248	-	-	-	-	11,640	25,474
Support services	556,109	-	-	15,000	-	-	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	3,878,090	-	-	-	-	-	-	-
Total disbursements	<u>556,109</u>	<u>3,878,090</u>	<u>6,248</u>	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,640</u>	<u>25,474</u>
Excess (deficiency) of receipts over disbursements	<u>24,677</u>	<u>755,225</u>	<u>4,788</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,359</u>	<u>4,833</u>	<u>26,581</u>
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>24,677</u>	<u>755,225</u>	<u>4,788</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,359</u>	<u>4,833</u>	<u>26,581</u>
Cash and investments - ending	<u>\$ 645,639</u>	<u>\$ 6,937,014</u>	<u>\$ 32,947</u>	<u>\$ -</u>	<u>\$ 150</u>	<u>\$ 570</u>	<u>\$ 458,112</u>	<u>\$ 39,299</u>	<u>\$ 28,860</u>

VALPARAISO COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011
 (Continued)

	Non-English Speaking Programs P.L. 273-1999	School Technology	Miscellaneous Programs	Excess PTRC Distributions	Title I	Title I Part D Delinquent	Learn and Serve American 05-06	Serve America	Points of Lights Program
Cash and investments - beginning	\$ 2,032	\$ 31,942	\$ -	\$ 53,139	\$ 54,545	\$ 18,573	\$ 7,231	\$ 23,364	\$ 3,224
Receipts:									
Local sources	-	55,473	-	-	-	-	-	-	-
State sources	17,175	8,549	-	125,822	-	-	-	-	-
Federal sources	-	-	-	-	428,382	25,098	-	-	-
Temporary loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	17,175	64,022	-	125,822	428,382	25,098	-	-	-
Disbursements:									
Current:									
Instruction	14,999	6,490	33,570	-	429,272	16,137	-	-	-
Support services	-	79,000	-	-	22,326	14,363	-	-	-
Noninstructional services	-	-	-	-	13,573	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	1,270	-	-	-
Total disbursements	14,999	85,490	33,570	-	465,171	31,770	-	-	-
Excess (deficiency) of receipts over disbursements	2,176	(21,468)	(33,570)	125,822	(36,789)	(6,672)	-	-	-
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(1,426)	-	-	-
Total other financing sources (uses)	-	-	-	-	-	(1,426)	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	2,176	(21,468)	(33,570)	125,822	(36,789)	(8,098)	-	-	-
Cash and investments - ending	\$ 4,208	\$ 10,474	\$ (33,570)	\$ 178,961	\$ 17,756	\$ 10,475	\$ 7,231	\$ 23,364	\$ 3,224

VALPARAISO COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011
 (Continued)

	Drug Free Schools	Team Nutrition Training Grants	Improving Teaching Quality, No Child Left, Title II, Part A	Title III, Language Instruction	Title I - Grants to LEAs	Special Education - Part B	Title I - Part D, Subpart 2	Clearing Account	Totals
Cash and investments - beginning	\$ 2,173	\$ -	\$ 93,108	\$ 325	\$ 166,990	\$ -	\$ 9,614	\$ 154	\$ 36,328,529
Receipts:									
Local sources	-	-	-	-	-	-	-	-	26,866,181
State sources	-	-	-	-	-	-	-	-	35,110,341
Federal sources	-	6,075	8,242	16,903	-	-	-	-	1,384,464
Temporary loans	-	-	-	-	-	-	-	-	8,741,000
Other	-	-	-	-	-	-	-	9,769,780	9,827,153
Total receipts	-	6,075	8,242	16,903	-	-	-	9,769,780	81,929,139
Disbursements:									
Current:									
Instruction	2,173	6,075	150,780	17,754	117,826	-	7,551	-	27,232,726
Support services	-	-	-	-	26,459	-	-	-	18,582,550
Noninstructional services	-	-	-	-	-	-	-	-	3,474,285
Facilities acquisition and construction	-	-	-	-	-	-	-	-	4,418,847
Debt services	-	-	-	-	-	-	-	-	17,525,351
Nonprogrammed charges	-	-	-	-	-	253,714	-	9,769,764	16,834,812
Total disbursements	2,173	6,075	150,780	17,754	144,285	253,714	7,551	9,769,764	88,068,571
Excess (deficiency) of receipts over disbursements	(2,173)	-	(142,538)	(851)	(144,285)	(253,714)	(7,551)	16	(6,139,432)
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	179
Transfers in	-	-	-	-	-	-	-	-	9,394,771
Transfers out	-	-	-	-	-	-	-	-	(9,394,771)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	179
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(2,173)	-	(142,538)	(851)	(144,285)	(253,714)	(7,551)	16	(6,139,253)
Cash and investments - ending	\$ -	\$ -	\$ (49,430)	\$ (526)	\$ 22,705	\$ (253,714)	\$ 2,063	\$ 170	\$ 30,189,276

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VALPARAISO COMMUNITY SCHOOLS
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2011

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year	Fund/ Department
Capital leases:			
Valparaiso Multi-Schools Building Corporation	\$ 10,077,157	\$ 5,110,000	Debt Service
Valparaiso Middle School Building Corporation	38,663,563	3,500,000	Debt Service
Notes and loans payable:			
Interlocal Retirement Buyout Loan	216,247	78,052	General
Textbook Purchase Deferred Notes	87,378	55,651	Textbook Rental
Bonds payable:			
General obligation bonds:			
2002 Pension Retirement Bonds	2,725,000	449,516	Retirement/Severance Bond Debt Service
2005 Pension Retirement Bonds	<u>12,885,000</u>	<u>735,244</u>	Retirement/Severance Bond Debt Service
Total debt	<u><u>\$ 64,654,345</u></u>	<u><u>\$ 9,928,463</u></u>	

VALPARAISO COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - RECEIPTS AND CASH AND INVESTMENT BALANCES

As stated in the prior report, we noted deficiencies in the internal control system of the School Corporation related to financial transactions and reporting of receipts and cash and investment balances. The deficiencies in the internal control system are deemed to be material weaknesses.

Valparaiso Community Schools (School Corporation) allowed the same individual to issue receipts, prepare deposits, reconcile the bank accounts, invest funds, maintain investment records, and prepare the financial statements with limited oversight and review. By failing to properly segregate incompatible duties and limited oversight and review, the School Corporation risks that financial statements could be materially misstated, or that irregularities in recordkeeping functions may not be prevented, and could go undetected.

Because such controls had not been established, the School Corporation failed to report the textbook rental receipts, disbursements, and cash and investment balances of the elementary schools, which are accounted for in the ledgers maintained by the Corporation. A comparison of the cash and investment balances reported in the financial statement to the reconciled bank cash and investment balances may have alerted officials to the omission. An audit adjustment was made to the financial statement to correct the omitted activity and balances.

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 objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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

CORPORATION SCHOOL LUNCH FUND

The School Corporation maintains an extra-curricular account to record the financial activity of the school lunch program. Also, a School Lunch Fund is maintained in the School Corporation's financial records. The financial activity of extra-curricular account is the activity reported in the financial statements of the School Corporation.

The School Lunch Fund in the School Corporation's records acts as a clearing account. Inter-governmental revenues for federal and state reimbursements for free and reduced priced meals are receipted to the fund, but subsequently transferred to the extra-curricular account. Also, since payroll is handled by the School Corporation, the school lunch salaries, wages, and related fringe benefits are paid from the School Corporation School Lunch Fund. These payroll amounts in the School Corporation's School Lunch Fund are then reimbursed from the extra-curricular account.

The School Corporation has not established controls to ensure the associated transfers of School Lunch funds are remitted intact and timely. No individual is responsible for reconciling balances, receipts, or disbursements in the School Corporation School Lunch Fund to transfers made to and from the extra-curricular School Lunch Fund.

VALPARAISO COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

As of June 30, 2010, and 2011 the School Corporation School Lunch Fund held \$179,194.25, and \$38,723.91, respectively, in cash and investments, which were not reported in the financial statement of the School Corporation.

Payroll and payroll related expenses in the School Corporation fund could be traced to a corresponding receipt from the extra-curricular School Lunch Fund during the 2009-2010 and first six months of 2010-2011 school year, except for amounts the School Corporation paid for retirement and health insurance benefits. State and federal receipts for reimbursements of free and reduced priced meals in the extra-curricular fund could also be traced to a corresponding disbursement from the School Corporation fund for this same time period; however, for the last six months of 2010-2011 (January to June, 2011) school year, neither the payroll and payroll related expenses nor the intergovernmental receipts could be traced to a corresponding receipt or disbursement that would agree to the amount disbursed or received from the School Corporation School Lunch Fund. Audit adjustments were not made to the financial statements to record the unexpended cash balances in the Corporation School Lunch Fund, because officials could not provide explanations for the discrepancies, and the balances were not deemed material to the financial statements.

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

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

INTERNAL CONTROLS - SCHOOL LUNCH

The School Corporation allows for parents to prepay for meals served to students in the cafeteria. Parents can prepay for such services at each school by cash or check, or they may pay for such services through internet access (on-line) by credit or debit card.

The financial records of the School Lunch program are not posted based upon receipts issued for cash collections and the daily summary reports from the computerized software, but according to the deposits to the bank. Collections for meals are not posted to the school lunch records until the deposit is posted to the bank account, which can be up to three days after the payment is made for credit card and debit card transactions.

The School Corporation processes meal transactions using computer software. Money collected is documented on a daily summary reports by each individual school. Collections of cash and checks reported on the daily summary reports are verified to the bank deposits prior to posting the deposit amount to the financial records of receipts, disbursements and balances for the overall meal program. The reports are compared to the deposits at the bank to ensure the amounts deposited materially agree to the reported collections. Because deposits are posted instead of collections reported on the daily summary reports, the School Corporation is not reporting overall cash overages and shortages.

On-line payments by credit and debit cards are also reported on the daily summaries, but the daily summaries are not used by the School Corporation to verify the amounts deposited electronically to the bank account. Another report from the on-line service is used to verify the deposit amounts. This report is a monthly report, and it is not verified to the daily summary report of collections through credit or debit cards.

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(Continued)

We observed credit and/or debit card transactions reported on the on-line service report, which were not recorded on a daily summary report. The collections were found deposited to the bank account, and school officials stated that the student accounts would have been properly posted for the amounts collected, but the School Corporation could not produce documentation to assure us that the student accounts were properly posted. The School Corporation indicated that the amounts could not be located on a daily summary report either because of a timing difference (the on-line payment was made after the daily summary report was printed) or because the daily summary report documenting the credit card payments was not retained for audit.

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

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

Supporting documentation such as receipts, canceled checks, 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 9)

SCHOOL LUNCH INACTIVE ACCOUNTS

The computer software for the meal program at the School Corporation allows the School Corporation to generate reports of student balances on hand for prepaid meals at the date the report is generated. Two such reports can be generated. One report is of active student account balances for students who are enrolled at the school at the date the report is generated. The other report is of inactive student account balances for students who withdrew. At the end of each school year, both reports are generated, as well as a third report of graduating seniors with account balances. The School Corporation uses these reports to reconcile to a report of funds held in trust.

The computer software removes the graduating senior accounts and balances at the end of each school year, while prior active and inactive student accounts balances are brought forward. Prior years reports of graduating student account balances are destroyed and not retained for audit.

A report was provided for audit that was printed as of June 13, 2011, listing the graduating senior account balances for the school year ended June 30, 2011, which ranged from \$0.05 to \$297.35, totaling \$1,449.35. Per board policy, students' accounts are refunded to parents upon request prior to June 30 of that school year. Balances remaining after June 30 can be transferred to a siblings' account, or it is retained by the School Corporation within the School Lunch Fund.

Officials cannot properly reconcile the cash and investment balance of the trust balance per the ledger to the detail records of trust balances because prior year reports of graduate account balances were not retained

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A report of inactive student accounts was generated as of October 27, 2011. The reported total of positive account balances was \$1,687.22 and the negative account balances totaled \$77.00. A policy has not been address by the Board of Education as to how to dispose of the inactive student account balances.

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

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

Supporting documentation such as receipts, canceled checks, 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 9)

APPROVAL OF PAYROLL

The Board of Education is responsible for adopting a salary resolution for the payment of wages and salaries to all employees of the School Corporation. Additionally, the Board of Education must approve the total of all wages and salaries paid by the School Corporation at their board meetings as presented to them by the School Corporation Chief Financial Officer on a payroll voucher for each payroll period.

Certified employees are paid based upon an annual contract that is approved by the Board of Education. Classified employees are paid based upon schedules which are prepared by the Chief Financial Officer. The hourly and daily rates presented in the schedule are reflective of the overall percentage increases approved by the Board of Education, but this schedule is never presented to the Board once completed for final approval. The schedules for the 2009-2010 school year included a high and low hourly rate for some positions. Officials explained that the distinction was based upon the number of hours the employee worked and their eligibility to participate in the Public Employees Retirement Fund; however, this information, as provided by school officials, was not documented in the schedule or in the minutes of the Board of Education meetings.

Per the schedule, bus drivers are considered part-time with wages addressed as a "route rate." Some of the bus drivers are paid more than the "route rate." The Director of Transportation explained that if the route exceeds four hours per day, then their pay is increased on a prorated basis. Also, bus drivers receive "trip" pay, which is not addressed in the overall schedule presented for audit, but was provided in a separate schedule. The "trip" pay was explained by the Director of Transportation as non - bus route trips, but trips that are not extra-curricular, such as transporting students from the high school to the vocational school. Drivers are also paid "extra money" for extra-curricular trips. These amounts are also increased based upon the overall percentage increases approved by the Board of Education, but these schedules are not presented to the Board for approval. Because this information is not presented to the Board of Education for approval, it is unclear as to the authority for such payments.

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(Continued)

Next, a payroll claim is prepared for each pay period, but it is not clear if the payroll claims are presented to the Board of Education for approval. Per the board meeting minutes, "claims" are presented to the board for approval, and a claims docket of vendor claims is signed by all board members in attendance at that meeting; however, the payroll claims are only signed by the Board of Education President.

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

Indiana Code 20-26-4-1(d) states in part:

"The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safeguarding and accounting for the funds. The treasurer shall: . . .

- (3) issue all warrants in payment of expenses lawfully incurred on behalf of the school corporation. However, except as otherwise provided by law, warrants described in this subdivision must be issued only after proper allowance or approval by the governing body. The governing body may not require an allowance or approval for amounts lawfully due in payment of indebtedness or payments due the state, the United States government, or agencies and instrumentalities of the state or the United States government. . . ."

CALENDAR YEAR END TRANSFER OF PAYROLL EXPENSES

Payroll expenses of \$450,500 were transferred from the General Fund to the Rainy Day Fund on December 28, 2010. Also on December 28, 2010, \$324,000 in payroll expenses consisting of maintenance (\$194,000), technology staff (\$115,000), and a portion of the related employer benefits (\$15,000) were also transferred to the Capital Projects Fund. If these expenses had not been transferred, the School Corporation would have overdrawn the cash balance of the General Fund by \$773,574.

The School Corporation approved a resolution on December 18, 2001, establishing a Rainy Day Fund. The resolution only addressed the transfer of funds into the Rainy Day Fund; the purpose or use of the Rainy Day Fund was not addressed as required by statute.

On November 16, 2010, the Board of Education approved an additional appropriation of \$950,000 in the Rainy Day Fund to allow for the transfer of the payroll expenses from the General Fund.

Based upon state statutes and guidelines, the School Corporation may pay technology staff out of the Capital Projects Fund; however, payment of maintenance employees out of the Capital Projects Fund does not conform with the statutes and guidelines.

Indiana Code 36-1-8-5.1 states in part:

"(a) A political subdivision may establish a rainy day fund by the adoption of: . . .

- (2) a resolution, in the case of any other political subdivision.

(b) . . . a resolution adopted under this section must specify the following:

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(Continued)

- (1) The purposes of the rainy day fund.
- (2) The sources of funding for the rainy day fund, which may include the following:
 - (A) Unused and unencumbered funds under:
 - (i) section 5 of this chapter;
 - (ii) IC 6-3.5-1.1-21.1;
 - (iii) IC 6-3.5-6-17.3; or
 - (iv) IC 6-3.5-7-17.3.
 - (B) Any other funding source:
 - (i) specified in the . . . resolution adopted under this section; and
 - (ii) not otherwise prohibited by law.
- (c) The rainy day fund is subject to the same appropriation process as other funds that receive tax money. . . ."

A school corporation may establish a capital projects fund with respect to any facility used or to be used by the school corporation (other than a facility used or to be used primarily for interscholastic or extra-curricular activities, except as provided in IC 20-40-8-12, and be used for the following: . . .

- 9. To pay for the services of full-time or part-time computer maintenance employees.
- 10. To conduct nonrecurring in-service technology training of school employees. . . .
- 15. To pay for services of school corporation employees, that are brick layers, stone masons, cement masons, tile setters, glaziers, insulation workers, asbestos removers, painters, paperhangers, drywall applicators and tapers, plasterers, pipe fitters, roofers, structural and steel workers, metal building assemblers, heating and air conditioning installers, welders, carpenters, electricians, or plumbers as these occupations are defined in the U.S. Department of Labor, Employment and Training Administration, Dictionary of Occupational Titles, Fourth Edition, Revised 1991 if:
 - (a) The employees perform construction of, renovation of, remodeling of, repair of, or maintenance on the facilities and equipment specified in IC 20-40-8-10 and IC 20-40-8-11;
 - (b) The school corporation's total annual salary and benefits paid by the school corporation to employees described are at least six hundred thousand dollars (\$600,000); and
 - (c) The payment of the employees described is included as part of the proposed Capital Projects Fund Plan in IC 20-40-8.

The number of employees covered by IC 20-40-8-16 is limited to the number of employee positions described in this section that existed in the school corporation on January 1, 1993.

(Accounting and Uniform Compliance Guidelines Manual for School Corporations, Chapter 3)

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(Continued)

FEDERAL ASSISTANCE NOT EXPENDED TIMELY

The School Corporation retained federal financial assistance from grants that should have been completed prior to this audit period. None of the grant funds were spent in the 2010-2011 school year. Such grants include:

Grant Name	Fund	Expended as of June 30, 2010	Cash and Investment Balance as of June 30, 2011
Safe and Drug-Free Communities - National Programs	Points of Light Fund (5170.05)	\$ 159	\$ 3,223.55
Safe and Drug-Free Communities - National Programs - Learn and Serve America - Homeland Security	Learn and Serve Indiana Fund (5140.05)	1,996	7,230.83
Learn and Serve America - School and Community Based Programs	Service and Learning Fund (5150.06)	-	23,363.86

34 CFR § 80.20 states in part: "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. . . ."

34 CFR § 80.23 states in part:

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

Per grant documents, the Learn and Serve Indiana grants were awarded for period of up to three years. This grant was awarded in the 2004-2005 school year, which means the funds should have been spent by the 2008-2009 school year. The Safe and Drug Free Communities - National Programs grants were given for periods of 12 to 48 months. This grant was awarded in the 2005-2006 school year. Funds should have been spent by the 2009-2010 school year.

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 for School Corporations, Chapter 9)

CAPITAL ASSET POLICY AND RECORDS

The School Corporation has a policy which defines a capital asset as ". . . with a useful life in excess of one (1) year and an initial cost equal to or exceeding the amount determined periodically in the administrative guidelines of the Valparaiso School Corporation." It states that such items "are to be recorded on the fixed-asset system to maintain control."

An administrative guideline establishing a dollar threshold for recording capital assets, and a complete record of capital assets could not be located for audit.

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(Continued)

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 School Corporations, Chapter 9)

INTERLOCAL RETIREMENT BUYOUT LOAN

Accounting for the Debt Obligation

Indiana Code 20-48-1-2 allowed School Corporations to issue bonds to "implement solutions to contractual retirement or severance liability."

As stated in a prior report, the School Corporation is a member of the Porter County Education Services (Interlocal). A loan was obtained by the Interlocal for three member's share of a retirement buyout for teachers and administrators of the Interlocal. The School Corporation did not reduce their total property tax levy or establish a separate debt service fund for repayment or retirement liability, because bonds were not issued by the School Corporation in accordance with statutes.

Indiana Code 20-48-1-2(c) states in part:

"(5) Each year that a debt service levy is needed under this section, the school corporation shall reduce the total property tax levy for the school corporation's transportation, school bus replacement, capital projects, and art association and historical society funds, as appropriate, in an amount equal to the property tax levy needed for the debt service under this section. The property tax rate for each of these funds shall be reduced each year until the bonds are retired.

(6) The school corporation shall establish a separate debt service fund for repayment of the bonds issued under this section."

A governmental unit may not incur indebtedness unless specifically allowed by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Delinquent Payments

The School Corporation's share of the loan was \$718,028. Four loan payments were required to be made during the audit period; however, the School Corporation remitted only two of the loan payments. Officials indicated the Interlocal only sent invoices for two loan payments. Both loan payments were made from the General Fund.

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 School Corporations, Chapter 9)

VALPARAISO COMMUNITY SCHOOLS
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(Continued)

CONFLICT OF INTEREST

Uniform Conflict of Interest Disclosure Statements were not filed with the State Board of Accounts as required by statute. Such statements were not located for audit for at least two board members for which a pecuniary interest may exist. One board member's spouse is employed as a trust officer that administers the School Corporation's self-insurance and pension funds. Another board member owns a company that has done business with the corporation.

Indiana Code 35-44-1-3 in effect during the audit period 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. . . . (6) A public servant who makes a disclosure that meets the requirements of subsection (d) or (e) . . .

(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 before 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. . . ."

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

Records presented for audit to support the ADM claimed by the School Corporation for the 2010-2011 school year were not signed by the school principals to document responsibility.

Officials should maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM.

The building level official (Principal, Assistant Principal, etc.) responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

TRAVEL POLICY

The Board of Education has not adopted a written policy for reimbursement of travel expenses.

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)

VALPARAISO COMMUNITY SCHOOLS
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(Continued)

CREDIT CARDS

The Board of Education has not adopted a written policy for the use of credit cards held in the School Corporation's name. Presently, the School Corporation credit cards are used mainly for travel expenses of the Superintendent. The Transportation Department and High School Athletic Department also maintain several credit cards which are used for fuel, meals, and lodging for extra-curricular related activities.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

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

OFFICIALS' BONDS

Officials' bonds were not filed in the Office of the County Recorder for the positions of Administrative Assistant/Deputy Treasurer and Employee Blanket Bond, for the school years beginning July 1, 2009 through June 30, 2012. The Employee Blanket Bond includes coverage for all of the extra-curricular treasurers.

Furthermore, officials' bonds for the Treasurer, Administrative Assistant/Deputy Treasurer, and Employee Blanket bonds were obtained under a continuous coverage policy; thus, the positions were not covered on an annual basis as required by state guidelines.

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(Continued)

Also, the employee blanket bond was payable to the State Board of Accountants instead of the State of Indiana as required by state statute.

The treasurer of the school corporation, and the deputy treasurer if one is appointed, for each school year commencing July 1, 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 IC 20-26-4-5. All bonds must be made payable to the State of Indiana, IC 5-4-1-10; and approved by the governing body of the school corporation. The State Board of Accounts is of the audit position bonds should be filed and recorded in the office of the county recorder. No charge is made for recording official bonds, IC 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, IC 20-41-1-6. The State Board of Accounts is of the audit position bonds should be filed and recorded 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, IC 20-41-2-6. The bond may be either an individual bond for each extra-curricular treasurer or a single blanket position bond for all extra-curricular treasurers, IC 20-41-1-6.

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 recommend 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. The State Board of Accounts is of the audit position a new bond should be obtained each year and continuation certificates should not be used in lieu of obtaining a new bond. (Accounting and Uniform Compliance Guidelines Manual for School Corporations, Chapter 8)

CLAIMS - REIMBURSEMENTS FOR SUPPLIES

Purchases of supplies by various employees of the School Corporation were made and then reimbursed based on receipts submitted. Examples of supplies purchased included, printer ink cartridges, letter size reams of paper, dividers, folders, binders, legal pads, notebooks, phone cords, tape dispensers, pencil sharpeners, scales, calculators, pocket organizers, photo printers, and a microphone desktop recording kit. Generally, these items should be purchased through the claim process through the School Corporation.

In most cases, sales tax was paid by the purchaser but was not reimbursed by the School Corporation. The sales tax was exempt in some cases due to the employee having the School Corporation's tax exempt number. The tax exempt number should be safeguarded and kept at the administration level.

The School Corporation's purchasing policy states in part:

"E. unless otherwise permitted by the superintendent, no purchase of supplies shall be allowed without a properly signed purchase order. Employees shall be held personally responsible for anything purchased without a properly signed purchase order."

VALPARAISO COMMUNITY SCHOOLS
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(Continued)

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)

The Purchase Order (General Form 98) form in triplicate is prescribed for the placing of orders for school supplies, materials, goods and equipment. The original (with a claim blank) is forwarded to the vendor, the duplicate is filed in the ordering department or school to be used as a receiving copy and the triplicate is retained in the file of the business office as a public record. The purchase order should show the amount of the purchase, if known, or if not known an estimate should be made. The actual or estimated amount should be posted as an encumbrance to the Ledger of Appropriations, Allotments, Encumbrances, Disbursements and Balances (Form 512) in the "Value of Purchase Orders Encumbered" column and added to the amount in the "Value of Purchase Orders Outstanding" column of the Expenditure Account concerned and carried in accumulated totals to the corresponding column of the program account. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 2)

CLAIMS - GIFT CARDS

A purchase of 35, \$100 gift cards and 1, \$340 gift card were made from Best Buy. The gift card purchases were paid from the Capital Projects Fund (0350) and the Title I Grant Fund (7951), respectively. There was no indication on the accounts payable voucher or the purchase order naming the recipient of gift cards or the purpose for which the gift cards were needed.

A school corporation may establish a capital projects fund with respect to any facility used or to be used by the school corporation (other than a facility used or to be used primarily for interscholastic or extra-curricular activities, except as provided in IC 20-40-8-12, and be used for the following:

1. Planned construction, repair, replacement, or remodeling.
2. Site acquisition.
3. Site development.
4. Repair, replacement, or site acquisition that is necessitated by an emergency.

Sources and uses of funds should be limited to those authorized by enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

The State Board of Accounts will not take exception to the use of procurement cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize procurement card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.

VALPARAISO COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

- (3) The purposes for which the procurement card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the procurement card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Procurement cards should be used in conjunction with the accounting system.
- (7) Payment should not be made on the basis of a statement or a procurement card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.
- (9) Procurement cards shall not be used to procure cash advances at "ATM" machines or as a debit card.
- (10) (A) An audit trail must exist for all transactions.

(B) An audit trail must also exist for changes made by an "administrator" such as card parameters, etc.
- (11) Access to transactions in accordance with the Public Records Law, IC 5-14-3-1 et seq. as appropriate must be assured.
- (12) Procurement card agreements should not contain references to debt. . . . (The School Administrator and Uniform Compliance Guidelines, Volume 166, June, 2004)

PUBLIC PURCHASES LAW (Applies to Valparaiso High School)

The Valparaiso High School Athletic Department paid \$60,445.20 on June 10, 2011, as a down payment on the purchase of a JumboTron. (A JumboTron is a large screen television used in sports stadiums to show close-up shots of events.) A subsequent payment was made on July 5, 2011, with the final payment being made on November 8, 2011. The total cost of the JumboTron was \$199,176.00, which excluded installation costs of \$123,040.96. The purchase was made by the Athletic Director without prior board approval. The purchase did not comply with the purchasing policy of the School Corporation or with state statutes governing public purchases.

Per Valparaiso Administrative Guideline 6320A - Purchasing, "All purchases that result in a financial obligation to the Valparaiso Community Schools shall be by purchase order processed through the Business Office . . . Purchases of supplies, materials, and equipment items costing \$150,000 or more must be obtained through competitive, sealed bids and be approved by the Board . . .

VALPARAISO COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-22-7-8 states: "A contract must be awarded with reasonable promptness by written notice to the lowest responsible and responsive bidder."

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 . . . specific powers . . . to acquire personal property or an interest in personal property as the governing body considers necessary for school purposes . . ." Therefore, extra-curricular equipment purchases should be approved prior to purchase by the Board of School Trustees. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

EXTRA-CURRICULAR RECORDS (Applies to All Schools)

The schools are using computer software which generates receipts, checks, and ledgers which have replaced the prescribed forms required by State guidelines. The computer generated forms and ledgers have not been submitted for approval for use by the State Board of Accounts as required by compliance guidelines.

All governmental units are required by law to use the forms prescribed by the State Board of Accounts; however, if desirable to have a prescribed form modified to conform for computer applications, a letter and copies of the proposed form may be submitted to the State Board of Accounts for approval. No form should be printed and placed into use, other than a prescribed form, without prior approval. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

BANK STATEMENTS (Applies to Thomas Jefferson Elementary School)

The Extra-Curricular Treasurer was not maintaining bank statements and cancelled checks for all months during the 2010-2011 school year. The Treasurer stated that the bank stopped mailing the bank statements each month. In order to reconcile the bank account, she would obtain bank activity statements from the bank's website; however, the activity statements retained for audit did not include an entire month's activity, and cancelled checks were not included. The lack of this documentation limits the ability to perform a complete audit of the extra-curricular funds.

Per audit request, the Extra-Curricular Treasurer obtained bank statements and cancelled check from the bank; however, some items were missing. The bank did not provide cancelled checks for September 2010 and February 2011. Neither a bank statement, nor cancelled checks were provided for November 2010.

Supporting documentation such as receipts, canceled checks, 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 9)

OPTICAL IMAGES OF WARRANTS (Applies to Flint Lake Elementary School)

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks.

VALPARAISO COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-15-6-3 states in part:

"(a) . . . 'original records' . . . includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference. . . .

(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

EXTRA-CURRICULAR RECEIPTS (Applies to Flint Lake Elementary, Memorial, and Northview Elementary Schools, Benjamin Franklin Middle School, and Valparaiso High School)

Flint Lake Elementary School and Valparaiso High School

Extra-curricular receipts (Form SA-3) are not prepared at the time money is received, which indicates that receipts are not issued to patrons upon remittance of collections to the Extra-Curricular Treasurer. The extra-curricular receipts are not prepared until the date the deposit is made.

Memorial Elementary School

1. Majority of the receipts were not issued at the time the money was received, therefore, receipts were not given to the person remitting monies to the extra-curricular treasurer.
2. During the audit period, there were several receipt compositions that did not agree to the composition on the deposit tickets.
3. There were some receipts that were deposited anywhere from three to nine days after the receipt was written.

Northview Elementary School

The school is using a computer software program to prepare the extra-curricular receipts. All of the receipts for the audit period were not printed; however, the Extra-Curricular Treasurer was able to provide the missing receipts electronically. None of the receipts presented for audit were signed by the Extra-Curricular Treasurer, which indicates that the receipts may not be issued to patrons upon the collection of money as required by compliance guidelines.

VALPARAISO COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Further evidence that receipts are not issued to patrons includes:

1. Receipts were prepared anywhere from one to six days after the deposit was recognized by the bank.
2. Deposits were not made intact. As required by state statutes, officials are required to deposit cash when cash is received, and checks when the method of payment indicated on the receipts are checks. Examples of deposits not made intact include the receipt of pop machine money and the "Pennies for Peace" fundraiser. In both cases, the receipts indicated the method of payment was cash; however, the deposit composition included both cash and checks. The Extra-Curricular Treasurer indicated that she has been cashing personal checks of staff from the pop machine money, and that the receipt for the fundraiser should have included checks, she simply did not make the correct designation on the receipt.

Benjamin Franklin Middle School

During 2010-2011 lab fees, fines, and payments for t-shirts and field trips were collected by teachers and generic receipts were issued to the parent. As the generic receipt collections were prepared for deposit, an extra-curricular receipt (Form SA-3) was issued but did not specify which generic receipt comprised that receipt. A comparison to the extra-curricular receipt to the generic receipts could not be performed.

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)

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."

Indiana Code 20-41-1-9 states in part: ". . . receipts shall be deposited without unreasonable delay."

TEXTBOOK RENTAL RECEIPTS (Applies to Flint Lake, Hayes Leonard, Northview, and Thomas Jefferson Elementary Schools, and Benjamin Franklin Middle School)

The Schools are required to issue textbook rental receipts (Form TBR-2) to patrons upon collecting funds for textbook rental.

Flint Lake Elementary School

Textbook rental receipts were deposited up to 31 days after the receipt is written. Textbook rental receipts issued on registration day for the 2009-2010 school year were held for 7 days prior to being deposited. For the 2010-2011 school year, textbook rental collections from registration were held 17 days prior to being deposited.

Hayes Leonard Elementary School

Textbook rental receipts issued on August 8, 2010, were not deposited or posted until September 20, 2010, (41 days after receipt of the collections). After the deposit was made, the School was notified that the deposit was \$650 long. The Extra-Curricular Treasurer included this cash long as a reconciling item on her bank reconciliations until March 31, 2011, at which time it was posted to the bookrental fund. Textbook rental receipts or other receipts could not be located for audit for the \$650 excess deposit amount.

VALPARAISO COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Northview Elementary School

As the textbook rental collections were prepared for deposit, a "computer generated" extra-curricular receipt was issued. The "computer generated" extra-curricular receipts issued did not specify which textbook rental receipts are included in that receipt. We were unable to compare the composition of a single "computer" extra-curricular receipt to the group of textbook rental receipts.

Furthermore, the composition of cash and checks as listed on the textbook rental receipts did not agree to the composition of cash and checks listed on the deposit tickets; therefore, deposits of textbook rental receipts were not made intact.

In the 2009-2010 school year textbook rental deposits were made anywhere from 10 to 22 days after the receipt date.

Thomas Jefferson Elementary School

Textbook rental receipts issued during the registration period were held for 6 days prior to being deposited. Subsequent textbook rental receipts were being deposited up to 57 days after the receipt was written.

Benjamin Franklin Middle School

Textbook rental receipts did not always indicate whether cash or checks were collected. As the textbook rental collections were prepared for deposit, an extra-curricular receipt (Form SA-3) was issued. The extra-curricular receipts issued for textbook rental receipts, did not specify which textbook rental receipts were included in the receipt. We were unable to compare the composition of a single extra-curricular receipt to the group of textbook rental receipts comprising that receipt.

Voided textbook rental receipts did not always contain the original white copy and were not clearly marked that it was a void.

The receipt, to be properly issued, shall show the date, the name of the person from whom the money was received, the payment type, the activity fund for which it was received, the amount and the source of the receipt. The receipt form must be signed by the treasurer of the extra-curricular account or collecting authority. The cash receipts collected by and for the benefit of any activity fund should be in charge of some designated official or sponsor of the activity, until turned over to the treasurer of the extracurricular account. Posting to the control account and the activity funds will be made from the duplicate receipts (Register of Receipts) in the same manner as previously outlined for the posting of checks. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

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)

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."

Indiana Code 20-41-1-9 states in part: ". . . receipts shall be deposited without reasonable delay."

VALPARAISO COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

PURCHASE ORDER AND ACCOUNTS PAYABLE VOUCHER (Form SA-1) (Applies to Northview Elementary School, and Thomas Jefferson Elementary School)

All extra-curricular disbursements are required to be supported by a Purchase Order and Accounts Payable Voucher (SA-1) or a Claim for Payment (SA-7). Itemized vendor invoices are also required to be retained for audit and attached to the Form SA-1 or SA-7.

The Extra-Curricular Treasurer did not use a prescribed or approved form while disbursing funds. She also indicated the School Corporation no longer required a Purchase Order because they implemented new computer software.

Itemized vendor invoices were retained; however, several invoices could not be located for audit to support disbursements.

The Purchase Order and Accounts Payable Voucher (SA-1) is to be used when a purchase is made for delivery at a later date. The form is to be executed in full and signed by the person authorized to purchase for the particular activity concerned. Before the activity is permitted to use the Purchase Order and Accounts Payable Voucher (SA-1), 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. The treasurer is required to certify as to the unobligated balance. The sponsor must also know that approval for the purchase has been given by the membership of the activity, as applicable, except in the case of athletic, school lunch, and textbook rental purchases. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

The Claim for Payment (SA-7) shall be used for claiming payment by anyone in situations where purchase orders are not used; for example, purchases from delivery salesmen, services of officials at athletic events, etc.

Signatures are required by the person authorized to purchase and the person acknowledging the receipt of the good or services. Additionally, the extra-curricular treasurer is to sign the required certification on the form SA-7. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

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)

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)

RECEIPT ISSUANCE (Applies to Porter County Career Center)

The Porter County Career Center (Career Center) uses computer software to record the financial activities of the extra-curricular funds.

The Extra-Curricular Treasurer prepares as many as three receipts.

VALPARAISO COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

The first receipt prepared was either a prescribed textbook rental receipt (Form TBR-2), or a non-prescribed receipt. The prescribed textbook rental receipt (Form TBR-2) was issued to the student upon collection of textbook rental and lab fees. The non prescribed receipt was a commercially purchased receipt, which was used for other collections if the patron requested a receipt.

The next receipt prepared is a prescribed school extra-curricular receipt (Form SA-3). This receipt was issued for all collections, including those for which a Form TBR-2 was issued, a nonprescribed receipt was issued, or collections for which a receipt has not yet been "prepared." These receipts are not "issued." The original copy of the receipt, which was normally issued to the individual from whom the money was collected, was retained and used to prepare the third receipt. It was an accepted practice for a Form SA-3 to be prepared for textbook rental collections also supported by a TBR-2, but that was when the Form SA-3 was used as the supporting documentation of the receipts recorded in the financial records.

The third receipt was a computer generated receipt. The computer generated receipts are the supporting documents for the receipt amounts reported in the financial records of the Career Center.

Receipt to Deposit Composition

The composition (cash, or check) of the collections are noted on all receipts prepared; however, the composition noted on the computer generated receipt did not always agree to either the "first" or "second" receipt prepared, or to the deposit ticket. The composition indicated per the "first" or "second" receipt usually agreed to the composition of the deposit.

Nonprescribed Receipts

Collections for a not-for-profit organization were receipted by the Extra-Curricular Treasurer using the non-prescribed receipts for the Career Center. Also, collections receipted on the non-prescribed receipts could not be verified to either the SA-3 or the computer generated receipt as the non-prescribed receipt numbers were not indicated on the SA-3 or computer generated receipts. Also, most of the collections were included with other collections for which a receipt was not issued.

Other Errors

Due to transferring information multiple times, other errors were noted including improperly identifying the dollar amount of collections by fee type, and changing information in ink on the duplicate copies of the Form SA-3 receipts.

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)

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)

IC 20-41-1-7 states in part: "The treasurer has charge of the custody and disbursement of any funds . . . incurred in conducting any athletic, social, or other school function (other than functions conducted solely by any organization of parents and teachers) . . ." Therefore, activities and organizations which are not extra-curricular in nature should be responsible for their own accounting and cash handling systems. The extra-curricular account should not collect, receipt, remit, or disburse outside organization's monies. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

VALPARAISO COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

EXPENDITURES LACK COMPLIANCE (Applies to the Porter County Career Center)

The Career Center operated an auto shop. Students made repairs to vehicles for the cost of parts. A fund was maintained in the records to account for the receipts and disbursements of those auto parts; however, items were purchased from that fund other than auto parts. Such items included beverages, donuts, and pizzas.

Included in the records of the Career Center is an Auto Club Fund. The Auto Club holds a car show each year to raise money for the Auto Club fund. Donations were made each year from the Auto Club Fund to the Porter County Special Olympics totaling \$1,500.

During the 2009-2010 school year, the Career Center purchased \$1,600 in gift cards to local movie theatres. Each gift card was valued at \$20. Documentation supporting the expenditure indicated the gift cards were used as student rewards. No records were maintained to document which students received the gift cards or if any gift cards were remained on hand at the end of the school year.

For the 2010-2011 school year, the Career Center also purchased \$540 in gift cards to local movie theatres, and a \$50 gift card for fuel, but these purchases were not recorded in the records of the Career Center.

The Career Center won two prepaid debit cards from the Red Cross. Each debit card was valued at \$750, totaling \$1,500. This award was not communicated to the Board of Education for acceptance and disclosure in the minutes. Receipts supporting purchases made with the debit cards totaled \$1,140, leaving \$360 in disbursements undocumented. Some of the documented disbursements included pizzas for an open house, sandwiches while attending a football game around the Indianapolis area, and purchases from pet supplies vendors and an athletics vendor. Documentation was not retained as to who attended the football game, or the items purchased from the athletics vendor or pet supplies vendors.

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)

Governmental funds should not be donated or given to other organizations, individuals, or governmental units unless specifically authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

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)

The State Board of Accounts will not take exception to the use of procurement cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize procurement card use through an ordinance or resolution, which has been approved in the minutes.

VALPARAISO COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the procurement card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the procurement card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Procurement cards should be used in conjunction with the accounting system.
- (7) Payment should not be made on the basis of a statement or a procurement card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.
- (9) Procurement cards shall not be used to procure cash advances at "ATM" machines or as a debit card.
- (10) (A) An audit trail must exist for all transactions.

(B) An audit trail must also exist for changes made by an "administrator" such as card parameters, etc.
- (11) Access to transactions in accordance with the Public Records Law, IC 5-14-3-1 et seq. as appropriate must be assured.
- (12) Procurement card agreements should not contain references to debt. . . . (The School Administrator and Uniform Compliance Guidelines, Volume 166, Page 3 June, 2004)

TEXTBOOK RENTAL AND LAB FEES (Applies to the Porter County Career Center)

The Career Center charges students textbook rental and lab fees. Textbook rental fees are for use of textbooks unique to the classes offered. Lab fees are for expendable materials used in the classroom. The fees for each were determined by each teacher based upon the textbooks and materials each teacher chooses to use. Documentation of the textbook adoption process or of how the fees were determined was not provided for audit.

Furthermore, the fees were not presented to the Board of Education for approval.

VALPARAISO COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 20-26-12-2 states in part:

"(a) A governing body may purchase from a contracting publisher, at a price equal to or less than the net contract price, any textbook adopted by the state board and selected by the proper local officials. The governing body may rent these textbooks to students enrolled in any public or nonpublic school that is: (1) in compliance with the minimum certification standards of the state board; and (2) located within the attendance unit served by the governing body. The annual rental rate may not exceed twenty-five percent (25%) of the retail price of the textbooks."

Therefore, we are of the audit position that up to twenty-five (25%) percent of the retail price of a textbook may be collected annually (which could include actual shipping and handling) for each year of the original six year adoption period. A textbook costing twelve dollars (\$12.00) (which includes shipping and handling) could be recovered at a maximum of eighteen dollars (\$18.00) over the six year period (\$12.00/4, x 6). (The School Administrator and Uniform Compliance Guidelines, Volume 185, Page 7, March, 2009

AUTO REPAIRS (Applies to the Porter County Career Center)

Consumers can have their vehicles repaired at the Career Center by students. Consumers pay for the cost of parts and materials only. Prenumbered "Repair Requests" are completed to document the customer name, parts used, and materials. Also noted on the repair requests are the payments received, the date received, and in most cases the method of payment (cash or check).

The Treasurer for the Career Center indicated that the teacher does not collect any money, that she received all collections.

The repair requests are not being properly completed. Many are not dated, and they do not indicate who prepared the repair request. Individual receipts, either prescribed or generic (nonprescribed), were not issued for all collections received. Some prescribed receipts were issued to the instructor for multiple customer collections. A generic receipt could not be located for audit for the individual customer collections, which indicated that the instructor was collecting payments on vehicle repairs for which receipts were not issued. Also, receipts did not always designate the repair request number, which impeded our ability to verify that collections were properly receipted and deposited.

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

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

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)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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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 VALPARAISO COMMUNITY SCHOOLS, PORTER COUNTY, INDIANA

Compliance

We have audited the compliance of the Valparaiso Community Schools (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, 2010 and 2011. 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 of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

As described in items 2011-04, 2011-05, 2011-06, 2011-07, and 2011-09 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding allowable costs, cash management, reporting, and equipment and real property management that are applicable to its Title I Grants to Local Educational Agencies (84.010), ARRA - Title I Grants to Local Educational Agencies, Recovery Act (84.389), Title I Program for Neglected and Delinquent Children (84.013), and ARRA Special Education – Grants to States (IDEA, Part B), Recovery Act (84.391). Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the years ended June 30, 2010 and 2011. The results of our auditing procedures also disclosed other 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 item 2011-03.

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)

Internal Control Over Compliance

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there is no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-04, 2011-06, 2011-07, 2011-08, and 2011-09 to be material weaknesses.

The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the School Corporation's management, Board of Education, others within the entity, 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

December 15, 2011

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2009 and 2010

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 06-30-09	Total Federal Awards Expended 06-30-10
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 144,480	\$ 170,421
National School Lunch Program	10.555		849,637	873,315
Total for cluster			<u>994,117</u>	<u>1,043,736</u>
Team Nutrition Grants	10.574		-	6,075
Fresh Fruit and Vegetable Program	10.582		3,036	-
Total for federal grantor agency			<u>997,153</u>	<u>1,049,811</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies				
09-6560	84.010	SY 2008-09	14,462	-
10-6560		SY 2009-10	562,625	5,365
11-6560		SY 2010-11	-	410,624
Total for program			<u>577,087</u>	<u>415,989</u>
ARRA - Title I Grants to Local Educational Agencies, Recovery Act				
Basic	84.389	SY 2009-10	226,154	43,274
Basic		SY 2010-11	-	101,011
Delinquent		SY 2009-10	7,288	7,551
Total for program			<u>233,442</u>	<u>151,836</u>
Total for cluster			<u>810,529</u>	<u>567,825</u>
Title I State Agency Program for Neglected and Delinquent Children and Youth				
09-6560	84.013	SY 2008-09	9,179	-
10-6560		SY 2009-10	25,704	5,735
11-6560		SY 2010-11	-	14,621
Total for program			<u>34,883</u>	<u>20,356</u>
Pass-Through Porter County Educational Services				
Special Education Cluster (IDEA)				
ARRA - Special Education - Grants to States (IDEA, Part B), Recovery Act	84.391			
		FY 2009-11	281,510	253,714
Pass-Through Indiana Department of Education				
State Fiscal Stabilization Fund Cluster				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394		2,973,663	-

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

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2009 and 2010
(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 06-30-09	Total Federal Awards Expended 06-30-10
<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>				
Pass-Through Points of Light Foundation Safe and Drug-Free Schools and Communities - National Programs 06-6560	84.184	SY 2005-06	159	-
Pass-Through Indiana Department of Education Safe and Drug-Free Schools and Communities - State Grants 6560-08 6560-09	84.186	Q186A080015 Q186A080015	1,926 16,282	- 2,173
Total for program			18,208	2,173
State Grants for Innovative Programs	84.298	07-6560 08-6560	3,434 3,316	- -
Total for program			6,750	-
English Language Acquisition Grants	84.365	SY 2008-09 SY 2009-10 SY 2010-11	1,468 17,225 -	- 325 17,429
Total for program			18,693	17,754
Improving Teacher Quality State Grants	84.367	07-6560 08-6560 09-6560 10-6560	16,278 151,339 9,174 -	- 26,017 120,463 4,300
Total for program			176,791	150,780
Total for federal grantor agency			4,321,186	1,012,602
<u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>				
Pass-Through Indiana Department of Education Learn and Serve America - School and Community Based Programs	94.004	SY 2004-05	1,996	-
Total federal awards expended			<u>\$ 5,320,335</u>	<u>\$ 2,062,413</u>

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

VALPARAISO COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

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

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

Note 2. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2010 and 2011. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2010	2011
School Breakfast Program	10.553	\$ 18,172	\$ 22,467
National School Lunch Program	10.555	112,981	127,343

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	no
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	no
Type of auditor's report issued on compliance for major programs:	Unqualified for:
	Child Nutrition Cluster
	State Fiscal Stabilization Fund Cluster
	Qualified for:
	Title I, Part A Cluster
	Special Education Cluster (IDEA)
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:

 Name of Federal Program or Cluster

Child Nutrition Cluster
Title I, Part A Cluster
Special Education Cluster (IDEA)
State Fiscal Stabilization Fund Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
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VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings

FINDING 2011-01 - INTERNAL CONTROLS - RECEIPTS AND CASH AND INVESTMENT BALANCES

School Corporations are responsible for developing and implementing internal controls designed to prevent and detect material misstatements and irregularities in their financial records and reports. Such controls include segregating the duties of incompatible tasks and ensuring reconciled bank cash and investment balances agree to reported cash and investment balances.

Valparaiso Community Schools (School Corporation) allowed the same individual to issue receipts, prepare deposits, reconcile the bank accounts, invest funds, maintain investment records, and prepare the financial statements with limited oversight or review. By failing to properly segregate incompatible duties and overseeing that financial statements were properly reconciled to bank balances, the School Corporation risks that financial statements could be materially misstated, or that irregularities in recordkeeping functions may not be prevented, and could go undetected.

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

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

We recommended that the School Corporation consider segregating some of the incompatible duties to allow for greater assurances regarding the financial transactions and reports.

FINDING 2011-02 - CONTROLS OVER INFORMATION AND COMMUNICATION, AND MONITORING FINANCIAL ACTIVITIES

The School Corporation did not develop controls to formally establish procedures and lines of communication which assisted the School Corporation's ability to comply with laws and regulations over recording and monitoring financial transactions.

While policies and resolutions were adopted by the Board of Education, guidelines to assist staff in implementing those policies were omitted. For example, the Board of Education adopted a capital asset policy which required a record of capital assets to be maintained. The policy indicated a dollar threshold would be established in an administrative guideline; however, that guideline was not produced for audit. Also, the policy neglected to assign responsibility for maintaining the capital asset record, or monitoring that the record was maintained in compliance with state, federal, and local guidelines.

The Board of Education, per the board minutes, approved an overall 3 percent wage increase for all staff. For certified staff and administrators, contracts were provided which defined job duties and rates of pay that were also signed and approved by the Board of Education; however, classified staff were not provided contracts. Wages were assumed to be increased by the overall wage increase approved by the Board per schedules prepared by the Chief Financial Officer. The schedules were not provided to the Board for adoption or approval. Several variables existed within these schedules such as route rates, and trip pay for

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

transportation employees which were left to interpretation by the department directors. Furthermore, it was unclear as to whether or not the entire Board of Education was approving the payroll claims, or if they were simply approved by the Board of Education President.

Assistant Superintendents were assigned to oversee grants, but those oversight responsibilities were not clearly defined. Financial monitoring reports and equipment inventory records were prepared by the staff assigned those responsibilities, but the Assistant Superintendents assigned to oversee the grants were not involved in reviewing those reports or ensuring that the reports and records were completed and complied with appropriate federal guidelines. Per review of the records, some grant funds spent in the 2009-2010 school year, were from grants awards made in the 2004-2005, 2005-2006, and 2007-2008 school years, for which one of these grant funds still had a cash balance. Another grant awarded prior to the 2008-09 school year did not have any disbursements during the audit period, but had a cash balance at June 30, 2011, of \$23,364.

Finally, the School Corporation had not addressed a system for monitoring cash balances based upon projected receipts and disbursements.

Per state laws and guidelines, the School Board can adopt a resolution to establish a "rainy day" Fund. Per the state statute, that resolution should address how the Rainy Day Fund will be funded, and how the money accumulated in the fund could be used. The resolution adopted by the Board of Directors only addressed how the Rainy Day Fund would be funded. It did not address how the accumulated money would be used.

Per state statutes, payroll of certain employees can be paid from the Capital Projects Fund; however, those employee positions were not budgeted to be paid from the Capital Projects Fund until year end, when the Department of Finance determined that the General Fund was overdrawn. Payroll expenditures were transferred from the General Fund to the Rainy Day Fund and Capital Projects Fund in the amounts of \$450,500, and \$324,000, respectively, to avoid reporting a deficit cash balance in the General Fund of \$773,574. These transfers were made on December 28, 2010.

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

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

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 for School Corporations, Chapter 9)

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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

Section III – Federal Award Findings and Questioned Costs

FINDING 2011-03 - ELIGIBILITY CONTROLS AND COMPLIANCE

Federal Agency: U.S. Department of Agriculture
Pass-Through Entity: Indiana Department of Education
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Program Numbers: SY 2009-10, SY 2010-11

Eligibility for receiving free or reduced meals was determined from applications completed by the parents or guardians, and based upon the amount of household income received whether it be weekly, biweekly, bimonthly, monthly or yearly. Eligibility was determined through direct certification for those that received food stamps. The Indiana Department of Education issued the income eligibility guidelines to the school corporations. The guidelines were to be followed for determining qualifications for free or reduced priced meal status. Eligibility was determined by the Food Service Director based upon the completed applications, direct certification, and the income guidelines from the State of Indiana.

The School Corporation was required to verify 3 percent of the applications submitted. Verification of the applications involved contacting the applicants to provide documentation in support of the income amounts reported on the applications. Such documentation included payroll check stubs, social security check stubs, or tax returns. For the 2010-2011 school year, there were 520 applications. The School Corporation verified 16 of these applications. The School Corporation did not determine the income correctly for 2 of the 16 (or 12 percent) of the applications selected for verification. Based upon the applications, the children were approved for free meals, but documentation provided for income verification should have changed the status to reduced priced meals. No such change was made by the School Corporation to correct the errors.

A review of the process was conducted by the Indiana Department of Education on the applications and verifications for the 2009-2010 school year. The Indiana Department of Education noted in their report to the School Corporation dated May 6, 2010, that "Applications were approved incorrectly at the High School."

The School Lunch Office Manager was responsible for determining eligibility for free or reduced priced meals, and the same individual was responsible for performing the verification procedures. The Food Service Director signed the applications indicating she had reviewed the applications and agreed with the revised status; however, we could not verify that the calculations made by the Office Manager had been reviewed to ensure accuracy.

While controls were established to monitor eligibility determinations and verifications, the controls in place required modification to ensure compliance with requirements for updating and correcting eligibility status. A control that was not properly implemented allowed applicants to receive benefits for which they were not entitled to receive. Continuing to allow such actions could jeopardize the School Corporation's ability to continue to receive federal financial assistance for its child nutrition programs.

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

34 CFR § 80.20 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."

34 CFR 80.40(a) states:

"Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

We recommended that the School Corporation modify controls to ensure compliance for updating and correcting eligibility status when changes are necessary. Also controls should be modified to allow for calculations for determining eligibility are reviewed for accuracy.

FINDING 2011-04 - ALLOWABLE PAYROLL COSTS – CONTROLS AND COMPLIANCE

Federal Agency: U.S. Department of Education

Pass Through: Indiana Department of Education

Federal Programs: Title I Grants to Local Educational Agencies, ARRA - Title I
Grants to Local Educational Agencies, Recovery Act

CFDA Number: 84.010, 84.389

Program Numbers: 10-6560 (SY 2009-10), 11-6560 (SY 2010-11),
ARRA Basic SY 2009-10, and SY 2010-11

The School Corporation did not establish controls for properly communicating and documenting the staff and the related hours, designated by the Title I Director and School Principals, to be paid from Title I grant funds. Also, controls were not established to ensure payments made from the Title I funds agreed to supporting documents. Because controls were not properly established, supporting documentation reviewed for payment of Title I assistants or aides did not agree to the records of payments made for such expenditures. Also, the supporting documentation did not support the payments addressed in the Title I applications.

Title I grant funds were used to pay salaries, wages, and fringe benefits for teachers, and assistants who provided students with Title I services. The Title I Director completed a Title I grant application which designated for each Title I school served, the number of teachers and assistants who were paid from the Title I funds by "full-time equivalent (FTE)." For assistants, one FTE would equate to 60 hours bi-weekly.

The Principals at each school were responsible for designating the staff to be paid from the Title I funds. This information was provided to the Corporation Treasurer, who provided the information to the payroll department, so that the staff assignments would be properly programmed into the computerized payroll system. This would then allow for the computerized financial accounting system to report Title I grant related payroll expenses to the proper Title I designated funds. Once these designations were made, any changes had to be provided by the Corporation Treasurer.

At each school, time sheets were prepared to document and record hours worked by the assistants or aides. These time sheets documented the names of the employees, and activity they performed, which included "Title I", "Aide", "Stimulus" (for ARRA Title I funds), or "ENL." The time sheets were prepared for

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

each bi-weekly pay period and they were signed by each school principal prior to being submitted to the payroll department. The payroll department indicated the time sheets were only used to support the hours paid in total. The time sheets were not used to provide the payroll department with designations of which funds the payroll expenses were paid.

When comparing hours paid per the payroll records to the grant application and time sheets several inconsistencies were noted. Three pay periods (October 22, 2010, November 19, 2010, and December 17, 2010) were reviewed with similar results. Below is an example from the December 17, 2010 pay period:

Title I Payroll Check Date December 17, 2010	Central	Flint Lake	Parkview	Thomas Jefferson	Totals
Aides:					
Per Application FTE hours	30.0	120.0	120.0	90.0	360.0
Per Payroll Paid on 12-17-10	0	115.0	86.5	30.0	231.5
Per Time Sheet	35.0	182.5	81.5	150.0	449.0
ARRA Title I					
Aides:					
Per Report Monitoring Report	*	*	*	*	120.0
Per Payroll Paid on 12-17-10	0	194.0	27.0	120.0	341.0
Per Time Sheet	0	126.5	32.0	0	158.5

*Information not available by individual school

Combined Title I and ARRA Title I

Aides:	
Per Application and Report	480.0
Per Payroll Paid on 12-17-10	572.5
Per Time Sheet	607.5

For the payroll paid on December 17, 2010, when combining the Title I grant and the ARRA Title I grant, the records showed that 92.5 hours were paid in excess of those designated by the Title I applications. While the time sheets supported 35 additional hours worked on Title I activities, making the hours worked in excess of those designated by the Title I applications 127.5 for this pay period.

For the payroll paid on November 19, 2010, when combining the Title I grant and the ARRA Title I grant, the records showed that 72.5 hours were paid in excess of those designated by the Title I applications. While the time sheets supported 7 less hours than paid, making the hours worked in excess of those designated by the Title I applications 65.5 for this pay period.

For the payroll paid on October 22, 2010, when combining the Title I grant and the ARRA Title I grant, the records showed that 91.75 hours were paid in excess of those designated by the Title I applications. While the time sheets supported 3.25 additional hours worked on Title I activities, making the hours worked in excess of those designated by the Title I applications 95 for this pay period.

By paying hours in excess of those approved in the application, and by not ensuring that the time sheets supported the Title I hours paid, the School Corporation risked that non-Title I activities were being paid from Title I funds.

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Time and attendance reports were not provided for audit for any of the teachers, either partially or fully paid from Title I funds, that supported the payments. Contracts and other documents were requested and reviewed to determine authority for the payroll expenditures charged to the Title I program, but contracts do not designate teachers as Title I staff.

2CFR § 225 states in part:

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

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity. . . .
- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports . . .
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
 - (a) They must reflect an after the fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity for which each employee is compensated,
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - (d) They must be signed by the employee."

34 CFR states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to: . . .

- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- (b) The financial management systems of other grantees and subgrantees must meet the following standards: . . .

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (3) 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. . . .
- (5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- (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 implement procedures to require the listings provided to payroll of eligible staff be signed and dated, with copies retained by payroll and the Title I director. For teaching staff, time and attendance reports must be filled out by all partially funded Title I teaching staff. The reports should clearly indicate the hours devoted to Title I activities. Finally, time sheets for assistants should be compared to payroll reports to ensure hours worked under each activity and the associated payroll expenses are properly posted to their respective funds.

FINDING 2011-05 - ALLOWABLE VENDOR COSTS - COMPLIANCE

Federal Agency: U.S. Department of Education
Pass-Through Agency: Indiana Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Program Numbers: 09-6560 (SY 2008-09), 10-6560 (SY 2009-10)

The School Corporation had a contract with an agency to provide "Home School Advisors." In accordance with the contract, two advisors were provided and the services were billed monthly. The contract covered a ten month period with the contractor being paid \$84,368.40 over the ten month period. Neither the contract nor the monthly billings indicated which schools the advisors were assigned, the individuals assisted, or the dates the services were provided. Because this information was not documented, we could not determine if duties unrelated to the Title I program were also performed under the contract.

In accordance with OMB Circular A-87 C. Basic Guidelines, the following is stated in part:

- "1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
 - b. Be allocable to Federal awards under the provisions of this Circular . . .
 - j. Be adequately documented"

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

In regards to professional services, OMB Circular A-87 Principle 32. Professional service costs states in part:

"b. In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:

- (1) The nature and scope of the service rendered in relation to the service required. . . .
- (8) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions)."

The Title I grant agreement stipulated that the School Corporation would be paying for two full-time equivalent home school advisors. Because the grant agreement allowed for the payment of two full-time equivalent home school advisors, and the contract was to provide two full-time home school advisors, we do not consider the \$84,368.40 to be a questioned cost. The Title I Director indicated that the payments were approved as allowable based upon the Title I grant agreement being approved for the home school advisors.

34 CFR § 80.22 states in part:

"(a) Limitation on use of funds. Grant funds may be used only for:

- (1) The allowable costs of the grantees, subgrantees and cost-type contractors, including allowable costs in the form of payments to fixed-price contractors; and
- (2) Reasonable fees or profit to cost-type contractors but not any fee or profit (or other increment above allowable costs) to the grantee or subgrantee.

(b) For each kind of organization, there is a set of Federal principles for determining allowable costs. For the costs of a State, local, or Indian tribal government, the Secretary applies the cost principles in OMB Circular A-87, as amended on June 9, 1987."

We recommended that the School Corporation ensure that contracts address when and where services are to be provided. Additionally, the School Corporation should ensure that claims for payment of such services be adequately itemized to identify schools or students receiving benefits.

FINDING 2011-06 - CASH MANAGEMENT CONTROLS AND COMPLIANCE

Federal Agency: U.S. Department of Education

Pass-Through Entity: Indiana Department of Education

Federal Programs: Title I Grants to Local Educational Agencies, ARRA - Title I
Grants to Local Educational Agencies, Recovery Act

CFDA Numbers: 84.010, 84.389

Program Numbers: 10-6560 (SY 2009-10), 11-6560 (SY 2010-11), ARRA Basic SY 2009-10,
ARRA Basic SY 2010-11, ARRA Delinquent SY 2009-10

The Indiana Department of Education (IDOE) administered the Title I Grants programs for FY 2009-10 as advance drawdown grants, whereby School Corporations requested funds in advance of needs.

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

When the Title I programs were administered as advance drawdowns, as part of the application for Title I and Title I Neglected funds, school corporations were required to assess needs and develop a draw-down request of Title I funds to cover cash needs for the entire grant period. The drawdown amounts were listed by month, and had to total the grant award.

The Title I Director and the Corporation Treasurer reviewed the program budgets and needs, and determined the monthly drawdowns for the grant period.

After the drawdown request was completed for the grant program year, it was left to the Treasurer to monitor the grant cash balances, and prepare all required monitoring reports. The School Corporation did not have controls in place for any other individual, such as the Title I Director or the Chief Financial Officer to review the reports prior to submission to the IDOE.

The IDOE required School Corporations to prepare quarterly reports in an attempt to monitor cash balances and grant activities. The quarterly reports disclosed grant receipts, disbursements, and cash balances. This report also allowed the School Corporation to modify subsequent drawdowns. For Title I Grants to Local Educational Agencies, it was not necessary for the School Corporation to modify their draw-down requests as this grant did not have excess cash; however, excess cash balances were reported in the ARRA Title I Basic programs and the ARRA Title I Delinquent programs. For these Title I programs, no attempts were made by the School Corporation to reduce a subsequent drawdown.

For the 2009-2010, ARRA Title I Basic program and the ARRA Title I Delinquent program cash balances held also exceeded immediate need during the entire program period. For the ARRA Title I, a cash drawdown request could not be located for audit. Funds were distributed to the School Corporation by the IDOE in August, October, and December 2009. The drawdowns totaled \$393,144.02, while monthly expenditures averaged \$21,456.10. ARRA Title I Delinquent funds were received by the School Corporation in October and December 2009, and in February 2010. Funds were not spent until January 2010 which only exhausted about one-half of the cash balance on hand, which was replenished in the following month by \$5,000. The cash balance as of February 29, 2010, was \$10,612.96. None of this cash was spent until June and September 2010.

In response to school corporations maintaining excess cash balances under the advance drawdown programs, the IDOE began administering the Title I Grant programs as reimbursement based. As a reimbursement based program, school corporations are required to incur a liability or expend the funds prior to submitting a claim for reimbursement.

For the 2010-2011 Title I programs, the School Corporation has been correctly claiming reimbursement for amounts spent each month; however, the Treasurer did not consider existing cash balances which were transferred from prior year grant programs. Under the Title I grant programs, School Corporation transferred any unspent funds from the prior grant program year to the current grant program year. The unspent transferred cash then became part of the new grant program award. Thus, the School Corporation maintained cash balances in excess of needs throughout the 2010-2011 fiscal year for the Title I programs. Cash balances carried forward and remaining as of June 30, 2011, after excluding expenditures for June 2011 were claimed for reimbursement in July 2011, were as follows:

VALPARAISO COMMUNITY SCHOOLS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

Grant Program	Program Number	Balance
ARRA - Title I Grants to Local Educational Agencies, Recovery Act Basic	SY 2010-11	\$ 22,705.32
ARRA - Title I Grants to Local Educational Agencies, Recovery Act Delinquent	SY 2009-10	2,062.81
Title I Grants to Local Education Agencies	11-6560 (SY 2010-11)	<u>49,179.32</u>
Totals		<u>\$ 73,947.45</u>

Failure to minimize the cash on hand balances indicated noncompliance with cash management requirements established by federal agencies. In accordance with 34 CFR Subsection 80.21 (i), which states in part: "Grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal Agency. The grantee or subgrantee may keep interest amounts up to \$100.00 per year for administrative expenses." The School Corporation remitted interest of \$264.54 for the ARRA Title I program to the U.S. Department of Education.

34 CFR § 80.20 states in part:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards: . . .

- (7) 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."

34 CFR § 80.21 states in part:

"(a) Scope. This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors.

(b) Basic standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205."

We recommended officials follow the new guidelines established by the IDOE, requiring Title I funds to be reimbursed after the funds have been properly spent. Officials should establish controls to ensure cash balances are reviewed, monitored and considered prior to submitting claims for reimbursement.

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2011-07 - CONTROLS AND COMPLIANCE RELATED TO REPORTING

Federal Agency: U.S. Department of Education

Pass Through Agencies: Indiana Department of Education, Porter County Educational Services Center

Federal Programs: Title I Grants to Local Educational Agencies (Title I), ARRA - Title I Grants to Local Educational Agencies, Recovery Act (ARRA Title I), ARRA - Special Education - Grants to States (IDEA, Part B), Recovery Act (ARRA Special Education), ARRA - State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (ARRA Fiscal Stabilization)

CFDA Numbers: 84.010, 84.389, 84.391, 84.394

Program Numbers: 09-6560 (SY 2008-09), 10-6560 (SY 2009-10), 11-6560 (SY 2010-11), ARRA Basic SY 2009-10, ARRA Basic SY 2010-11, ARRA Delinquent SY 2009-10, ARRA Special Education FY 2009-11

Controls (Title I, ARRA Title I, ARRA Special Education, and ARRA Fiscal Stabilization)

Controls have not been established to ensure accurate reporting of grant funds by the School Corporation.

After the Treasurer prepared the reports, they were submitted to the respective pass-through agency without being reviewed by the Assistant Superintendent responsible for grant oversight for these programs, or by the Chief Financial Officer. Both the Assistant Superintendent and the Chief Financial Officer are knowledgeable about the grant requirements over reporting and they have access to the financial records of the School Corporation.

Compliance (ARRA Title I, Title I)

Under guidelines provided by the IDOE, which were used as a tool to monitor their subrecipients (Valparaiso Community School Corporation was a subrecipient), the School Corporation is required to prepare reports disclosing the financial activities of their ARRA Title I and Title I.

ARRA Title I

Until September 30, 2010, the School Corporation was required to prepare monthly financial reports over the ARRA Title I funds. The IDOE required these reports to be submitted to them by the 5th of the month following the close of the monthly activity reported. The reports were submitted electronically to the IDOE; however, records were not maintained to document when the reports were submitted. Due to this lack of documentation, we could not determine if the reports were filed timely.

Also, the financial activity reported for the months of December 2009 and January 2010 were not reflective of the financial activity recorded in the financial records of the School Corporation. In December, receipts and disbursements were under reported by \$130,697.64 and \$6,575.85; thus, cash balance was also under reported by \$124,121.79. In January, receipts and cash were under reported by \$5,000, but this \$5,000 was mostly likely an error made in recording receipts.

The annual or final report of expenditures prepared by the School Corporation for submission to the IDOE for the ARRA Title I funding also was not reflective of the financial activity recorded in the financial records of the School Corporation for the period covered by the report. The annual or final report of expenditures was to include the period of July 1, 2009 to September 30, 2010; however the report also included expenditures from October 1 through October 15, 2010, totaling \$11,954.33.

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Title I

For the Title I program, the School Corporation prepared reports of financial activities quarterly. The quarterly reports prepared for the second and third quarters of the FY 2009 and FY 2011 projects under reported receipts and cash balances by \$40,934.34, and \$49,179.32, respectively, due to the exclusion of the transfers of remaining prior year Title I funds. Also, the fourth quarter report for the FY 2009 project over reported disbursements by \$15,052.04.

34CFR 80.20 states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) 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."

We recommended that the School Corporation establish controls for the review of financial reports by another individual who is familiar with the accounting records and reporting requirements of the IDOE. Also, the School Corporation should retain confirmation reports documenting the dates the reports were submitted to the IDOE.

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

**FINDING 2011-08 -INTERNAL CONTROLS RELATED TO
PROCUREMENT, SUSPENSION, AND DEBARMENT**

Federal Agency: U.S. Department of Education

Pass-Through Agencies: Indiana Department of Education, Porter County Education Services Agency

Federal Programs: Title I Grants to Local Educational Agencies (Title I), ARRA - Title I Grants to Local Educational Agencies, Recovery Act (ARRA Title I), ARRA - Special Education - Grants to States (IDEA, Part B) Recovery Act (ARRA Special Education), ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (ARRA Fiscal Stabilization)

CFDA Numbers: 84.010, 84.389, 84.391, 84.394

Program Numbers: 09-6560 (SY 2008-09), 10-6560 (SY 2009-10), 11-6560 (SY 2010-11), ARRA Basic SY 2009-10, ARRA Basic SY 2010-11, ARRA Delinquent SY 2009-10, ARRA Special Education FY 2009-11

The School Corporation did not have a system in place for determining whether or not a vendor had been excluded from doing business with the Federal Government. The School Corporation was not familiar with the "Excluded Parties Listing System" (EPLS); therefore, no one had ensured that vendors doing business with the School Corporation had been suspended or debarred. In accordance with federal guidelines, the School Corporation was prohibited from giving federal grant dollars to parties who had been suspended or debarred from doing business with the federal government. Such parties are listed on the "Excluded Parties Listing System" maintained by the Federal Government. By not checking vendors against this list, the School Corporation risked providing federal funds to ineligible vendors, which would ultimately put future grant awards to the School Corporation at risk.

2 CFR§ 180.220 states in part:

"Are any procurement contracts included as covered transactions?

(a) Covered transactions under this part —

- (1) Do not include any procurement contracts awarded directly by a Federal agency; but
- (2) Do include some procurement contracts awarded by non-Federal participants in nonprocurement covered transactions.

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

- (1) The contract is awarded by a participant in a nonprocurement transaction that is covered under § 180.210, and the amount of the contract is expected to equal or exceed \$25,000. . . ."

2CFR§ 180.300 states:

"What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

34 CFR § 80.20 states in part:

"(3) 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."

We recommended that the School Corporation design and implement controls to prevent the potential of a debarred or suspended vendor from being paid from federal funds

FINDING 2011-09 - EQUIPMENT MANAGEMENT – CONTROLS AND COMPLIANCE

Federal Agency: U.S. Department of Education

Pass-Through Agency: Indiana Department of Education

Federal Programs: Title I Grants to Local Educational Agencies (Title I), ARRA - Title I Grants to Local Educational Agencies, Recovery Act (ARRA Title I), ARRA Special Education - Grants to States (IDEA, Part B) Recovery Act (ARRA Special Education)

CFDA Numbers: 84.010, 84.389, 84.391

Program Numbers: 09-6560 (SY 2008-09), 10-6560 (SY 2009-10), 11-6560 (SY 2010-11), ARRA Basic SY 2009-10, ARRA Basic SY 2010-11, ARRA Delinquent SY 2009-10, ARRA Special Education FY 2009-11

The School Corporation has a policy which defines a capital asset as: ". . . with a useful life in excess of one (1) year and an initial cost equal to or exceeding the amount determined periodically in the administrative guidelines of the Valparaiso School Corporation." It is states that such items "are to be recorded on the fixed-asset system to maintain control."

An administrative guideline establishing a dollar threshold for recording capital assets was not established; although an agreement with an appraisal group indicated electronic equipment having a replacement cost in excess of \$250 should be tagged and inventoried.

Title I and ARRA Title I

The IDOE performed monitoring reviews of equipment inventories maintained by the School Corporation of items purchased with Title I Funds. These reviews were performed once every three years. The School Corporation relied upon these reviews to disclose any deficiencies. The School Corporation did not have controls in place to ensure equipment inventory records were properly maintained in accordance with federal guidelines.

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Each Title I School maintained a listing of the equipment purchased with Title I funds. The inventory maintained by Parkview Elementary did not include the acquisition dates or acquisition costs for several items purchased during the 2009-2010 school year. Such items included 15 netbooks (computers) at a cost of \$508.65 each, totaling \$7,629.75, a "Smart Table Interactive Learning Center" at a cost of \$7,999, and a Smart Board with a Projector at a cost of \$3,299.

The inventory provided by Flint Lake Elementary School did not include either an inventory tag number identifying the item or the serial number.

An equipment inventory was not provided for audit for the Porter County Detention Center. ARRA Title I Delinquent program funds were provided to the School Corporation to help provide continuity for neglected and delinquent children held in correctional institutions so that these students can make a successful transition back to school or employment. The School Corporation was unaware if the Detention Center maintained an inventory. The School Corporation purchased electronic equipment totaling \$3,643.83 on September 26, 2010, from the ARRA Title I Delinquent program FY 09-10 funds.

Incomplete or improperly maintained inventory records make it more difficult to reconcile to the disbursement and other supporting documentation of purchases of equipment, as well as to the physical inventories which must be taken every two years to ensure all items are accounted for on the inventory listings.

ARRA Special Education

The School Corporation chose to purchase various equipment items with the grant funds provided by the Porter County Educational Services Center (PCESC). PCESC did not provide any information to the School Corporation regarding requirements for maintaining an inventory of equipment purchases. The School Corporation applied their financial control procedures to the purchases. Such financial control procedures included requiring the Information Technology (IT) Director to receive the goods. Upon receipt of the goods, the IT Director would tag the equipment, and include the electronic equipment information on an inventory he maintained. This equipment inventory he maintained did not include the cost of the items purchased or the sources of the funding used to purchase the items. Furthermore, dates of purchases were not always included. It is not clear if disposals were accounted for on the inventory records maintained by the IT Director.

The School Corporation did not know that such an equipment inventory was maintained until records were requested for audit. Because officials did not know an inventory existed, no one was reviewing the inventory to substantiate that it was complete and accurate.

Purchases of nonelectronic equipment items such as security carts, desks, and chairs were not maintained on the inventory listings provided for audit. The School Corporation did not provide information regarding how often, if at all, physical inventories were taken for comparison to the property records.

34 CFR § 80.32(d) states:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

VALPARAISO COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

We recommended that the Board of Education adopt or revise their capital asset policy to include a dollar threshold of items to be considered capital assets. The Board should consider including in the policy the type of capital asset record to be maintained, the individual responsible for maintaining the record, as well as a procedure and time period for performing physical inventories of capital assets.

VALPARAISO COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

VALPARAISO COMMUNITY SCHOOLS



Office of the Superintendent

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December 15, 2011

SECTION II – Financial Statement Findings

FINDING 2011-01: Internal Controls – Receipts and Cash and Investment Balances

Duties of the Deputy Treasurer have been amended and are being overseen as follows in order to provide a greater level of internal control as it relates to receipts, cash, and investment balances. Deputy Treasurer prepares deposit ticket. Deposit ticket is physically verified (total, number of items, and item format) by the financial department assistant or by the Treasurer prior to deposit being made at the bank. Verification is noted by initialing the deposit ticket and the daily receipt log after Deputy Treasurer processes the receipts. Bank reconciliations and investment reports prepared by the Deputy Treasurer are being reviewed by Treasurer and such review is verified by Treasurer's initials and date. Financial statements are prepared through computer financial software program. Upon completion of processing such reports are reviewed by the Treasurer. Financial reports are prepared for Board of School Trustees by Deputy Treasurer and Treasurer. And, Board of School Trustees approves said reports as part of the monthly board meeting consent agenda.

Signed: _____

Lynn A. Kwilasz
Lynn A. Kwilasz, Treasurer

Date: _____

12/15/2011

VALPARAISO COMMUNITY SCHOOLS



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December 15, 2011

SECTION II – Financial Statement Findings

FINDING 2011-02: Controls Over Information and Communication, and Monitoring Financial Activities

Board of School Trustees' policies related to information communication and monitoring of financial activities will be reviewed and guidelines for administering these policies will be developed by school administration and approved by board of school trustees. Documentation and necessary training for administrators and staff personnel charged with the related tasks will be provided and shared by school administration to insure that such guidelines are known and followed.

Fiscal Grant management will be at the direction of the Treasurer. The Treasurer, Deputy Treasurer and the grant administrators will review all grant's fiscal status and reporting requirements on an on-going (monthly) basis to insure fiscal compliance with the guidelines of the grant and the grant awarding agencies. Grant program administrators will actively review program related compliance items (e.g., inventories) for accuracy and completeness within the scope of the grant guidelines and take timely action to complete compliance items. Grant program administrators will work closely with the Treasurer and Deputy Treasurer to insure that fiscal and program compliance are aligned, timely, and completed as prescribed throughout the course of the grant and corporation accounting and reporting cycles.

Financial monitoring and oversight of all corporation funds and grant funds will be strengthened and done actively by the Treasurer. This will include monthly cash flow (revenue and expenditure) analysis for the General Fund and all taxable funds, appropriation monitoring for all funds, and monthly review of the financial status with the school corporation administration (including grant administrators), and Board of School Trustees. Additional reports and documentation will be developed by the Treasurer and school administration in conjunction with the Board of School Trustees to help insure that the financial objectives of the Board are being monitored and reviewed and required or corrective actions are being taken as situations are identified and as warranted rather than taking action only at year end. The Treasurer will serve as the primarily responsible party for reporting, monitoring, and insuring that actions are taken by school administration as the Board of School Trustees direct.

Signed: _____

Lynn A. Kwilasz, Treasurer

Date: _____

12/15/2011

VALPARAISO COMMUNITY SCHOOLS



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December 15, 2011

SECTION III – Federal Award Findings and Questioned Costs

Finding 2011-03: Eligibility Controls and Compliance

Federal Agency: U.S. Department of Agriculture
Pass-Through Entity: Indiana Department of Education
CDFA Numbers: 10.553; 10.555
Program Numbers: SY 2009-10; SY 2010-11
Audited Contact Person: Cindy Licciardone, Food Service Director

The Treasurer will follow up with the school corporation food service director to insure that the food service director's corrective action plan as described below has been implemented. The Treasurer will review the 2012-13 verification results with the food service director to help determine if the plan is reducing eligibility errors as expected and if status changes based upon verification results are being updated. Adjustments to the plan will be made if results are not satisfactory.

Signed: _____

Lynn A. Kwilasz, Treasurer

Date: _____

12/15/2011

Finding 2011-03: Eligibility Controls and Compliance

It is identified in this finding that the school lunch office manager is responsible for determining eligibility for free or reduced priced meals. Information from the applications is entered into Websmart software for determination of each applicant's eligibility. In order to ensure accuracy of monetary figures entered from the applications the accounts payable personnel will review all applications to inserted data. The office personnel will initial for verification.

Verification process will be crossed checked. The required percentage of applications will be verified by food service office manager. Income information of applicants, pulled for verification, will be entered into point of sale software to determine if there is a change in status. The income information will then be checked by the Food Service Director for accuracy.

Signed: _____

Cindy Licciardone, Food Service Director

Date: _____

12-15-11

VALPARAISO COMMUNITY SCHOOLS



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December 15, 2011

SECTION III – Federal Award Findings and Questioned Costs

Finding 2011-04: Allowable Payroll Costs – Controls and Compliance

Federal Agency: U.S. Department of Education

Pass-Through Entity: Indiana Department of Education

Federal Programs: Title I Grants to Local Educational Agencies (Title I), ARRA Title I Grants to Local Educational Agencies, Recovery Act (ARRA Title I)

CDFA Numbers: 84.010; 84.389

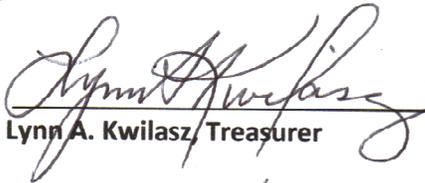
Audited Contact Person: Dr. Stacey Schmidt, Director of Curriculum and Assessment
Joyce Nicholas, Treasurer (retired)

Title I teaching staff will provide time and attendance logs to support the amount of salary and benefits related to Title I activities. These reports will be reviewed and retained by the Title I Director to document and reconcile actual Title I teaching staff costs with the approved grant budget.

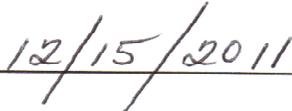
Time reports for Title I instructional aides will be provided from each building principal and will include name, days, hours worked. That data will be compared to the actual payroll reports and verified, with signature and date indicating verification has occurred and data is correct. Where inconsistencies are noted, the Title I director's assistant will research issue, document, and inform payroll, and fiscal grant management of the deviations.

Fiscal grant management will review grant accounting records to note if items charged to the grant appear to be consistent with the approved grant budget. Inconsistencies will be reported to Title I grant administrator and documentation and appropriate actions will be initiated and validated to make required corrective actions.

Signed: _____


Lynn A. Kwilas, Treasurer

Date: _____


12/15/2011

VALPARAISO COMMUNITY SCHOOLS



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December 15, 2011

SECTION III – Federal Award Findings and Questioned Costs

Finding 2011-05: Allowable Vendor Costs – Compliance

Federal Agency: U.S. Department of Education

Pass-Through Entity: Indiana Department of Education

Federal Programs: Title I Grants to Local Educational Agencies (Title I)

CDFA Number: 84.010

Audited Contact Person: Dr. Stacey Schmidt, Director of Curriculum and Assessment

Joyce Nicholas, Treasurer (retired)

Vendor contracts will include the details related to when and where services will be provided. Any claims related to such contracts will include sufficient detail to reconcile the services billed to the contract detail.

Signed: _____

Lynn A. Kwilasz
Lynn A. Kwilasz, Treasurer

Date: _____

12/15/2011

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December 15, 2011

SECTION III – Federal Award Findings and Questioned Costs

Finding 2011-06: Cash Management Controls and Compliance

Federal Agency: U.S. Department of Education

Pass-Through Entity: Indiana Department of Education

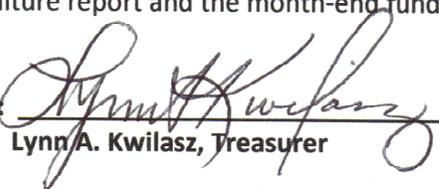
Federal Programs: Title I Grants to Local Educational Agencies (Title I); ARRA Title I Grants to Local Educational Agencies, Recovery Act (ARRA Title I); Title I Program for Neglected and Delinquent Children (Title I Neglected)

CDFA Numbers: 84.010; 84.013; 84.389

Audited Contact Persons: Dr. Stacey Schmidt, Director of Curriculum and Assessment
Joyce Nicholas, Treasurer (retired)

The current guidelines enacted by the Indiana Department of Education for Title I, Title I Neglected, and ARRA Title I require funds to be obtained through a reimbursement process rather than from a budgeted draw-down arrangement as was the methodology in place in the first half of the audit period.

Expenditures are made from these respective grant funds by the school corporation in accordance with the approved grant budget. Monthly, the Deputy Treasurer completes the reimbursement form through the Indiana Department of Education Title I website using the reconciled month-end expenditure accounting report from the corporation financial statements as the documentation for the reimbursement request. The Treasurer signs the report verifying that the requested amount matches the expenditures stated in the expenditure report and the month-end fund balance report.

Signed: 
Lynn A. Kwilas, Treasurer

Date: 12/15/2011

VALPARAISO COMMUNITY SCHOOLS



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December 15, 2011

SECTION III – Federal Award Findings and Questioned Costs

Finding 2011-07: Controls and Compliance Related to Reporting

Federal Agency: U.S. Department of Education

Pass-Through Entity: Indiana Department of Education, Porter County Educational Services Center

Federal Programs: Title I Grants to Local Educational Agencies (Title I); ARRA Title I Grants to Local Educational Agencies, Recovery Act (ARRA Title I); Title I Program for Neglected and Delinquent Children (Title I Neglected), ARRA Special Education Grants to States (IDEA, Part B); Recovery Act (ARRA Special Education); ARRA State Fiscal Stabilization Fund – Education State Fund (ARRA Fiscal Stabilization)

CDFA Numbers: 84.010; 84.013; 84.389; 84.391; 84.394

Audited Contact Persons: Dr. Stacey Schmidt, Director of Curriculum and Assessment
Joyce Nicholas, Treasurer (retired)

Procedures for reporting, review, and verification of federal grants have been updated as follows: Deputy Treasurer completes the monthly or quarterly report using the month-end/quarter-ended financial system reports. Expenditures, revenue, and balances on the grant reports are reconciled to the accounting reports, any differences noted, copies of all back up documentation attached to the school corporation copy of the report and the reports submitted electronically or by the means prescribed by the pass-through agency(ies). The Treasurer reviews and verifies (by initials and date) the grant report is in accordance with the grant reporting requirements and that grant report balances with school corporation accounting records and that report is submitted in a timely fashion.

Signed: _____

Lynn A. Kwilas, Treasurer

Date: _____

12/15/2011

VALPARAISO COMMUNITY SCHOOLS



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Office of the Superintendent

December 15, 2011

SECTION III – Federal Award Findings and Questioned Costs

Finding 2011-08: Internal Controls Related to Procurement, Suspension, and Debarment

Federal Agency: U.S. Department of Education

Pass-Through Entity: Indiana Department of Education, Porter County Educational Services Center

Federal Programs: Title I Grants to Local Educational Agencies (Title I); ARRA Title I Grants to Local Educational Agencies, Recovery Act (ARRA Title I); Title I Program for Neglected and Delinquent Children (Title I Neglected), ARRA Special Education Grants to States (IDEA, Part B); Recovery Act (ARRA Special Education); ARRA State Fiscal Stabilization Fund – Education State Fund (ARRA Fiscal Stabilization)
CDFA Numbers: 84.010; 84.013; 84.389; 84.391; 84.394

Audited Contact Persons: Dr. Stacey Schmidt, Director of Curriculum and Assessment
Joyce Nicholas, Treasurer (retired)

The school corporation will begin checking vendors on the EPLS system in order to insure that it is not doing business with an excluded party. The Title I director's assistant places orders related to all Title I grants so as part of the purchase order process the vendor will be checked on EPLS and a notation will be attached to the purchase order and maintained by the Title I assistant indicating the vendor has been checked. Any vendor on the EPLS will not be used by the school corporation until such time as they are removed from the list.

Signed: _____

Lynn A. Kwilasz, Treasurer

Date: _____

12/15/2011

VALPARAISO COMMUNITY SCHOOLS



Office of the Superintendent

Administration Building
3801 North Campbell Street
Valparaiso, Indiana 46385

Telephone: (219) 531-3000
FAX: (219) 531-3009

December 15, 2011

SECTION III – Federal Award Findings and Questioned Costs

Finding 2011-09: Equipment Management – Controls and Compliance

Federal Agency: U.S. Department of Education

Pass-Through Entity: Indiana Department of Education

Federal Programs: Title I Grants to Local Educational Agencies (Title I); ARRA Title I Grants to Local Educational Agencies, Recovery Act (ARRA Title I); Title I Program for Neglected and Delinquent Children (Title I Neglected), ARRA Special Education Grants to States (IDEA, Part B); Recovery Act (ARRA Special Education); ARRA State Fiscal Stabilization Fund – Education State Fund (ARRA Fiscal Stabilization)

CDDA Numbers: 84.010; 84.013; 84.389; 84.391; 84.394

Audited Contact Persons: Dr. Stacey Schmidt, Director of Curriculum and Assessment
Joyce Nicholas, Treasurer (retired)

Administrative guidelines will be developed by school administration to clearly define the corporation fixed asset policy as adopted by the board of school trustees. The guidelines will include the record layout with all data items required to be compliant defined, the responsible individual(s) for maintaining the inventory, the procedures and timelines for adding and deleting items to/from the inventory, and the expectations for physical inventory reconciliation to inventory records.

Signed: _____

Lynn A. Kwilasz
Lynn A. Kwilasz, Treasurer

Date: _____

12/15/2011

VALPARAISO COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on December 15, 2011, with Lynn Kwilasz, Chief Financial Officer and Treasurer; Sherie Breitenbach, Deputy Treasurer; Dr. Andrew Melin, Superintendent of Schools; Karl Cender, Board of Education member; and A. James Sarkisian, President of the Board of Education.