

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

LAKE STATION COMMUNITY SCHOOLS
LAKE COUNTY, INDIANA

July 1, 2010 to June 30, 2012



FILED
03/26/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sandra Cain	07-01-10 to 12-31-13
Superintendent of Schools	Dan DeHaven	07-01-10 to 06-30-13
President of the School Board	Karen Curtis Larry L. Biggs James Vanderlin	07-01-10 to 06-30-11 07-01-11 to 12-31-12 01-01-13 to 12-31-13



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE LAKE STATION COMMUNITY SCHOOLS, LAKE COUNTY, INDIANA

We have audited the accompanying financial statement of the Lake Station Community Schools (School Corporation), for the period of July 1, 2010 to June 30, 2012. 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 effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. The basis of accounting noted above is a different basis than that used in the prior period.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the School Corporation for the period of July 1, 2010 to June 30, 2012.

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 period of July 1, 2010 to June 30, 2012, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated February 26, 2013, 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

INDEPENDENT AUDITOR'S REPORT
(Continued)

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.

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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other reports used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards 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, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

The School Corporation's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.



Bruce Hartman
State Examiner

February 26, 2013



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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 LAKE STATION COMMUNITY SCHOOLS, LAKE COUNTY, INDIANA

We have audited the financial statement of the Lake Station Community Schools (School Corporation), for the period of July 1, 2010 to June 30, 2012, and have issued our report thereon dated February 26, 2013. 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

Management of the School Corporation is responsible for establishing and maintaining effective 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 item 2012-1 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Corporation's financial statement is 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

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)

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The School Corporation's response to the findings identified in our audit is described in the accompanying Official Response and 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, the School Board, 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.



Bruce Hartman
State Examiner

February 26, 2013

FINANCIAL STATEMENT

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

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LAKE STATION COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended June 30, 2011 and 2012

	Cash and Investments 07-01-10	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-11	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-12
General	\$ 898,360	\$ 11,837,700	\$ 11,173,914	\$ 19	\$ 1,562,165	\$ 11,346,398	\$ 12,127,087	\$ 13	\$ 781,489
Debt Service	1,058,960	247,252	636,916	(384,169)	285,127	486,518	340,818	(24,783)	406,044
Exempt Debt	-	952,855	860,713	375,175	467,317	1,457,882	1,200,531	-	724,668
Capital Projects	321,702	815,605	1,075,154	160,000	222,153	872,945	829,926	-	265,172
School Transportation	210,261	536,562	671,335	14,179	89,667	554,189	501,384	-	142,472
School Bus Replacement	18,670	215,656	230,229	-	4,097	231,489	161,015	-	74,571
School Lunch	518,908	839,943	750,929	-	607,922	852,678	727,040	-	733,560
Textbook Rental	261,620	150,333	208,919	8,994	212,028	135,360	215,288	24,783	156,883
Lake County Safe Schools	4,423	-	184	-	4,239	-	4,239	-	-
Educational License Plates	-	225	-	-	225	169	-	-	394
Alternative Education	-	8,735	8,735	-	-	8,021	8,021	-	-
SAFE Haven	19,505	16,499	36,004	-	-	-	-	-	-
Early Intervention Grant	1,961	23,280	23,000	-	2,241	-	2,241	-	-
Ready Schools Grant	1,181	-	1,181	-	-	-	-	-	-
Discovery Alliance	11,797	6,228	5,561	-	12,464	11,647	24,111	-	-
Wellness Program	8,009	-	8,009	-	-	-	-	-	-
High Ability Grant	-	30,927	30,927	-	-	31,544	25,906	-	5,638
Common School Technology 2009	-	62,005	61,119	-	886	121,315	122,201	-	-
Common School Technology 2010	(3,472)	102,877	99,405	-	-	138,890	138,848	-	42
School Technology Advancement	-	-	-	-	-	94,345	94,345	-	-
Non-English Speaking Programs P.L. 273-1999	-	16,654	16,654	-	-	14,272	14,272	-	-
Common School Bailey	3,371	889,150	892,275	-	246	496,390	496,636	-	-
Common School Hamilton	-	-	-	-	-	28,594	28,594	-	-
Excess PTRC Distributions	-	8,179	-	(8,179)	-	-	-	-	-
Title I	27,406	543,993	564,425	-	6,974	548,844	581,234	-	(25,416)
IDEA	-	-	-	-	-	69,927	69,927	-	-
Drug Free Schools	-	-	-	-	-	1,618	1,618	-	-
Improving Teaching Quality, Title II, Part A	40,190	64,700	104,890	-	-	40,870	43,120	-	(2,250)
Title III, Language Instruction	-	20,160	20,160	-	-	10,439	11,620	-	(1,181)
Reading First, No Child Left Behind	18,075	211,213	273,205	-	(43,917)	164,127	120,210	-	-
Title I - Grants to LEAs	23,205	18,025	41,230	-	-	-	-	-	-
Special Education - Part B	(4,518)	103,858	99,125	-	215	88,762	88,977	-	-
Education Jobs	-	-	-	-	-	260,328	280,460	-	(20,132)
Totals	\$ 3,439,614	\$ 17,722,614	\$ 17,894,198	\$ 166,019	\$ 3,434,049	\$ 18,067,561	\$ 18,259,669	\$ 13	\$ 3,241,954

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

LAKE STATION 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.

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. Receipts are recorded when received and disbursements are recorded when paid.

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 may include the following sources:

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

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

LAKE STATION COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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

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

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

E. Disbursements

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

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

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

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

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

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

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

F. Other Financing Sources and Uses

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

LAKE STATION COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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

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

G. Fund Accounting

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

Note 2. Budgets

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

Note 3. Property Taxes

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

LAKE STATION 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.

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:

LAKE STATION 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. Teacher's Retirement Fund

Plan Description

The Indiana Teacher's 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.

Note 7. Cash Balance Deficits

The financial statements contain several funds with deficits in cash. This is a result of timing differences in the disbursement and receipt of reimbursement basis federal and state grants.

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 approved by management of the School Corporation. It is presented as intended by the School Corporation.

LAKE STATION 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	Exempt Debt	Capital Projects	School Transportation	School Bus Replacement	School Lunch	Textbook Rental	Lake County Safe Schools
Cash and investments - beginning	\$ 898,360	\$ 1,058,960	\$ -	\$ 321,702	\$ 210,261	\$ 18,670	\$ 518,908	\$ 261,620	\$ 4,423
Receipts:									
Local sources	80,525	247,252	647,855	413,303	241,811	115,656	183,281	51,751	-
Intermediate sources	197,313	-	-	-	-	-	-	-	-
State sources	10,414,092	-	-	-	53,095	-	2,910	97,832	-
Federal sources	-	-	-	-	-	-	653,700	-	-
Temporary loans	1,120,000	-	305,000	400,000	240,000	100,000	-	-	-
Other	25,770	-	-	2,302	1,656	-	52	750	-
Total receipts	<u>11,837,700</u>	<u>247,252</u>	<u>952,855</u>	<u>815,605</u>	<u>536,562</u>	<u>215,656</u>	<u>839,943</u>	<u>150,333</u>	<u>-</u>
Disbursements:									
Current:									
Instruction	6,209,242	-	-	-	-	-	-	-	-
Support services	4,009,996	-	-	602,910	439,335	134,229	52	208,919	184
Noninstructional services	186,676	-	-	-	-	-	750,877	-	-
Facilities acquisition and construction	-	-	-	66,244	-	-	-	-	-
Debt services	768,000	636,916	860,713	406,000	232,000	96,000	-	-	-
Total disbursements	<u>11,173,914</u>	<u>636,916</u>	<u>860,713</u>	<u>1,075,154</u>	<u>671,335</u>	<u>230,229</u>	<u>750,929</u>	<u>208,919</u>	<u>184</u>
Excess (deficiency) of receipts over disbursements	<u>663,786</u>	<u>(389,664)</u>	<u>92,142</u>	<u>(259,549)</u>	<u>(134,773)</u>	<u>(14,573)</u>	<u>89,014</u>	<u>(58,586)</u>	<u>(184)</u>
Other financing sources (uses):									
Sale of capital assets	19	-	-	160,000	6,000	-	-	-	-
Transfers in	-	-	375,175	-	8,179	-	-	8,994	-
Transfers out	-	(384,169)	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>19</u>	<u>(384,169)</u>	<u>375,175</u>	<u>160,000</u>	<u>14,179</u>	<u>-</u>	<u>-</u>	<u>8,994</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>663,805</u>	<u>(773,833)</u>	<u>467,317</u>	<u>(99,549)</u>	<u>(120,594)</u>	<u>(14,573)</u>	<u>89,014</u>	<u>(49,592)</u>	<u>(184)</u>
Cash and investments - ending	<u>\$ 1,562,165</u>	<u>\$ 285,127</u>	<u>\$ 467,317</u>	<u>\$ 222,153</u>	<u>\$ 89,667</u>	<u>\$ 4,097</u>	<u>\$ 607,922</u>	<u>\$ 212,028</u>	<u>\$ 4,239</u>

LAKE STATION 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)

	Educational License Plates	Alternative Education	SAFE Haven	Early Intervention Grant	Ready Schools Grant	Discovery Alliance	Wellness Program	High Ability Grant	Common School Technology 2009
Cash and investments - beginning	\$ -	\$ -	\$ 19,505	\$ 1,961	\$ 1,181	\$ 11,797	\$ 8,009	\$ -	\$ -
Receipts:									
Local sources	-	-	-	-	-	6,228	-	-	-
Intermediate sources	225	-	-	-	-	-	-	-	-
State sources	-	8,735	16,499	23,280	-	-	-	30,927	62,005
Federal sources	-	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	225	8,735	16,499	23,280	-	6,228	-	30,927	62,005
Disbursements:									
Current:									
Instruction	-	8,735	-	1,961	1,181	5,561	-	30,927	-
Support services	-	-	36,004	-	-	-	8,009	-	61,119
Noninstructional services	-	-	-	21,039	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Total disbursements	-	8,735	36,004	23,000	1,181	5,561	8,009	30,927	61,119
Excess (deficiency) of receipts over disbursements	225	-	(19,505)	280	(1,181)	667	(8,009)	-	886
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	225	-	(19,505)	280	(1,181)	667	(8,009)	-	886
Cash and investments - ending	\$ 225	\$ -	\$ -	\$ 2,241	\$ -	\$ 12,464	\$ -	\$ -	\$ 886

LAKE STATION 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)

	Common School Technology 2010	School Technology Advancement	Non-English Speaking Programs P.L. 273-1999	Common School Bailey	Common School Hamilton	Excess PTRC Distributions	Title I	IDEA
Cash and investments - beginning	\$ (3,472)	\$ -	\$ -	\$ 3,371	\$ -	\$ -	\$ 27,406	\$ -
Receipts:								
Local sources	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	102,552	-	16,654	-	-	8,179	-	-
Federal sources	-	-	-	-	-	-	543,993	-
Temporary loans	-	-	-	854,909	-	-	-	-
Other	325	-	-	34,241	-	-	-	-
Total receipts	102,877	-	16,654	889,150	-	8,179	543,993	-
Disbursements:								
Current:								
Instruction	-	-	16,654	-	-	-	304,264	-
Support services	99,405	-	-	-	-	-	218,878	-
Noninstructional services	-	-	-	-	-	-	41,283	-
Facilities acquisition and construction	-	-	-	892,275	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Total disbursements	99,405	-	16,654	892,275	-	-	564,425	-
Excess (deficiency) of receipts over disbursements	3,472	-	-	(3,125)	-	8,179	(20,432)	-
Other financing sources (uses):								
Sale of capital assets	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(8,179)	-	-
Total other financing sources (uses)	-	-	-	-	-	(8,179)	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	3,472	-	-	(3,125)	-	-	(20,432)	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ 246	\$ -	\$ -	\$ 6,974	\$ -

LAKE STATION 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	Improving Teaching Quality Title II, Part A	Title III Language Instruction	Reading First No Child Left Behind	Title I Grants to LEAs	Special Education Part B	Education Jobs	Totals
Cash and investments - beginning	\$ -	\$ 40,190	\$ -	\$ 18,075	\$ 23,205	\$ (4,518)	\$ -	\$ 3,439,614
Receipts:								
Local sources	-	-	-	-	-	-	-	1,987,662
Intermediate sources	-	-	-	-	-	-	-	197,538
State sources	-	-	-	-	-	-	-	10,836,760
Federal sources	-	64,700	20,160	211,213	18,025	103,858	-	1,615,649
Temporary loans	-	-	-	-	-	-	-	3,019,909
Other	-	-	-	-	-	-	-	65,096
Total receipts	-	64,700	20,160	211,213	18,025	103,858	-	17,722,614
Disbursements:								
Current:								
Instruction	-	102,156	20,160	225,811	31,787	50,736	-	7,009,175
Support services	-	2,734	-	47,394	9,443	48,389	-	5,927,000
Noninstructional services	-	-	-	-	-	-	-	999,875
Facilities acquisition and construction	-	-	-	-	-	-	-	958,519
Debt services	-	-	-	-	-	-	-	2,999,629
Total disbursements	-	104,890	20,160	273,205	41,230	99,125	-	17,894,198
Excess (deficiency) of receipts over disbursements	-	(40,190)	-	(61,992)	(23,205)	4,733	-	(171,584)
Other financing sources (uses):								
Sale of capital assets	-	-	-	-	-	-	-	166,019
Transfers in	-	-	-	-	-	-	-	392,348
Transfers out	-	-	-	-	-	-	-	(392,348)
Total other financing sources (uses)	-	-	-	-	-	-	-	166,019
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(40,190)	-	(61,992)	(23,205)	4,733	-	(5,565)
Cash and investments - ending	\$ -	\$ -	\$ -	\$ (43,917)	\$ -	\$ 215	\$ -	\$ 3,434,049

LAKE STATION COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012

	General	Debt Service	Exempt Debt	Capital Projects	School Transportation	School Bus Replacement	School Lunch	Textbook Rental	Lake County Safe Schools
Cash and investments - beginning	\$ 1,562,165	\$ 285,127	\$ 467,317	\$ 222,153	\$ 89,667	\$ 4,097	\$ 607,922	\$ 212,028	\$ 4,239
Receipts:									
Local sources	113,043	486,518	1,057,882	487,243	313,608	119,489	171,173	45,411	-
Intermediate sources	272,189	-	-	-	-	-	-	-	-
State sources	10,386,822	-	-	-	-	-	2,801	89,199	-
Federal sources	-	-	-	-	-	-	678,652	-	-
Temporary loans	566,000	-	400,000	384,000	240,000	112,000	-	-	-
Other	8,344	-	-	1,702	581	-	52	750	-
Total receipts	<u>11,346,398</u>	<u>486,518</u>	<u>1,457,882</u>	<u>872,945</u>	<u>554,189</u>	<u>231,489</u>	<u>852,678</u>	<u>135,360</u>	<u>-</u>
Disbursements:									
Current:									
Instruction	6,480,182	-	-	-	-	-	-	-	-
Support services	4,344,110	-	-	378,565	261,384	61,015	52	215,288	4,239
Noninstructional services	182,795	-	-	-	-	-	726,988	-	-
Facilities acquisition and construction	-	-	-	51,361	-	-	-	-	-
Debt services	1,120,000	340,818	1,200,531	400,000	240,000	100,000	-	-	-
Total disbursements	<u>12,127,087</u>	<u>340,818</u>	<u>1,200,531</u>	<u>829,926</u>	<u>501,384</u>	<u>161,015</u>	<u>727,040</u>	<u>215,288</u>	<u>4,239</u>
Excess (deficiency) of receipts over disbursements	<u>(780,689)</u>	<u>145,700</u>	<u>257,351</u>	<u>43,019</u>	<u>52,805</u>	<u>70,474</u>	<u>125,638</u>	<u>(79,928)</u>	<u>(4,239)</u>
Other financing sources (uses):									
Sale of capital assets	13	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	24,783	-
Transfers out	-	(24,783)	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>13</u>	<u>(24,783)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,783</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(780,676)</u>	<u>120,917</u>	<u>257,351</u>	<u>43,019</u>	<u>52,805</u>	<u>70,474</u>	<u>125,638</u>	<u>(55,145)</u>	<u>(4,239)</u>
Cash and investments - ending	<u>\$ 781,489</u>	<u>\$ 406,044</u>	<u>\$ 724,668</u>	<u>\$ 265,172</u>	<u>\$ 142,472</u>	<u>\$ 74,571</u>	<u>\$ 733,560</u>	<u>\$ 156,883</u>	<u>\$ -</u>

LAKE STATION COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012
 (Continued)

	Educational License Plates	Alternative Education	SAFE Haven	Early Intervention Grant	Ready Schools Grant	Discovery Alliance	Wellness Program	High Ability Grant	Common School Technology 2009
Cash and investments - beginning	\$ 225	\$ -	\$ -	\$ 2,241	\$ -	\$ 12,464	\$ -	\$ -	\$ 886
Receipts:									
Local sources	-	-	-	-	-	11,647	-	1,475	-
Intermediate sources	169	-	-	-	-	-	-	-	-
State sources	-	8,021	-	-	-	-	-	30,069	121,315
Federal sources	-	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	169	8,021	-	-	-	11,647	-	31,544	121,315
Disbursements:									
Current:									
Instruction	-	8,021	-	-	-	24,111	-	25,906	-
Support services	-	-	-	-	-	-	-	-	122,201
Noninstructional services	-	-	-	2,241	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Total disbursements	-	8,021	-	2,241	-	24,111	-	25,906	122,201
Excess (deficiency) of receipts over disbursements	169	-	-	(2,241)	-	(12,464)	-	5,638	(886)
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	169	-	-	(2,241)	-	(12,464)	-	5,638	(886)
Cash and investments - ending	\$ 394	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,638	\$ -

LAKE STATION COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012
 (Continued)

	Common School Technology 2010	School Technology Advancement	Non-English Speaking Programs P.L. 273-1999	Common School Bailey	Common School Hamilton	Excess PTRC Distributions	Title I	IDEA
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 246	\$ -	\$ -	\$ 6,974	\$ -
Receipts:								
Local sources	2,520	-	-	475	-	-	310	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	136,370	94,345	14,272	-	-	-	-	-
Federal sources	-	-	-	-	-	-	548,534	69,927
Temporary loans	-	-	-	495,915	28,594	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	<u>138,890</u>	<u>94,345</u>	<u>14,272</u>	<u>496,390</u>	<u>28,594</u>	<u>-</u>	<u>548,844</u>	<u>69,927</u>
Disbursements:								
Current:								
Instruction	-	-	14,272	-	-	-	281,947	69,927
Support services	138,848	94,345	-	-	-	-	272,160	-
Noninstructional services	-	-	-	-	-	-	27,127	-
Facilities acquisition and construction	-	-	-	496,636	28,594	-	-	-
Debt services	-	-	-	-	-	-	-	-
Total disbursements	<u>138,848</u>	<u>94,345</u>	<u>14,272</u>	<u>496,636</u>	<u>28,594</u>	<u>-</u>	<u>581,234</u>	<u>69,927</u>
Excess (deficiency) of receipts over disbursements	<u>42</u>	<u>-</u>	<u>-</u>	<u>(246)</u>	<u>-</u>	<u>-</u>	<u>(32,390)</u>	<u>-</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>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>42</u>	<u>-</u>	<u>-</u>	<u>(246)</u>	<u>-</u>	<u>-</u>	<u>(32,390)</u>	<u>-</u>
Cash and investments - ending	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (25,416)</u>	<u>\$ -</u>

LAKE STATION COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012
 (Continued)

	Drug Free Schools	Improving Teaching Quality Title II, Part A	Title III Language Instruction	Reading First No Child Left Behind	Title I Grants to LEAs	Special Education Part B	Education Jobs	Totals
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ (43,917)	\$ -	\$ 215	\$ -	\$ 3,434,049
Receipts:								
Local sources	-	-	-	-	-	-	-	2,810,794
Intermediate sources	-	-	-	-	-	-	-	272,358
State sources	-	-	-	-	-	-	-	10,883,214
Federal sources	1,618	40,870	10,439	164,127	-	88,762	260,328	1,863,257
Temporary loans	-	-	-	-	-	-	-	2,226,509
Other	-	-	-	-	-	-	-	11,429
Total receipts	<u>1,618</u>	<u>40,870</u>	<u>10,439</u>	<u>164,127</u>	<u>-</u>	<u>88,762</u>	<u>260,328</u>	<u>18,067,561</u>
Disbursements:								
Current:								
Instruction	1,618	42,991	11,620	119,090	-	88,977	177,810	7,346,472
Support services	-	129	-	1,120	-	-	102,650	5,996,106
Noninstructional services	-	-	-	-	-	-	-	939,151
Facilities acquisition and construction	-	-	-	-	-	-	-	576,591
Debt services	-	-	-	-	-	-	-	3,401,349
Total disbursements	<u>1,618</u>	<u>43,120</u>	<u>11,620</u>	<u>120,210</u>	<u>-</u>	<u>88,977</u>	<u>280,460</u>	<u>18,259,669</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>(2,250)</u>	<u>(1,181)</u>	<u>43,917</u>	<u>-</u>	<u>(215)</u>	<u>(20,132)</u>	<u>(192,108)</u>
Other financing sources (uses):								
Sale of capital assets	-	-	-	-	-	-	-	13
Transfers in	-	-	-	-	-	-	-	24,783
Transfers out	-	-	-	-	-	-	-	(24,783)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>-</u>	<u>(2,250)</u>	<u>(1,181)</u>	<u>43,917</u>	<u>-</u>	<u>(215)</u>	<u>(20,132)</u>	<u>(192,095)</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ (2,250)</u>	<u>\$ (1,181)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (20,132)</u>	<u>\$ 3,241,954</u>

LAKE STATION COMMUNITY SCHOOLS
 SCHEDULE OF LEASES AND DEBT
 June 30, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Bank of NY Trust Co., NA	High school renovations	\$ 88,500	06-30-04	12-31-24
Bank of NY Trust Co., NA	Elementary school renovations	<u>227,000</u>	12-31-11	12-31-29
Total of annual lease payments		<u>\$ 315,500</u>		

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Governmental activities:			
Common school loans	Technology and building renovations	<u>\$ 10,942,657</u>	<u>\$ 1,094,694</u>

LAKE STATION COMMUNITY SCHOOLS
SCHEDULE OF CAPITAL ASSETS
JUNE 30, 2012

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

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 31,742
Buildings	16,476,803
Improvements other than buildings	2,046,884
Machinery and equipment	<u>3,770,354</u>
Total capital assets	<u>\$ 22,325,783</u>

LAKE STATION COMMUNITY SCHOOLS
OTHER REPORT

The audit report presented herein was prepared in addition to the other official report prepared for the individual School Corporation office listed below:

Virgil I. Bailey Elementary School

LAKE STATION COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. **Lack of Segregation of Duties:** Control activities should be selected and developed at various levels of the School Corporation to reduce risks to the achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

One employee is responsible for issuing receipts, depositing receipts, issuing vendor checks, preparing and remitting payroll amounts to the depository and vendors, recording all of these transactions in the financial accounting system, and reconciling the funds ledger to the depository balance. There is not adequate segregation of these duties; nor is there adequate oversight and approval of the transactions and reports generated based on these transactions.

2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the School Corporation's audited financial statements and then determining how those identified risks should be managed. The School Corporation has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements.

The transactions of the School Lunch and Textbook Rental Funds are accounted for in Extra-Curricular Accounts outside of the financial accounting system of the School Corporation. The amounts reported for these funds are submitted by the individual Extra-Curricular Accounts Treasurers and entered into the School Corporation's financial accounting system as totals. Based on the accounting procedures for Extra-Curricular Accounts, there is no internal control over these transactions. The Extra-Curricular Accounts Treasurers receipt and deposit collections, disburse funds, record the transactions in a ledger, reconcile the ledger to the depository balance, prepare the financial reports, and report the totals of receipts, disbursements and balances to the Treasurer for inclusion in the School Corporation's financial statement. There is no management oversight or governing board approval of these accounts.

3. **Monitoring of Controls:** Effective internal control over financial reporting requires the School Board to monitor and assess the quality of the School Corporation's system of internal control. The School Board has not performed either an ongoing or separate evaluation of their system of internal controls.

The failure of the School Board to exercise their oversight responsibility places the School Corporation at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the School Corporation does not have a process to identify or communicate corrective actions to improve controls.

LAKE STATION COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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

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

ADVANCE PAYMENTS – PREPAID DEBIT CARDS

The School Corporation purchased 15 \$100 Apple Volume Vouchers with the purchase of several iPads and iPad Learning Labs on November 16, 2011. These vouchers are essentially prepaid gift cards for applications and/or software. As of December 6, 2012, the Corporation Technology Director had 10 or \$1,000 of these cards and the Northwest Indiana Special Education Cooperative, their partner for special education, had the other 5 or \$500 of these cards yet unspent.

The Indiana Department of Education (IDOE) sent a memorandum dated January 7, 2011, to Superintendents, School Business Officials, and Technology Directors with the subject: "Guidance for Schools Making Volume Purchases of "Apps" from Apple." The memo stated: "Because of the way that these vouchers for apps are acquired, it is the IDOE's recommendation that districts using the volume purchasing option **redeem the vouchers prior to payment of the invoice from Apple** to avoid pre-payment of services.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

COMPENSATION AND BENEFITS

We were unable to find evidence of the School Board's approval of various non-certified employees' salary or stipend amounts in the board minutes. The minutes stated that individual contracts or stipends were approved; however, no amounts were included making it impossible to determine the total salary approved for certain employees. One \$2,000 stipend paid to a certified employee for additional duties related to a federal program was not presented to the School Board for approval. In addition, three administrators were not included in the 2011-2012 administrator salary schedule memorandum. The approved salary schedule was also not included in the board minutes; the minutes reported only that the schedule was approved.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

LAKE STATION COMMUNITY SCHOOLS
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(Continued)

All business transacted by the governing body must be recorded in the minutes of the meetings.

Examples of school business decisions and transactions which should be recorded in the minutes are: 1. Employment and compensation of teachers, bus drivers, janitors and other employees, including salary schedules adopted. . . . (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

SERVICE AND TIME RECORDS

Employee service records were not always properly completed. We noted one individual that had a contract for 200 days; however, there was no record of the actual days worked or the total number of days worked for the year. We also noted that per his contract he was to earn 10 days of sick leave and 3 personal business days which can accumulate to 150 days; however, his employee service record reported 15 days of sick leave earned. No leave was reported as used and the balance has accumulated at a higher than authorized rate. The School Corporation's policy is to pay employees for unused sick leave at a determined rate upon retirement.

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99 A, Employees' Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

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 Indiana Public School Corporations, Chapter 9)

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

ACADEMIC HONORS DIPLOMA

The School Corporation's supporting documentation reflected 17 students graduated with academic honors for the Class of 2011. The School Corporation however, reported 18 students to the Indiana Department of Education resulting in an overstatement of one academic honors diploma recipient.

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

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(Continued)

TEXTBOOK RENTAL FEES

No evidence was presented which could verify that textbook rental charges were authorized by the School Board for the audit period. The majority of elementary schools charged \$98 for textbook rental plus \$8 in agenda fees and \$2 in technology fees for grades K-6. We noted one elementary school, however, that charged only \$90 for textbook rental. Officials were unable to provide the detailed calculation of the elementary book rental charges; therefore, we were unable to determine the amount which constitutes fees and the amount for actual textbook rental. Therefore, we were unable to determine if the amount of textbook rental was in compliance with state statutes regarding maximum textbook rental fees.

Students in grades 7 and 8 were charged \$85 for book rental plus \$10 for an agenda and \$9 in various fees (additional \$40 for band class). Officials were unable to provide the detailed calculation of the book rental charges; therefore we were unable to determine if the amount of textbook rental was in compliance with state statutes regarding maximum textbook rental fees.

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 . . . The annual rental rate may not exceed twenty-five percent (25%) of the retail price of the textbooks.

(b) Notwithstanding subsection (a), the governing body may not assess a rental fee of more than fifteen percent (15%) of the retail price of a textbook that has been:

- (1) extended for usage by students under section 24(e) of this chapter; and
- (2) paid for through rental fees previously collected."

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TEXTBOOK RENTAL REIMBURSEMENT CLAIMS

Records to support the textbook reimbursement claims to the State of Indiana for students eligible for financial assistance were incomplete and not reflective of the actual costs incurred by the School Corporation. The records presented did not provide sufficient supporting documentation to establish the accuracy of the claims for reimbursement. There was no supporting documentation presented for the \$119,397.48 requested for reimbursement for the 2010-2011 school year. Worksheets were prepared for the textbook and consumable costs incurred for grades K-6 in the 2011-2012 school year; however, there was no detailed documentation to support the amounts used. In addition, based on minutes of the School Board when new textbooks were adopted, the amounts claimed were not based on the actual cost of the textbooks approved for adoption.

Based on the elementary textbook rental charge of \$98.00 paid by students not eligible for financial assistance, the School Corporation claimed significantly more from the State of Indiana for eligible students. Students in grades K-6 were charged \$98.00 for textbook rental; the average amounts claimed for

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(Continued)

reimbursement of costs incurred were \$131.27 and \$123.19 for 2010-2011 and 2011-2012, respectively. Students in grades 7 and 8 were charged \$85.00 for textbook rental; the average amounts claimed for reimbursement of costs incurred were \$90.06 and \$94.46 for 2010-2011 and 2011-2012, respectively.

Indiana Code 20-33-5-7 states in part:

"(b) A school corporation shall receive a reimbursement from the department for some or all of the costs incurred by a school corporation during a school year in providing textbook assistance to students who are eligible under section 2 of this chapter. . . .

(d) In its request, the governing body shall certify to the department: . . .

(2) the costs incurred by the school corporation in providing:

(A) textbooks (including textbooks used in special education and high ability classes) to these students;

(B) workbooks, digital content, and consumable textbooks (including workbooks, consumable textbooks, and other consumable instructional materials that are used in special education and high ability classes) that are used by students for not more than one (1) school year;

(C) instead of the purchase of textbooks, developmentally appropriate material for instruction in kindergarten through the grade 3 level, laboratories, and children's literature programs; and

(D) curricular materials (as defined in IC 20-20-5.5-1);

(3) that each textbook described in subdivision (2)(A) (except those textbooks used in special education classes and high ability classes) has been adopted by the governing body; and

(4) any other information required by the department."

ECA EDUCATIONAL FEES (Applies to all Elementaries)

Elementary school educational fees were being receipted to and retained in Extra-Curricular Account funds. Lake Station Community Schools operates their textbook rental program through each school's Extra-Curricular Accounts. Each school receipts textbook rental collections, including any educational fees, into their individual textbook rental funds. Textbook rental funds are disbursed for not only textbooks and consumable curricular material, but also for items such as classroom supplies, computer supplies, office supplies, library materials, and ISTEP tests.

Because the School Corporation could not provide the approved textbook rental fees and how they were calculated, we were unable to determine how much of the textbook rental charges for elementary students were for educational fees.

IC 20-5-3-1(c) concerning duties of the School Corporation Treasurer, 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 all the funds . . ." Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis for

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receipting into the appropriate school corporation fund. The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

Extra-curricular activities are defined as athletic, social or other school functions, the cost of which is not paid from public funds. These activities do not include functions conducted solely by any organization of parents and/or teachers (IC 20-41-1-7). Note that this statutory definition does not include any curricular or educational functions. All educational functions are the specific responsibility of the governing body (board of school trustees, etc.) of the school corporation acting on its behalf (IC 20-26-5-4), including providing the facilities and equipment therefore. All monies received for educational purposes, including those related to educational programs or facilities must be receipted to school corporation funds . . .

All authorized educational fees (the School Board should be able to justify any educational fees (non-payroll positions) and ensure Constitutional problems do not exist) must be receipted to the General Fund of the school corporation and included as miscellaneous revenues when preparing the school corporation budget . . . Textbook rental funds maintained at a school building may be used to temporarily record proper fees collected (as a convenience during the collection process of textbook rental). However, proper educational fees belong in the school corporation general fund and should be transferred timely.

Accordingly, with the above references to receipts, all disbursements for educational purposes must be made from school corporation funds and not from extra-curricular funds. (See General Fund, Student Activity Fund and Investments and Investment Income Fund) These include disbursements for building equipment, repairs and maintenance; educational and library materials, supplies and equipment; meeting and conference expense of employees; copiers; and, the repair and maintenance of same. Curricular and extra-curricular, though associated, are totally separate functions and each has a purpose and authorizing statute and must be treated separately. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

DISPOSITION OF ASSETS

According to the Capital Asset Report as of June 30, 2012, \$499,334 in machinery and equipment was retired during the period July 1, 2010 to June 30, 2012. Only \$6, 019 and \$13 was reported as proceeds from the sale of assets in the financial statements for this period that was related to the machinery and equipment. No evidence of School Board approval for any of the retirements was presented for audit.

Indiana Code 5-22-22-4(a) states in part:

"If the property to be sold is:

- (1) one (1) item, with an estimated value of one thousand dollars (\$1,000) or more; or
- (2) more than one (1) item, with an estimated total value of five thousand dollars (\$5,000) or more;

the purchasing agent may engage an auctioneer licensed under IC 25-6.1 to advertise the sale and conduct a public auction."

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Indiana Code 5-22-22-5 states in part:

"(a) If:

- (1) an auctioneer is not engaged, . . . the purchasing agent shall sell the property at a public sale or by sealed bids delivered to the office of the purchasing agency before the date of sale.
- (b) Advertisement of the sale shall be made in accordance with IC 5-3-1.
- (c) All sales shall be made to the highest responsible bidder."

DEFICIENCIES IN EXTRA-CURRICULAR ACCOUNTING SOFTWARE (Applies to All Schools)

Internal Controls

New computer accounting software purchased for the Extra-Curricular Account Treasurers did not have adequate internal controls that allow for compliance with state prescribed accounting procedures. Deficiencies noted in the system input, output, and processing controls were as follows:

1. The accounting system allowed users to manually enter an alternative effective date of a receipt. Receipts were not printed on pre-numbered forms; receipt numbers were generated by the computer software. However, the Extra-Curricular Account Treasurers were able to back date and pre-date receipts up to 90 days; therefore, some receipts appeared to be issued out of order.
2. To correct erroneous receipts, the system did not mark the original receipt as void and allowed a correct receipt to be entered through a separate transaction. Receipts could not be voided.
3. The accounting system did not identify reprinted receipts as copies. If copies of previously issued receipts cannot be distinguished from original receipts, it may be difficult to identify instances where customers were provided with copies of receipts previously issued to other customers. This could have resulted in the failure to identify instances where funds were never entered into the accounting system or deposited.
4. Users were able to modify the computer generated receipt and check numbers.
5. The accounting system did not require checks to be printed after the disbursement was recorded nor did it identify duplicates or reprinted checks as copies. Disbursements were to be issued on pre-numbered check forms; however, disbursements were able to be recorded without a check ever being issued. "Duplicate checks" were not actually a duplicate of the original. We found examples of "duplicate" checks printed with all appropriate disbursement information attached to another "duplicate" check with VOID across the area where the actual check would have been printed. However, attached to those was the actual check which was never issued. It was in pristine condition; not marked VOID, and no information printed on it. These "checks" were recorded in the ledger and then marked as VOID 10 days later.

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(Continued)

6. The accounting system did not allow for more than two funds. Therefore, the accounting system did not allow for the accurate calculating, summarizing, and categorizing of receipts, disbursements, and balances by individual activity.
7. The accounting system did not allow for adequate documentation of error corrections. Reversing transactions were not required to eliminate the effect of errors which would have allowed the original erroneous transactions, reversing transactions, and correcting transactions to be adequately documented. To correct an erroneous receipt, the user entered the same receipt number to modify the original receipt. It was not obvious in the Account Activity Reports that a correction was made which limits adequate audit trails.
8. The accounting system did not produce output consistent with forms prescribed and/or approved by the Indiana State Board of Accounts as detailed in the Audit Result and Comment below.

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)

Public records, financial statement information and supporting information generated through a computer system should be printed out on paper, printed to disk or maintained on-line at the end of each reporting year and retained for audit. Information must be maintained in a manner that will allow access for audit and public inquiry on equipment of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 8)

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)

Prescribed or Approved Forms (Applies to All Schools)

The School Corporation requested State Board of Accounts approval for several forms generated by the new accounting software system purchased for the Extra-Curricular Account Treasurers. Approvals, with several conditions noted, were received on August 12, 2011, November 1, 2011, and June 26, 2012, for the various forms discussed below. All of the forms were approved with the following conditions:

1. The items noted in red ink are a condition of approval.
2. The signatures shall be the only manual entry on the form. All other information entered on the form must be generated by the computer system subject to the internal controls inherent therein.
3. The State Board of Accounts has reviewed the titles and fields presented, but not the data and formulas used in the computerized accounting system. The forms and systems will be subject to further review and/or recommendation during the audits of Lake Station Community Schools to allow for on-site review as well as to ensure compliance with current statutes.

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(Continued)

Deficiencies noted in the various forms presented for audit were as follows:

1. Extra-Curricular Check in place of Prescribed Form SA-2 - The extra-curricular check was tentatively approved contingent upon the addition of the following fields noted in red to identify the disbursement: Fund, Purpose, Purchase Order Number, Claim Number, and Invoice Number. None of these fields were printed on the checks in use as required by the form approval. Several of the items were printed on the check stub, but the Fund and Claim Number were not printed on the check or the check stub.
2. Extra-Curricular Receipt in place of Prescribed Form SA-3 - The extra-curricular receipt had a field to indicate which fund the receipt was to be credited to; however, the fund name must be written in by the Extra-Curricular Account Treasurer, it was not generated by the computer. In addition, there were two other items noted in red concerning the heading of the form that were not corrected as of December 31, 2012.
3. Textbook Rental Receipt in place of TBR-2 - The textbook rental receipt tentatively approved included several items in red to be added and/or corrected. None of these items were corrected as of December 31, 2012. The Extra-Curricular Account Treasurers were manually preparing prescribed forms TBR-2 as well as entering the information into the computerized system.

In addition, the software could not generate a report for textbook rental receipts in numerical or date order, only alphabetical order. Therefore, it was difficult to verify that all receipts are properly accounted for and deposited.

4. Purchase Order Accounts Payable Voucher in place of SA-1 - As of December 31, 2012, this form was not usable. To include all required information, the form printed three pages; however, different information was on each page. Therefore, the form was not in triplicate as prescribed. Extra-Curricular Account Treasurers were still manually preparing purchase orders and accounts payable vouchers on prescribed forms.
5. Account Ledger Report in place of Financial Report SA-5-1 - The Financial Report was intended to report the beginning balance, receipts for the period, disbursements for the period, and the ending balance of each individual fund. The Account Ledger Report used in place of the SA-5-1 was not modified to include the conditions noted in red in the original approval. In addition, the Report did not list each fund individually. All funds, except the Textbook Rental Fund, were accounted for and commingled in a General/Student Fund. A 22 digit Account number/Description was available; however only the last three digits identified individual activities.
6. Bank Reconciliation Report in place of Cash Reconciliation SA-5-2 - The Bank Reconciliation Report did not allow for detailed manual adjustments. A difference amount was automatically calculated and had to be entered as a manual adjustment to balance.
7. Account Activity Report in place of Detail of Receipts and Expenditures SA-5-3 - The receipts and disbursements entered on the Account Ledger Report were to be carried forward from the Account Activity Report; however, the accounting system did not calculate and summarize the receipts and disbursements by fund and source or purpose on the Account Activity Report. Therefore, the Account Ledger Report could not be traced to amounts on the Account Activity Report.

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(Continued)

8. School Extra-Curricular Account SA-6 - No form was submitted for approval to be used in place of the SA-6 which is the Extra-Curricular Account ledger. The Account Activity Report which was submitted as a replacement for the SA-5-3 was presented for audit when the ledger was requested. The Account Activity Report did not include a control account which would have detailed the overall balance, each receipt by source, or each disbursement by purpose in date order. The software did not allow the Extra-Curricular Account Treasurers to accurately account for receipts and disbursements by individual classes, organization, or activities in separate funds. The software allowed two funds: a General/Student Fund and a Textbook Rental Fund. Any receipts or disbursements other than textbook rental were commingled in the General/Student Fund. Therefore, the balance of each activity was not known at all times.

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)

The extra-curricular treasurer is required to keep an accurate account of all money received and expended, showing the source of each receipt, the purpose of each disbursement and the overall balance on hand, which is the control account for all of the activity funds. A separate fund must be maintained in the ledger to record the transactions of each class, organization or activity so that the balance in each fund may be known at all times. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

STUDENT ACTIVITY FUNDS (Applies to All Schools)

Many sources of receipts were commingled in the Student Activity Funds of the elementary schools. The disbursements from these funds were not all for the benefit of the student body as a whole; many were for educational and administrative expenses. Some examples of questionable disbursements from the Student Activity Funds included: postage stamps, office furniture, office supplies, and classroom materials and library materials.

In addition, the elementary schools received rebates for purchases made by parents at Target and proceeds from recycled materials. These amounts were deposited into the Faculty Fund and used for memorial contributions and staff meals.

Administrative expenses such as postage stamps and teacher luncheons were also paid from student generated funds at Edison Junior/Senior High School.

The State Board of Accounts consistently has been of the audit position to not take an audit exception to a school extra-curricular account having a general fund if the fund consists of revenues received from functions (vending machines or sales of a similar nature, etc.) not generated by students for a specific class or organization (for which a fund should be established). Our audit position has been with the provision that the functions for which the expenditures are made benefit the student body as a whole (as opposed to a select group of students, school employees or administrators). Examples of appropriate expenditures in the past would be convocations, field trips which the entire student body has the opportunity to take during the course of the school year, etc. Our audit position has been based in part upon the substance of the transaction (the revenues are primarily from students or parents paying into vending machines, picture money, etc.). Naturally, we would not take audit exception to a public policy of a school corporation which

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(Continued)

would provide that a general fund does not exist and that money from these type of functions be used to offset the cost of the function (reduced prices of vending machine items, reduce the costs of pictures, etc.). (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

COMMINGLED FUNDS (Applies to Bailey Elementary School)

In 2011-2012 the Extra-Curricular Account Treasurer closed several funds and transferred the remaining cash balances to the Student Activity Fund. Activities accounted for through the Student Activity Fund include: the sale of Bookstore supplies, snack sales, recess milk sales, yearbook sales, field trips, donations, and educational fees.

Indiana Code 20-41-1-4(b) states in part: "Funds may not be transferred from the accounts of any organization, class, or activity except by a majority vote of its members, if any, and by the approval of the principal, sponsor, and treasurer of the organization, class, or activity."

A separate fund must be maintained in the ledger to record the transactions of each class, organization or activity so that the balance in each fund may be known at all times. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

TIMELINESS OF DEPOSITS (Applies to Hamilton Elementary and Edison Jr./Sr. High School)

Extra-Curricular Account receipts were not always deposited within a reasonable time. Textbook rental receipts collected at the beginning of the year at Hamilton Elementary were held for 17 days before a deposit was made. Receipts tested at Edison Jr./Sr. High School were deposited between 5 and 11 days after receipt.

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

RECEIPT ISSUANCE (Applies to Polk Elementary)

Individual official receipts were not issued when teachers remitted student field trip or juice collections to the Extra-Curricular Account Treasurer. When the teachers completed an SA-8, Summary Collection Form, they did not receive an official receipt; the Extra-Curricular Account Treasurer issued one receipt for the total collected from all teachers. In some instances, changes had been made to the SA-8's without the initial or signature of the sponsor. For example, one SA-8 originally reported \$238 collected; the amount was crossed out and reduced to \$175 without the teacher/sponsor's approval of the change.

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)

Summary Collection Form (SA-8) is prenumbered and to be prepared in duplicate by the sponsor. The original is to the extra-curricular treasurer to be retained in numerical order and the duplicate is to be retained in numerical order by the sponsor.

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A sponsor for the purpose of Form (SA-8) is the teacher or other person in charge of a classroom or function collecting money. Form SA-8 is to be used as a transmittal document each time fundraiser or field trip money is reported from the sponsor to the extra-curricular treasurer. Form SA-8 can be used at the discretion of school officials to account for other items. Space is provided to list check numbers and amounts as applicable. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

RECEIPTS NOT PROPERLY COMPLETED (Applies to Edison Jr./Sr. High School)

Receipts issued did not provide sufficient information to adequately determine the source of collections. For example, receipts collected for fundraisers did not indicate for which fundraiser the money was collected. Due to the lack of detailed sources, we were unable to determine if all funds collected were remitted to the Extra-Curricular Account Treasurer. We also noted that textbook rental receipts did not designate whether the collections were in cash or check; therefore, we were unable to determine if monies were deposited in the same form in which they were received.

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 extra-curricular 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)

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."

DEFICIENCIES IN RECEIPTS (Applies to Bailey Elementary School)

The following deficiencies were noted regarding receipt issuance:

1. Not all receipts which were issued were presented for audit. Due to issues detailed in the previous comments, parents were contacted and were able to produce receipts for which the duplicates were not presented for audit.
2. Not all receipts issued were official receipts prescribed by the State Board of Accounts. Generic duplicate receipts were purchased from an office supply vendor and issued for Technology Fees and Agendas purchased at registration.
3. Although there were two school secretaries, only one, the Extra-Curricular Account Treasurer, issued receipts. The other secretary had not been trained to issue computer receipts and did not know where a handwritten receipt book was kept. During any absences of the Extra-Curricular Account Treasurer, receipts were not written until the Extra-Curricular Account Treasurer returned.

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(Continued)

4. Receipts were not always issued or recorded at the time monies were collected, thus we were unable to determine if all collections were properly deposited. For example, a bank deposit was made on December 6, 2012, for \$69.44, however there were no computer receipts issued for that day or amount. There were no receipts issued between December 4, 2012, and December 12, 2012. Even though the treasurer was on sick leave, a journal entry was entered for this amount on December 13, 2012.
5. Any handwritten receipts issued were not presented for the 2012-2013 school year.
6. The computer system allowed the Extra-Curricular Account Treasurer to post-date a receipt up to 90 days. For example, receipt number 9113 was entered into the computer on October 18, 2012; however, the receipt was dated July 31, 2012, in the computer. Therefore, the Extra-Curricular Account Treasurer had the ability to manipulate the dates of the receipts
7. Receipts were not issued for each transaction. The Extra-Curricular Account Treasurer routinely issued one receipt for collections from various sources making it impossible to determine how much was collected for each activity. For example, one receipt was written for collections for recess milk, bookstore sales, and food sales.
8. The Extra-Curricular Account Treasurer was not ensuring that teachers/sponsors were properly completing Summary Collection Forms (SA-8) as required when collections were remitted to the Extra-Curricular Account Treasurer. We were provided only one Summary Collection Form (SA-8) for the period of July 1, 2008 to June 30, 2012.
9. Receipts were not properly completed for each transaction. Some receipts did not properly designate whether cash or a check was collected

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)

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)

Summary Collection Form (SA-8) is prenumbered and to be prepared in duplicate by the sponsor. The original is to the extra-curricular treasurer to be retained in numerical order and the duplicate is to be retained in numerical order by the sponsor.

A sponsor for the purpose of Form (SA-8) is the teacher or other person in charge of a classroom or function collecting money. Form SA-8 is to be used as a transmittal document each time fundraiser or field trip money is reported from the sponsor to the extra-curricular treasurer. Form SA-8 can be used at the discretion of school officials to account for other items. Space is provided to list check numbers and amounts as applicable. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

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

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DEFICIENCIES IN DISBURSEMENTS (Applies to Bailey Elementary School)

Fifty percent of the disbursements tested did not have the proper documentation, such as itemized invoices or receipts to support the payment. Many claims were paid based on a statement without the supporting detailed invoices. There was a pattern of late payments throughout the audit period; sixty-three percent and thirty-six percent of the claims were paid late for the 2010-2011 and 2011-2012 school years, respectively. Some payments were up to six months late. Also, sales tax was paid on some vendor claims.

In addition, during 2011-2012 the Extra-Curricular Account Treasurer was the only original signature on the SA-1 Purchase Order/Accounts Payable Voucher. The principal's "signature" was via a signature stamp. Therefore, there is no evidence that there was any oversight or approval of the disbursements.

All claims, invoices, receipts, and accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. . . . Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

A rubber stamp or other signing device should be used only under the personal direction of the public official and should be properly safeguarded when not in use since each official is responsible for his or her own signature. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

CONCESSIONS OR OTHER SALES CONTROLS (Applies to Edison Jr./Sr. High School)

Concessions were sold at athletic and other public events. Controls over concessions were not adequate to determine the profits earned or if all collections were remitted to the Extra-Curricular Account Treasurer. Concession inventories and reconcilements to purchases and sales were not performed.

Internal controls over vending operations, concessions or other sales should include, at a minimum, a regular reconciliation of the beginning inventory, purchases, distributions, items sold and ending inventory to the amount received. Any discrepancies noted should be immediately documented in writing to proper officials. The reconciliation should provide an accurate accounting.

Persons with access to vending should be properly designated and access should be limited to those designated. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

TICKET SALES FORM SA-4 (Applies to Edison Jr./Sr. High School)

The Official Ticket Sales Form SA-4 was not used properly. The Official Ticket Sales Form was to be completed and signed by the sponsor or employee taking tickets at the event. The Extra-Curricular Account Treasurer made photocopies of an official ticket sales form and completed the ticket sales form herself when money was remitted to her; the employee taking tickets did not sign the form.

LAKE STATION COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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)

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

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

FUNDRAISER (Applies to Edison Jr./Sr. High School)

During 2011-2012, a staff member purchased \$11,314.99 in food and drink products (cookies, chips, and Gatorade) from Sam's Club with Extra-Curricular Account funds and resold the snacks from her classroom during the school day. The total amount remitted to the Extra-Curricular Account Treasurer from the sales of these products was \$11,033.20 resulting in a net loss of \$281.79. Inventory records were not maintained for the snacks purchased. The School Board minutes did not indicate approval of the fundraiser nor did they contain designation of control procedures and the responsible officials or employees.

In addition, the items sold do not qualify as allowable food or beverage choices during normal school hours per Indiana Code 20-26-9-19.

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

Internal controls over vending operations, concessions or other sales should include, at a minimum, a regular reconciliation of the beginning inventory, purchases, distributions, items sold and ending inventory to the amount received. Any discrepancies noted should be immediately documented in writing to proper officials. The reconciliation should provide an accurate accounting.

Persons with access to vending should be properly designated and access should be limited to those designated. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Indiana Code 20-26-9-19 states in part:

"(a) This section does not apply to a food or beverage item that is:

- (1) part of a school lunch program or school breakfast program;
- (2) sold in an area that is not accessible to students;

LAKE STATION COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

- (3) sold after normal school hours; or
 - (4) sold or distributed as part of a fundraiser conducted by students, teachers, school groups, or parent groups, if the food or beverage is not intended for student consumption during the school day. . .
- (c) At least fifty percent (50%) of the food items available for sale at a school or on school grounds must qualify as better choice foods and at least fifty percent (50%) of the beverage items available for sale at a school or on school grounds must qualify as better choice beverage."

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 THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE LAKE STATION COMMUNITY SCHOOLS, LAKE COUNTY, INDIANA

Compliance

We have audited the Lake Station Community Schools' (School Corporation) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the period of July 1, 2010 to June 30, 2012. 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 2012-3, 2012-4, 2012-5, 2012-7, and 2012-8 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding eligibility, equipment management, and special tests and provisions of its Child Nutrition Cluster programs; and requirements regarding allowable costs, cash management, equipment management, and reporting that are applicable to its Special Education Cluster programs. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to those programs.

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 could have a direct and material effect on its other major federal program for the period of July 1, 2010 to June 30, 2012.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
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 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 2012-2 and 2012-6 to be material weaknesses.

The School Corporation's response to the findings identified in our audit is described in the accompanying Official Response and 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, School Board, 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.



Bruce Hartman
State Examiner

February 26, 2013

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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.

LAKE STATION COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2011 and 2012

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 06-30-11	Total Federal Awards Expended 06-30-12
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 185,063	\$ 198,881
National School Lunch Program	10.555		483,896	506,980
Summer Food Service Program for Children	10.559		<u>29,787</u>	<u>28,127</u>
Total for cluster			<u>698,746</u>	<u>733,988</u>
Child and Adult Care Food Program	10.558		-	967
Total for federal grantor agency			<u>698,746</u>	<u>734,955</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	84.010	10-4680	42,425	-
		11-4680	501,569	65,813
		12-4680	-	<u>482,721</u>
Total for program			<u>543,994</u>	<u>548,534</u>
ARRA Title I Grants to Local Educational Agencies, Recovery Act	84.389		<u>18,026</u>	-
Total for cluster			<u>562,020</u>	<u>548,534</u>
Pass-Through Northwest Indiana Special Education Cooperative				
Special Education Cluster				
Special Education - Grants to States	84.027			
Assistive Technology Program		A58-2-12DL-0160	-	69,927
ARRA Special Education Grants to States, Recovery Act	84.391		<u>103,858</u>	<u>88,763</u>
Total for cluster			<u>103,858</u>	<u>158,690</u>
Pass-Through Indiana Department of Education				
Safe and Drug-Free Schools and Communities - State Grants	84.186	09-4680	-	1,618
Reading First State Grants	84.357	A58-1-11CI-241	155,558	-
		A58-0-10CI-089	55,654	58,175
		A58-1-11CI-275	-	<u>105,952</u>
Total for program			<u>211,212</u>	<u>164,127</u>
English Language Acquisition State Grants	84.365	01111-045-PN01	20,160	-
		01112-045-PN01	-	<u>10,439</u>
Total for program			<u>20,160</u>	<u>10,439</u>
Improving Teacher Quality State Grants	84.367	09-4680	64,700	-
		10-4680	-	<u>40,870</u>
Total for program			<u>64,700</u>	<u>40,870</u>
Education Jobs Fund	84.410		-	<u>260,328</u>
Total for federal grantor agency			<u>961,950</u>	<u>1,184,606</u>
Total federal awards expended			<u>\$ 1,660,696</u>	<u>\$ 1,919,561</u>

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

LAKE STATION 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 Lake Station Community Schools (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, 2011 and 2012. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2011	2012
School Breakfast Program	10.553	\$ 12,866	\$ 15,918
National School Lunch Program	10.555	33,749	40,680

LAKE STATION COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unqualified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Qualified for the Child Nutrition and Special Education Clusters; Unqualified for the Education Jobs Fund
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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.410	Child Nutrition Cluster Special Education Cluster Education Jobs Fund

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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Section II – Financial Statement Findings

FINDING 2012-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the School Corporation to reduce risks to the achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related

LAKE STATION COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

One employee is responsible for issuing receipts, depositing receipts, issuing vendor checks, preparing and remitting payroll amounts to the depository and vendors, recording all of these transactions in the financial accounting system, and reconciling the funds ledger to the depository balance. There is not adequate segregation of these duties; nor is there adequate oversight and approval of the transactions and reports generated based on these transactions.

2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the School Corporation's audited financial statements and then determining how those identified risks should be managed. The School Corporation has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements.

The transactions of the School Lunch and Textbook Rental Funds are accounted for in Extra-Curricular Accounts outside of the financial accounting system of the School Corporation. The amounts reported for these funds are submitted by the individual Extra-Curricular Accounts Treasurers and entered into the School Corporation's financial accounting system as totals. Based on the accounting procedures for Extra-Curricular Accounts, there is no internal control over these transactions. The Extra-Curricular Accounts Treasurers receipt and deposit collections, disburse funds, record the transactions in a ledger, reconcile the ledger to the depository balance, prepare the financial reports, and report the totals of receipts, disbursements and balances to the Treasurer for inclusion in the School Corporation's financial statement. There is no management oversight or governing board approval of these accounts.

3. Monitoring of Controls: Effective internal control over financial reporting requires the School Board to monitor and assess the quality of the School Corporation's system of internal control. The School Board has not performed either an ongoing or separate evaluation of their system of internal controls.

The failure of the School Board to exercise their oversight responsibility places the School Corporation at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the School Corporation does not have a process to identify or communicate corrective actions to improve controls.

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)

LAKE STATION COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We recommended that officials design and implement controls to properly segregate incompatible duties and provide for management oversight and governing board approval of financial transactions and reports, including those accounted for outside of the corporation records. In addition, we recommended that officials implement procedures to provide assessments of their system of internal controls and to communicate corrective actions to improve the controls.

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-2 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT ON THE SPECIAL EDUCATION CLUSTER PROGRAMS

Federal Agency: Department of Education

Federal Program: Special Education - Grants to States; ARRA Special Education -
Grants to States, Recovery Act

CFDA Number: 84.027, 84.391

Federal Award Number: A58-2-12DL-0160; 33310-047-SN01

Pass-Through Entity: Indiana Department of Education; Northwest Indiana Special Education Cooperative

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect on the program. This includes the following compliance requirements: activities allowed, allowable costs, cash management, equipment management, level of effort, period of availability, reporting and special tests and provisions. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

One person was responsible for reporting allowable expenditures to and requesting reimbursement of those expenditures from the pass-through agency without management oversight. This person was also responsible for filing all other reports or certifications required by the pass-through agency, again with no management oversight. In addition, the school corporation does not have an adequate system of controls to ensure that all capital assets are properly accounted for, including those purchased with federal funds.

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

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

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

LAKE STATION COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect on the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation officials establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect on the program.

FINDING 2012-3 - ALLOWABLE COSTS - SPECIAL EDUCATION - GRANTS TO STATES PROGRAM

Federal Agency: U.S. Department of Education
Federal Program: ARRA Special Education - Grants to States, Recovery Act
CFDA Number: 84.391
Federal Award Number: 33310-04-7SN01
Pass-Through Entity: Northwest Indiana Special Education Cooperative

The School Corporation did not file semiannual certifications that would have listed the employee that worked 100 percent of their time on the ARRA Special Education - Grants to States Program. The School Corporation received the funds from their pass-through agency, the Northwest Indiana Special Education Cooperative (NISEC). As a subrecipient of NISEC, the School Corporation was required to submit semi-annual certifications to NISEC; however, they did not file the two required certifications for the audit period.

OMB Circular A-87, Attachment B(8)(h)(3), states:

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

Failure to file the required certifications could result in unallowable costs charged to the federal program, noncompliance of the pass-through agency, NISEC, and could also jeopardize future federal funding.

We recommended that School Corporation officials ensure that all required certifications that document allowable costs of a federal program are properly and timely filed.

FINDING 2012-4 - CASH MANAGEMENT AND REPORTING - SPECIAL EDUCATION PROGRAMS

Federal Agency: Department of Education
Federal Program: Special Education - Grants to States; ARRA Special Education - Grants to States, Recovery Act
CFDA Number: 84.027, 84.391
Federal Award Number: A58-2-12DL-0160; 33310-047-SN01
Pass-Through Entity: Indiana Department of Education; Northwest Indiana Special Education Cooperative

The pass-through agencies for the Special Education programs operated by Lake Station Community Schools, required reports of program expenditures for the School Corporation to request reimbursement of those expenditures. The school corporation requested, and in some cases received, reimbursement of grant expenditures before they were actually paid. One of the two expenditures made from the Special Education

LAKE STATION COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Assistive Technology grant, received from the Indiana Department of Education (IDOE), was paid after the reimbursement request was filed on December 1, 2011. Fourteen of sixteen reimbursement requests filed between June 30, 2010 and September 12, 2011, for the ARRA Special Education grant (ARRA) included anticipated expenditures for the subsequent month; not actual expenditures.

Beginning July 1, 2010, the IDOE allowed subgrantees to request reimbursement by the 1st and 15th of each month. Requests for reimbursement filed by the 1st could include anticipated expenses through the 15th; requests for reimbursement filed by the 15th could include anticipated expenses through the 30th. However, the IDOE notified school corporations on July 29, 2011, that they must immediately begin to reimburse on actual expenditures only. In addition, the prime recipient of the ARRA Special Education grant funds, the IDOE, awarded the ARRA funds to the School Corporation's pass-through agency, the Northwest Indiana Special Education Cooperative (NISEC). NISEC required "proof for payment on all funds paid out" to be attached with the reimbursement requests.

31 CFR § 205.12(b)(5) requires costs for which reimbursement is requested to be paid prior to the date of the reimbursement request.

Noncompliance with the cash management and reporting requirements as set forth by the grant agreements may jeopardize future funding by the pass-through agency.

We recommended that School Corporation officials ensure that grant expenditures are actually paid prior to submitting the reports which request reimbursement.

***FINDING 2012-5 - EQUIPMENT MANAGEMENT - CHILD NUTRITION
CLUSTER AND SPECIAL EDUCATION - GRANTS TO STATES***

Federal Agency: U.S. Department of Agriculture, U.S. Department of Education
Federal Program: School Breakfast Program, National School Lunch Program,
Special Education - Grants to States
CFDA Number: 10.553, 10.555, 84.027
Federal Year and/or Award Number: FY 2011 and FY 2012; A58-2-12DL-0160
Pass-Through Entity: Indiana Department of Education

Many capital assets purchased, in whole or in part with grant funds, were not added to the capital asset records of the School Corporation. Twenty-eight percent of equipment expenditures exceeding \$5,000 each from the School Lunch account were not included in the capital asset records of the School Corporation. In addition, twenty-one percent of the equipment expenditures exceeding \$5,000 each from the Special Education - Grants to States, Assistive Technology Program were not included in the capital asset records of the School Corporation.

7 CFR § 3016.32 for the Department of Agriculture and 84 CFR § 80.32 for the Department of Education both state in part:

"(b) States. A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. Other grantees and subgrantees will follow paragraphs (c) through (e) of this section. . . .

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

LAKE STATION 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."

Failure to maintain detailed and accurate equipment and property records and to reconcile the physical inventory with the records could result in assets being lost, stolen, misappropriated, or disposed of improperly and not detected within a reasonable time.

We recommended that School Corporation officials ensure accurate detailed capital asset records are maintained. We also recommended that any assets acquired with federal funds will be designated as such so that they are not disposed of improperly.

FINDING 2012-6- INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT ON THE PROGRAMS IN THE CHILD NUTRITION CLUSTER

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
CFDA Number: 10.553, 10.555, 10.559
Federal Award Year: FY 2011 and FY 2012
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect on the Child Nutrition Cluster programs. This includes the following compliance requirements: allowable activities, eligibility, equipment management, reporting, and special tests and provisions. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

The programs in the Child Nutrition Cluster are accounted for in an account outside of the School Corporation financial records. One person is responsible for all aspects of the accounting system, including receipts, disbursements, reconcilements, and reporting. Eligibility determinations and verifications were performed at individual school buildings without adequate communication with the Food Service Director who was required to file the corporation reports with the State of Indiana. In addition, the School Corporation does not have an adequate system of controls to ensure that all capital assets are properly accounted for, including those purchased with federal funds.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected in a timely basis.

LAKE STATION COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

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

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

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation officials establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

***FINDING 2012-7 - NONCOMPLIANCE WITH CHILD NUTRITION
ELIGIBILITY AND VERIFICATION REQUIREMENTS***

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Year: FY 2011 and FY 2012
Pass-Through Entity: Indiana Department of Education

The School Corporation had deficiencies within its eligibility determination and verification processes which did not allow them to adequately document the determination and verification of the eligibility status of their approved free and reduced price applications for the School Breakfast and National School Lunch Programs. The eligibility determination process was not completed using the proper procedures as follows:

1. There was no signature of the official who performed the eligibility determination on 18 percent of the applications tested.
2. The verification process also was not completed using the proper procedures. The proper number of applications was verified; however, the verification confirmation section of the application was not prepared on 42 percent of the verified applications tested.
3. Documentation of the verification efforts was not centralized during the 2010-2011 school year. Not all verified applications were submitted to the central food service office from the individual schools.

7 CFR § 245.6(c)(1) states in part: "The local educational agency must determine household eligibility, for free or reduced price meals, either through direct certification or the application process at or about the beginning of the school year."

LAKE STATION COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

7 CFR § 245.6 (a) states in part:

"Each local educational agency, as defined in § 245.2, for schools participating in the National School Lunch Program, School Breakfast Program or Special Milk Program or a commodity only school, shall provide meal benefit forms for use by families in making application for free or reduced price meals or free milk for their children."

School Form No. 521 is the Application for Free and Reduced Price Meals and Other Benefits prescribed for use by the Indiana Department of Education. These applications contain sections for the determining official to document the results of the determination and sign the form. It also contains a section for documenting the verification of a sample of applications. This requires a confirming official to sign that a person other than the determining official confirmed the eligibility determination. It also requires documentation of the verification process and the results in addition to the signature of the verifying official.

7 CFR 245.6a (c) states in part: "*Verification requirement* —(1) *General*. The local educational agency must verify eligibility of children in a sample of household applications approved for free and reduced price meal benefits for that school year."

Failure to comply with these requirements could cause the School Corporation to be ineligible to receive future federal awards.

We recommended that School Corporation officials properly complete and document the eligibility determination and verification of student eligibility status and maintain adequate, auditable files.

FINDING 2012-8 - SPECIAL TESTS AND PROVISIONS - SCHOOL FOOD ACCOUNTS

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
CFDA Number: 10.553, 10.555, 10.559
Federal Award Year: FY 2011 and FY 2012
Pass-Through Entity: Indiana Department of Education

The School Corporation Food Service department maintains a cash balance in excess of federal regulations. The average cash balances of the Food Service account for FY 2011 and FY 2012 were \$545,806 and \$620,264, respectively; average monthly expenditures were \$62,577 and \$60,503, respectively.

7 CFR § 220.7 (e)(1)(i) - Requirements for participation for the School Breakfast Program states that the school food authority shall: "Maintain a nonprofit school food service."

7 CFR § 210.14(a) states: "School food authorities shall maintain a nonprofit school food service."

7 CFR § 210.14(b) states: "The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State Agency . . ."

The cash balance maintained by the School Corporation results in noncompliance with program requirements that they must operate a nonprofit school food service and limit net cash resource. Failure to comply with these requirements could cause the School Corporation to be ineligible to receive future federal reimbursements.

LAKE STATION COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We recommended that School Corporation officials implement procedures that would limit net cash resources to three months' average expenditures and to ensure that its school food service program is operated as a nonprofit service.

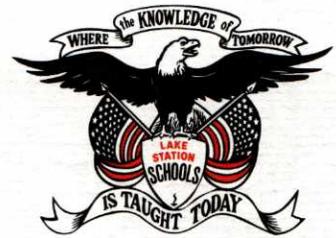
LAKE STATION COMMUNITY SCHOOLS

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DAN DEHAVEN
SUPERINTENDENT

TOM COREY
ASSISTANT SUPERINTENDENT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number 2010-1

Original SBA Audit Report Number:

B38493

Fiscal Year

7-1-2008 to 6-30-2010

Auditee Contact Person

Sandra Cain

Title of Contact Person

Director of Business Affairs

Phone Number

(219) 962-1159

Status of Finding:

The Title I Director now signs all claim vouchers before they are submitted for payment. We no longer have Reading First Grants or ARRA Grants so this should no longer be an issue. The Director of Business Affairs signs the claim docket that is presented to the School Board on a monthly basis.

Finding Number 2010-2

Original SBA Audit Report Number:

B38493

Fiscal Year

7-1-2008 to 6-30-2010

Auditee Contact Person

Sandra Cain

Title of Contact Person

Director of Business Affairs

Phone Number

(219) 962-1159

Status of Finding:

Beginning July 1, 2010 all federal grants became reimbursable, therefore this is no longer an issue.

Signature:

Date:

November 29, 2012

BOARD OF SCHOOL TRUSTEES

Larry Biggs, Karen Curtis, Michael Stills, Greg Tenorio, James Vanderlin
LAKE STATION COMMUNITY SCHOOLS

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DAN DEHAVEN
SUPERINTENDENT

TOM COREY
ASSISTANT SUPERINTENDENT

CORRECTIVE ACTION PLAN

FINDING NO. 2012-1 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The officials of Lake Station Community School Corporation will design and implement controls to properly segregate duties as possible. The majority of receipts are electronically transferred and sent to both the Director of Business and the Payroll Clerk. The DOB and Accounts Payable individual complete vendor checks together. The DOB will oversee Bank Recon reports on a monthly basis and will submit them to the Superintendent for final review.

FINDING NO. 2012-2 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT ON THE SPECIAL EDUCATION CLUSTER PROGRAMS

Federal Agency: Department of Education

Federal Program: Special Education - Grants to States; ARRA Special Education - Grants to States, Recovery Act

CFDA Number: 84.027, 84.391

Pass-through Agency: Indiana Department of Education; Northwest Indiana Special Education Cooperative

Auditee Contact Person: Sandra Cain

Contact Phone Number: (219) 962-1159

The officials of Lake Station Community School Corporation will establish Administrative Guidelines related to federal grants and will be reviewed by the Superintendent and approved by the Board of School Trustees.

FINDING NO. 2012-3 – ALLOWABLE COSTS - SPECIAL EDUCATION - GRANTS TO STATES PROGRAM

Federal Agency: U.S. Department of Education

Federal Program: ARRA Special Education - Grants to States, Recovery Act

CFDA Number: 84.391

Pass-through Agency: Northwest Indiana Special Education Cooperative

Auditee Contact Person: Sandra Cain

Contact Phone Number: (219) 962-1159

The officials of Lake Station Community School Corporation will establish controls to ensure that all required certifications that document allowable costs of a federal program are properly and timely filed. We will follow the requirements of OMB Circular A-87, attachment B, 8H3, outlining the process for paying employees that paid 100% from federal funds. Our corporation will provide semi-annual certification for the audit period.

BOARD OF SCHOOL TRUSTEES

Larry Biggs, Karen Curtis, Michael Stills, Greg Tenorio, James Vanderlin
LAKE STATION COMMUNITY SCHOOLS

FINDING NO. 2012-4 – CASH MANAGEMENT AND REPORTING - SPECIAL EDUCATION PROGRAMS

Federal Agency: Department of Education
Federal Program: Special Education - Grants to States; ARRA Special Education - Grants to States, Recovery Act
CFDA Number: 84.027, 84.391
Pass-through Agency: Indiana Department of Education; Northwest Indiana Special Education Cooperative
Auditee Contact Person: Sandra Cain
Contact Phone Number: (219) 962-1159

The Lake Station Community School Corporation will put in place procedures to make sure all future cash management processes and cash requests conform to current IDOE practices. All future cash requests will be made after the expenditures only.

FINDING NO. 2012-5 – EQUIPMENT MANAGEMENT - CHILD NUTRITION CLUSTER AND SPECIAL EDUCATION - GRANTS TO STATES

Federal Agency: U.S. Department of Agriculture, U.S. Department of Education
Federal Program: School Breakfast Program, National School Lunch Program, Special Education - Grants to States
CFDA Number: 10.553, 10.555, 84.027
Pass-through Agency: Indiana Department of Education
Auditee Contact Person: Sandra Cain
Contact Phone Number: (219) 962-1159

The Lake Station Community School Corporation will establish controls of the capital assets of the Corporation. Future purchases will be closely monitored and added to the Fixed Assets Account Report for both Special Education and Food Service grants to assure that no property is disposed of improperly.

FINDING NO. 2012-6 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT ON THE PROGRAMS IN THE CHILD NUTRITION CLUSTER

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children
CFDA Number: 10.553, 10.555, 10.559
Pass-through Agency: Indiana Department of Education
Auditee Contact Person: Sandra Cain
Contact Phone Number: (219) 962-1159

The Lake Station Community School Corporation will establish controls including segregation of duties related to the Food Service Department. Changes have been made in the Food Service Department so that more than one person approves and verifies breakfast and lunch applications. Expenditures related to the Food Service Department reviewed and approved by the Superintendent and then approved by the Board of School Trustees.

FINDING NO. 2012-7 NONCOMPLIANCE WITH CHILD NUTRITION ELIGIBILITY AND VERIFICATION REQUIREMENTS

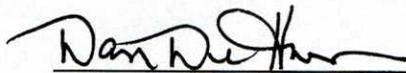
Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Pass-through Agency: Indiana Department of Education
Auditee Contact Person: Sandra Cain
Contact Phone Number: (219) 962-1159

The Lake Station Community School Corporation has corrected deficiencies related to the verification and determination of breakfast and lunch applications. The process has been centralized through the Food Service Director and her assistant. This provides a segregation of duties and as well as a check and balance in the process. All applications are maintained at the district Food Service Office.

FINDING NO. 2012-8 SPECIAL TESTS AND PROVISIONS - SCHOOL FOOD ACCOUNTS

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children
CFDA Number: 10.553, 10.555, 10.559
Pass-through Agency: Indiana Department of Education
Auditee Contact Person: Sandra Cain
Contact Phone Number: (219) 962-1159

The Lake Station Community School Corporation will review our expenditures and offer items free to children in which we are legally able to do so to keep our balances low. State and Federal regulations determine paid amounts of what must be charged, which increases the amount of funds in our account.



Official's Signature

Date 2/25/2013

LAKE STATION COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on February 26, 2012, with Dan DeHaven, Superintendent of Schools; Thomas P. Corey, Assistant Superintendent of Schools; Sandra Cain, Treasurer; Gregory Tenorio, Vice President of the School Board; and Larry L. Biggs, School Board member. The Official Response has been made a part of this report and may be found on pages 64 and 65.

LAKE STATION COMMUNITY SCHOOLS

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DAN DEHAVEN
SUPERINTENDENT

TOM COREY
ASSISTANT SUPERINTENDENT

Lake Station Community Schools Audit Results and Comments

February 26, 2013

✓ Internal Controls over Financial Transactions and Reporting

The Lake Station Community Schools will implement practices to segregate duties as possible. The Director of Business and Payroll Clerk responsibilities will be reviewed and a procedure of checks and balances will be developed. The Superintendent and Board of School Trustees will be part of the control system to assure proper monitoring of the Corporation's financial procedures.

✓ Advance Payments - Prepaid Debit Cards

The Apple Vouchers will be redeemed by December 2013. Future Apple purchases will conform to State recommendations.

✓ Service and Time Records

Correction will be made to all employees who require detailed service records. Calendars showing actual days worked will be used in the future.

✓ Textbook Rental Fees

Beginning with the 2013-2014 school year the Lake Station Community Schools will no longer use a flat fee for book rental and will calculate book rental in accordance to IC 20-26-12-2.

✓ ECA Educational Fees

The Lake Station Community School Corporation will implement procedures whereby ECA fees are collected and receipted to the Corporation's General Fund.

BOARD OF SCHOOL TRUSTEES

Larry Biggs, Karen Curtis, Jane Stills, Greg Tenorio, James Vanderlin
LAKE STATION COMMUNITY SCHOOLS

✓ Disposition of Assets

Retirement of equipment and vehicles as shown on the June 30, 2012 Capital Assets Ledger will be formally approved by the Board of School Trustees.

✓ Deficiencies in ECA Software

The Lake Station Community Schools will contact our software vendor and attempt to rectify the deficiencies noted in the Audit Report.

✓ Ticket Sales Form SA-4

Changes will be made in the procedure for selling tickets at events. The person responsible for selling tickets will complete and sign the SA-4 form before turning over the receipts to the school treasurer.



Dan DeHaven, Superintendent