

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

SCHOOL CITY OF EAST CHICAGO  
LAKE COUNTY, INDIANA

July 1, 2011 to June 30, 2013



**FILED**  
08/15/2014



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Francisco Ramirez	07-01-11 to 03-08-12
	Laura Hubinger (Interim)	03-09-12 to 12-31-12
	Laura Hubinger	01-01-13 to 06-28-13
	Nelson Pena (Interim)	06-29-13 to 10-06-13
	Katy Dowling	10-07-13 to 12-31-14
Superintendent of Schools	Michael Harding	07-01-11 to 10-06-13
	Mary Dywan (Interim)	10-07-13 to 06-30-14
President of the School Board	Fernando Trevino	07-01-11 to 06-30-12
	Constance El-Amin	07-01-12 to 12-31-12
	Jessie Gomez	01-01-13 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE SCHOOL CITY OF EAST CHICAGO, LAKE COUNTY, INDIANA

***Report on the Financial Statement***

We have audited the accompanying financial statement of the School City of East Chicago (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2011 to June 30, 2013, and the related notes to the financial statement.

***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School Corporation's preparation and fair presentation of the financial statement in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As discussed in Note 1 of the financial statement, the School Corporation prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a 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 the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance 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, 2011 to June 30, 2013.

***Opinion on Regulatory Basis of Accounting***

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, 2011 to June 30, 2013, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated April 24, 2014, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control over financial reporting and compliance.

***Accompanying Information***

*Supplementary Information*


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 records 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.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

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, 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.

*Other Information*

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.

  
Paul D. Joyce, CPA  
State Examiner

April 24, 2014



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ROOM E418  
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Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT AUDITOR'S 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 SCHOOL CITY OF EAST CHICAGO, LAKE COUNTY, INDIANA

We have audited, 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, the financial statement of the School City of East Chicago (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2011 to June 30, 2013, and the related notes to the financial statement, and have issued our report thereon dated April 24, 2014, wherein we noted the School Corporation followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statement, we considered the School Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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 2013-001 to be material weaknesses.



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

***Compliance and Other Matters***


As part of obtaining reasonable assurance about whether the School Corporation's financial 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 material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001.

***School City of East Chicago's Response to Findings***

The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

April 24, 2014

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## 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.

SCHOOL CITY OF EAST CHICAGO  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Years Ended June 30, 2012 and 2013

	Cash and Investments 07-01-11	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-12	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-13
General	\$ 4,715,110	\$ 45,297,324	\$ 49,535,624	\$ 502,950	\$ 979,760	\$ 42,730,975	\$ 46,892,953	\$ 1,501,411	\$ (1,680,807)
Debt Service	167,929	1,390,977	1,004,491	(448,889)	105,526	1,184,347	964,828	(338,999)	(13,954)
Exempt Debt	311,789	16,907,354	15,559,221	-	1,659,922	10,455,389	11,536,618	-	578,693
Exempt Retirement/Severance Bond Debt Service	128,261	254,784	390,809	-	(7,764)	457,300	207,995	-	241,541
Capital Projects	625,252	3,680,683	2,498,115	(900,000)	907,820	2,568,113	2,400,409	(900,000)	175,524
School Transportation	117,369	3,555,912	3,161,653	-	511,628	2,619,365	2,843,426	-	287,567
School Bus Replacement	51,891	220,696	-	-	272,587	32,249	262,103	-	42,733
Retirement/Severance Bond	20,257	-	-	-	20,257	-	-	-	20,257
Post-Retirement/Severance Future Benefits	1,929,441	-	-	-	1,929,441	-	-	(600,000)	1,329,441
Construction	1,761,531	-	1,761,531	-	-	-	-	-	-
Lincoln Bond/Building Corporation Proceeds	495,646	948	2,176	-	494,418	865	-	-	495,283
School Lunch	507,014	3,534,204	3,756,411	(200)	284,607	3,065,053	2,980,792	-	368,868
Textbook Rental	491,208	480,901	1,058,838	448,889	362,160	375,030	209,590	338,999	866,599
Repair and Replacement	687,757	4,639	778,918	900,000	813,478	-	650,119	900,000	1,063,359
Self-Insurance	4,412,252	-	-	(500,000)	3,912,252	-	-	(900,000)	3,012,252
Dropout Prevention	-	-	-	-	-	24,547	27,776	-	(3,229)
Early Intervention Grant	-	58,360	53,544	-	4,816	-	4,816	-	-
Back Packs	2,500	-	60	-	2,440	5,000	-	-	7,440
Scholarship	2,000	-	-	-	2,000	4,000	-	-	6,000
Full Service SC	30,000	-	29,999	(1)	-	-	-	-	-
Youth Inv Award	2,318	-	1,042	-	1,276	-	-	-	1,276
School Improvement	72,015	-	13,351	-	58,664	24	7,279	-	51,409
Comm Higher Education	-	5,000	5,127	-	(127)	5,000	4,873	-	-
Let's Read CHS	80	-	-	-	80	-	-	(80)	-
State ABE Grant	-	-	-	-	-	23,742	40,591	-	(16,849)
Education Collaboration FEC08-835	625	-	53	-	572	-	-	-	572
Foundations of East Chicago Fitness Equipment Grant	3	-	-	-	3	-	-	(3)	-
Printing and Binding	144	-	-	-	144	-	-	-	144
Kids in Need Foundation 11-12	-	500	500	-	-	-	-	-	-
Kids in Need Foundation 12-13	-	-	-	-	-	500	499	-	1
Twin Cities Education Foundation Youth Employment Program	977	-	-	-	977	-	-	-	977
Special Olympics	37,631	14,374	27,499	-	24,506	7,521	21,486	-	10,541
Foundation	91	-	37	(54)	-	-	-	-	-
Rally	75	2,575	859	-	1,791	3,100	374	-	4,517
Parent University	213	-	-	-	213	-	-	-	213
Vision Athena Grant	1,958	-	-	-	1,958	-	-	-	1,958
Arcelormittal - Project Lead the Way 2009	25,014	-	-	-	25,014	-	-	-	25,014
IUN Urban Teacher Education Program Grant	46,685	-	-	-	46,685	-	80	-	46,605
IN Dept of Health Tobacco Prevention Grant - Block	-	-	-	-	-	250	-	(250)	-
MHS Health and Enrollment Fair Sponsorship	-	-	-	-	-	900	390	-	510
Indiana Youth Institute	-	-	-	-	-	730	730	-	-
TCEF Milk Vending	1,157	-	1,157	-	-	-	-	-	-
Education Technology	51,434	637,937	406,867	-	282,504	646,135	419,517	-	509,122
High Ability 10-11	1,127	-	1,127	-	-	-	-	-	-
High Ability 11-12	-	46,372	35,519	-	10,853	-	10,853	-	-
High Ability 12-13	-	-	-	-	-	48,139	34,108	-	14,031
Medicaid Reimbursement	122,119	45,986	-	-	168,105	22,814	-	-	190,919
Minority Awareness	950	-	-	-	950	-	-	-	950
Harcourt Testing Donation	1,686	-	-	-	1,686	-	-	-	1,686
Non-English Speaking 10-11	14,173	-	14,173	-	-	-	-	-	-
Non-English Speaking 11-12	-	81,719	77,759	-	3,960	-	3,960	-	-
Non-English Speaking 12-13	-	-	-	-	-	70,978	54,803	-	16,175
Technology Grants [IC 20-40-15]	91,795	-	91,795	-	-	-	-	-	-
Technology Loan A1547	-	-	208,900	-	(208,900)	472,921	264,021	-	-
Technology Loan A1565	-	-	113,626	-	(113,626)	113,626	-	-	-
Adult Basic Education - Workone	1,125	975	1,568	-	532	-	-	-	532
Medical Insurance Claims Fund	500,193	7,568,048	7,490,558	-	577,683	7,962,885	7,519,831	-	1,020,737
GED	1,870	1,708	987	(2,545)	46	2,097	492	(1,328)	323

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

SCHOOL CITY OF EAST CHICAGO  
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Years Ended June 30, 2012 and 2013  
(Continued)

	Cash and Investments 07-01-11	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-12	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-13
Senator David Ford Technology	-	-	-	-	-	15,000	15,000	-	-
Non-English Speaking 09-10	34	-	-	(34)	-	-	-	-	-
Title I - School Improvement Block 10-11	(27,860)	35,322	7,462	-	-	-	-	-	-
Title I - School Improvement Block 11-12	-	321	321	-	-	2,000	2,000	-	-
Title I - School Improvement Block 12-13	-	-	-	-	-	5,000	5,000	-	-
Title I Basic Grant 10-11	365,650	66,186	431,836	-	-	-	-	-	-
Title I Basic Grant 11-12	-	4,826,055	5,002,136	-	(176,081)	653,643	477,562	-	-
Title I Basic Grant 12-13	-	-	-	-	-	2,517,661	2,631,850	-	(114,189)
Title I - School Improvement Franklin 11-12	-	24,467	27,048	-	(2,581)	29,588	27,007	-	-
Title I - School Improvement Franklin 12-13	-	-	-	-	-	5,000	5,000	-	-
Title I - School Improvement Harrison 12-13	-	-	-	-	-	5,000	5,000	-	-
Title I - School Improvement Lincoln 12-13	-	-	-	-	-	5,000	5,000	-	-
Title I - School Improvement Gosch 10-11	(16,190)	19,336	3,146	-	-	-	-	-	-
Title I - School Improvement Lincoln 10-11	(13,244)	40,556	27,312	-	-	-	-	-	-
IN Student Achievement Institute - Field	9	-	-	(9)	-	-	-	-	-
IDEA 09-11	(81)	97,405	97,245	(79)	-	-	-	-	-
IDEA 10-12	(290,713)	688,352	402,398	-	(4,759)	161,405	156,646	-	-
IDEA 11-13	-	851,768	895,443	-	(43,675)	399,351	376,842	-	(21,166)
IDEA 12-14	-	-	-	-	-	838,176	904,903	-	(66,727)
Special Education Improvement Award 11-12	-	-	-	-	-	68,686	68,686	-	-
Federal Assistance Educational Preschool Handicapped	(8,012)	8,017	5	-	-	-	-	-	-
Pre-School 10-12	(1,147)	2,295	1,148	-	-	-	-	-	-
Pre-School 11-13	-	60,081	65,645	-	(5,564)	24,137	18,573	-	-
Pre-School 12-14	-	-	-	-	-	43,381	43,800	-	(419)
Adult Education 11-12	-	29,823	57,197	-	(27,374)	38,406	11,032	-	-
Adult Education 12-13	-	-	-	-	-	23,788	32,878	-	(9,090)
Empowerment Zone	977	-	681	-	296	-	-	-	296
Title IV - Drug Free Schools 09-11	2,727	30,000	18,852	(13,875)	-	-	-	-	-
Walmart Literacy Grant	1,000	-	1,000	-	-	-	-	-	-
Vocational and Technical Education Grant 10-11	(1,489)	72,739	71,250	-	-	-	-	-	-
Vocational and Technical Education Grant 11-12	-	94,408	101,151	-	(6,743)	45,620	38,877	-	-
Vocational and Technical Education Grant 12-13	-	-	-	-	-	99,926	124,401	-	(24,475)
Diesel Emissions Reduction Act	-	47,210	36,719	-	10,491	5,246	5,246	-	10,491
IDEM Clean Diesel Grant 2011	-	59,967	59,967	-	-	-	-	-	-
Medicaid Reimbursement - Federal	115,133	126,827	77,381	-	164,579	62,921	35,516	-	191,984
Indiana Mathematics Initiative	7	-	-	(7)	-	-	-	-	-
School to Work Development Act	2,214	-	-	-	2,214	-	-	-	2,214
Title II - Part A FY 10-12	-	289,035	345,649	-	(56,614)	265,484	208,870	-	-
Title II - Part A FY 11-13	-	-	-	-	-	372,421	383,735	-	(11,314)
Title II - Part A FY 12-14	-	-	-	-	-	4,140	7,228	-	(3,088)
Title II - Part A FY 09-11	(23,501)	165,734	156,108	13,875	-	-	-	-	-
Title III Language Instruction 10-12	(17,125)	56,744	39,619	-	-	-	-	-	-
Title III Language Instruction 11-13	-	66,658	84,259	-	(17,601)	28,015	10,414	-	-
Title III Language Instruction 12-14	-	-	-	-	-	90,609	92,004	-	(1,395)
Health Clinic 10-11	(8,901)	31,772	22,871	-	-	-	-	-	-
Health Clinic 11-12	-	33,379	42,476	-	(9,097)	31,485	22,388	-	-
Health Clinic 12-13	-	-	-	-	-	38,327	49,464	-	(11,137)
Foundations of EC Robotics Team	-	-	-	-	-	600	600	-	-
United Way Summer Enrichment Grant	477	2,582	-	-	3,059	3,681	469	-	6,271
Laura Bush Foundation	11	-	11	-	-	-	-	-	-
Laura Bush Comm	238	-	217	(21)	-	-	-	-	-
Title I - Grants to LEAs ARRA	167,725	25,759	198,468	-	(4,984)	27,783	22,799	-	-
Title I - School Improvement ARRA	(105,213)	108,499	3,369	-	(83)	15,088	15,005	-	-
Special Education - Part B ARRA	(5,038)	40,060	35,022	-	-	-	-	-	-
Education Jobs	-	444,554	644,965	-	(200,411)	1,015,630	815,219	-	-
Workers Compensation	27,202	145,453	156,375	-	16,280	227,156	180,910	-	62,526
Withholding	14,588	11,311,496	11,297,275	-	28,809	11,093,031	11,106,086	-	15,754
<b>Totals</b>	<b>\$ 17,612,143</b>	<b>\$ 103,694,836</b>	<b>\$ 108,495,921</b>	<b>\$ -</b>	<b>\$ 12,811,058</b>	<b>\$ 91,165,980</b>	<b>\$ 95,271,322</b>	<b>\$ (250)</b>	<b>\$ 8,705,466</b>

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

SCHOOL CITY OF EAST CHICAGO  
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 Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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

*C. Cash and Investments*

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

*D. Receipts*

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

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

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, and other similar fees.

SCHOOL CITY OF EAST CHICAGO  
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 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 include the following:

SCHOOL CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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.

**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.



SCHOOL CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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:

Indiana Public Retirement System  
1 North Capitol 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.

SCHOOL CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*B. Teachers' Retirement Fund*

*Plan Description*

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

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

Indiana Public Retirement System  
1 North Capitol 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 statement contains some funds with deficits in cash. This is largely the result of funds that are set-up for reimbursable grants. Funds which are negative due to expenditures exceeding revenues include the General, Debt Service, and Exempt Retirement/Severance Bond Debt Service funds.

**Note 8. Holding Corporations**

The School Corporation has entered into various capital leases. The lessors were organized as not-for-profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessors have been determined to be related parties of the School Corporation. Lease payments during the years ended June 30, 2012 and 2013, by School Corporation are as follows:

SCHOOL CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

Building Corporation	2012	2013
Elementary School Building Corporation	\$ 3,835,000	\$ 3,835,000
Central High School Building Corporation	4,575,000	4,575,000
Multi-School Building Corporation	1,472,00	1,472,000

**Note 9. Other Postemployment Benefits**

The School Corporation provides to eligible retirees and their spouses health insurance benefits at the same contribution rates as active employees. These benefits pose a liability to the School Corporation for this year and in future years. Information regarding the benefits can be obtained by contacting the School Corporation.

**Note 10. Subsequent Events**

The School City of East Chicago received its budget order from the Department of Local Government Finance in February, 2014. The final order reduces the General fund approved appropriations by approximately \$5,800,000, or 13 percent of the total approved General fund budget.

The School City of East Chicago continues to be affected by declining enrollment. The School Corporation lost additional students in the Fall count, resulting in a loss of revenue of approximately \$565,000. The Spring count has not yet been certified; however, preliminary estimates indicate that additional students were lost, which will result in further revenue losses.

The School City of East Chicago anticipates reductions in staff and building closures in order to balance the General fund budget.

The School City of East Chicago is currently in the process of selecting a new Superintendent of Schools. The School Corporation anticipates that a new Superintendent of Schools will be in place before August 1, 2014.

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## 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.

SCHOOL CITY OF EAST CHICAGO  
 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	Exempt Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Retirement/ Severance Bond
Cash and investments - beginning	\$ 4,715,110	\$ 167,929	\$ 311,789	\$ 128,261	\$ 625,252	\$ 117,369	\$ 51,891	\$ 20,257
Receipts:								
Local sources	2,045,954	1,390,977	16,907,354	254,784	3,680,683	3,555,912	220,696	-
Intermediate sources	229,908	-	-	-	-	-	-	-
State sources	42,974,779	-	-	-	-	-	-	-
Federal sources	21,909	-	-	-	-	-	-	-
Other	24,774	-	-	-	-	-	-	-
Total receipts	<u>45,297,324</u>	<u>1,390,977</u>	<u>16,907,354</u>	<u>254,784</u>	<u>3,680,683</u>	<u>3,555,912</u>	<u>220,696</u>	<u>-</u>
Disbursements:								
Current:								
Instruction	27,300,859	-	-	-	-	-	-	-
Support services	21,769,033	-	-	-	1,379,747	2,867,653	-	-
Noninstructional services	300,827	-	-	-	-	-	-	-
Facilities acquisition and construction	176,755	-	-	-	1,118,368	294,000	-	-
Debt services	-	1,004,491	15,559,221	390,809	-	-	-	-
Nonprogrammed charges	(11,850)	-	-	-	-	-	-	-
Total disbursements	<u>49,535,624</u>	<u>1,004,491</u>	<u>15,559,221</u>	<u>390,809</u>	<u>2,498,115</u>	<u>3,161,653</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(4,238,300)</u>	<u>386,486</u>	<u>1,348,133</u>	<u>(136,025)</u>	<u>1,182,568</u>	<u>394,259</u>	<u>220,696</u>	<u>-</u>
Other financing sources (uses):								
Transfers in	502,950	-	-	-	-	-	-	-
Transfers out	-	(448,889)	-	-	(900,000)	-	-	-
Total other financing sources (uses)	<u>502,950</u>	<u>(448,889)</u>	<u>-</u>	<u>-</u>	<u>(900,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(3,735,350)</u>	<u>(62,403)</u>	<u>1,348,133</u>	<u>(136,025)</u>	<u>282,568</u>	<u>394,259</u>	<u>220,696</u>	<u>-</u>
Cash and investments - ending	<u>\$ 979,760</u>	<u>\$ 105,526</u>	<u>\$ 1,659,922</u>	<u>\$ (7,764)</u>	<u>\$ 907,820</u>	<u>\$ 511,628</u>	<u>\$ 272,587</u>	<u>\$ 20,257</u>

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012  
 (Continued)

	Post- Retirement/ Severance Future Benefits	Construction	Lincoln Bond/ Building Corporation Proceeds	School Lunch	Textbook Rental	Repair and Replacement	Self- Insurance	Early Intervention Grant
Cash and investments - beginning	\$ 1,929,441	\$ 1,761,531	\$ 495,646	\$ 507,014	\$ 491,208	\$ 687,757	\$ 4,412,252	\$ -
Receipts:								
Local sources	-	-	948	149,981	43,976	4,639	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	2,724	378,725	-	-	58,360
Federal sources	-	-	-	3,381,499	-	-	-	-
Other	-	-	-	-	58,200	-	-	-
Total receipts	-	-	948	3,534,204	480,901	4,639	-	58,360
Disbursements:								
Current:								
Instruction	-	-	2,176	-	8,468	-	-	45,015
Support services	-	-	-	25	185,062	776,486	-	8,529
Noninstructional services	-	-	-	3,756,386	-	-	-	-
Facilities acquisition and construction	-	1,761,531	-	-	-	2,432	-	-
Debt services	-	-	-	-	865,308	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	1,761,531	2,176	3,756,411	1,058,838	778,918	-	53,544
Excess (deficiency) of receipts over disbursements	-	(1,761,531)	(1,228)	(222,207)	(577,937)	(774,279)	-	4,816
Other financing sources (uses):								
Transfers in	-	-	-	-	448,889	900,000	-	-
Transfers out	-	-	-	(200)	-	-	(500,000)	-
Total other financing sources (uses)	-	-	-	(200)	448,889	900,000	(500,000)	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(1,761,531)	(1,228)	(222,407)	(129,048)	125,721	(500,000)	4,816
Cash and investments - ending	\$ 1,929,441	\$ -	\$ 494,418	\$ 284,607	\$ 362,160	\$ 813,478	\$ 3,912,252	\$ 4,816

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012  
 (Continued)

	Back Packs	Scholarship	Full Service SC	Youth Inv Award	School Improvement	Comm Higher Education	Let's Read CHS	Education Collaboration FEC08-835
Cash and investments - beginning	\$ 2,500	\$ 2,000	\$ 30,000	\$ 2,318	\$ 72,015	\$ -	\$ 80	\$ 625
Receipts:								
Local sources	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	5,000	-	-
Federal sources	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	-	-	-	-	-	5,000	-	-
Disbursements:								
Current:								
Instruction	60	-	7,591	396	12,336	-	-	53
Support services	-	-	38	646	1,015	5,127	-	-
Noninstructional services	-	-	22,370	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	60	-	29,999	1,042	13,351	5,127	-	53
Excess (deficiency) of receipts over disbursements	(60)	-	(29,999)	(1,042)	(13,351)	(127)	-	(53)
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	(1)	-	-	-	-	-
Total other financing sources (uses)	-	-	(1)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(60)	-	(30,000)	(1,042)	(13,351)	(127)	-	(53)
Cash and investments - ending	\$ 2,440	\$ 2,000	\$ -	\$ 1,276	\$ 58,664	\$ (127)	\$ 80	\$ 572



SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012  
 (Continued)

	Foundations of East Chicago Fitness Equipment Grant	Printing and Binding	Kids in Need Foundation 11-12	Twin Cities Education Foundation Youth Employment Program	Special Olympics	Foundation	Rally	Parent University
Cash and investments - beginning	\$ 3	\$ 144	\$ -	\$ 977	\$ 37,631	\$ 91	\$ 75	\$ 213
Receipts:								
Local sources	-	-	500	-	14,374	-	2,575	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	-	-	500	-	14,374	-	2,575	-
Disbursements:								
Current:								
Instruction	-	-	500	-	-	-	75	-
Support services	-	-	-	-	27,499	37	126	-
Noninstructional services	-	-	-	-	-	-	658	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	-	500	-	27,499	37	859	-
Excess (deficiency) of receipts over disbursements	-	-	-	-	(13,125)	(37)	1,716	-
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(54)	-	-
Total other financing sources (uses)	-	-	-	-	-	(54)	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	-	-	(13,125)	(91)	1,716	-
Cash and investments - ending	<u>\$ 3</u>	<u>\$ 144</u>	<u>\$ -</u>	<u>\$ 977</u>	<u>\$ 24,506</u>	<u>\$ -</u>	<u>\$ 1,791</u>	<u>\$ 213</u>

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012  
 (Continued)

	Vision Athena Grant	Arcelormittal - Project Lead the Way 2009	IUN Urban Teacher Education Program Grant	TCEF Milk Vending	Education Technology	High Ability 10-11	High Ability 11-12	Medicaid Reimbursement
Cash and investments - beginning	\$ 1,958	\$ 25,014	\$ 46,685	\$ 1,157	\$ 51,434	\$ 1,127	\$ -	\$ 122,119
Receipts:								
Local sources	-	-	-	-	615,832	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	46,372	45,986
Federal sources	-	-	-	-	-	-	-	-
Other	-	-	-	-	22,105	-	-	-
Total receipts	-	-	-	-	637,937	-	46,372	45,986
Disbursements:								
Current:								
Instruction	-	-	-	-	3,824	1,127	35,519	-
Support services	-	-	-	1,157	394,596	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	8,447	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	-	-	1,157	406,867	1,127	35,519	-
Excess (deficiency) of receipts over disbursements	-	-	-	(1,157)	231,070	(1,127)	10,853	45,986
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	-	(1,157)	231,070	(1,127)	10,853	45,986
Cash and investments - ending	\$ 1,958	\$ 25,014	\$ 46,685	\$ -	\$ 282,504	\$ -	\$ 10,853	\$ 168,105

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012  
 (Continued)

	Minority Awareness	Harcourt Testing Donation	Non-English Speaking 10-11	Non-English Speaking 11-12	Technology Grants [IC 20-40-15]	Technology Loan A1547	Technology Loan A1565	Adult Basic Education - Workone
Cash and investments - beginning	\$ 950	\$ 1,686	\$ 14,173	\$ -	\$ 91,795	\$ -	\$ -	\$ 1,125
Receipts:								
Local sources	-	-	-	-	-	-	-	975
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	81,719	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	-	-	-	81,719	-	-	-	975
Disbursements:								
Current:								
Instruction	-	-	14,173	77,102	3,592	33,310	10,776	1,568
Support services	-	-	-	657	88,203	175,590	102,850	-
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	-	14,173	77,759	91,795	208,900	113,626	1,568
Excess (deficiency) of receipts over disbursements	-	-	(14,173)	3,960	(91,795)	(208,900)	(113,626)	(593)
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	(14,173)	3,960	(91,795)	(208,900)	(113,626)	(593)
Cash and investments - ending	<u>\$ 950</u>	<u>\$ 1,686</u>	<u>\$ -</u>	<u>\$ 3,960</u>	<u>\$ -</u>	<u>\$ (208,900)</u>	<u>\$ (113,626)</u>	<u>\$ 532</u>

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012  
 (Continued)

	Medical Insurance Claims Fund	GED	Non-English Speaking 09-10	Title I - School Improvement Block 10-11	Title I - School Improvement Block 11-12	Title I Basic Grant 10-11	Title I Basic Grant 11-12	Title I - School Improvement Franklin 11-12
Cash and investments - beginning	\$ 500,193	\$ 1,870	\$ 34	\$ (27,860)	\$ -	\$ 365,650	\$ -	\$ -
Receipts:								
Local sources	7,568,048	-	-	-	-	213	8,774	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	1,708	-	-	-	-	-	-
Federal sources	-	-	-	35,322	321	65,973	4,817,281	24,467
Other	-	-	-	-	-	-	-	-
Total receipts	<u>7,568,048</u>	<u>1,708</u>	<u>-</u>	<u>35,322</u>	<u>321</u>	<u>66,186</u>	<u>4,826,055</u>	<u>24,467</u>
Disbursements:								
Current:								
Instruction	-	987	-	-	-	148,531	2,307,798	-
Support services	7,490,558	-	-	7,462	321	283,052	2,582,381	27,048
Noninstructional services	-	-	-	-	-	253	111,957	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	<u>7,490,558</u>	<u>987</u>	<u>-</u>	<u>7,462</u>	<u>321</u>	<u>431,836</u>	<u>5,002,136</u>	<u>27,048</u>
Excess (deficiency) of receipts over disbursements	<u>77,490</u>	<u>721</u>	<u>-</u>	<u>27,860</u>	<u>-</u>	<u>(365,650)</u>	<u>(176,081)</u>	<u>(2,581)</u>
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	(2,545)	(34)	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>(2,545)</u>	<u>(34)</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>77,490</u>	<u>(1,824)</u>	<u>(34)</u>	<u>27,860</u>	<u>-</u>	<u>(365,650)</u>	<u>(176,081)</u>	<u>(2,581)</u>
Cash and investments - ending	<u>\$ 577,683</u>	<u>\$ 46</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (176,081)</u>	<u>\$ (2,581)</u>

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012  
 (Continued)

	Title I - School Improvement Gosch 10-11	Title I - School Improvement Lincoln 10-11	IN Student Achievement Institute - Field	IDEA 09-11	IDEA 10-12	IDEA 11-13	Federal Assistance Educational Preschool Handicapped	Pre-School 10-12
Cash and investments - beginning	\$ (16,190)	\$ (13,244)	\$ 9	\$ (81)	\$ (290,713)	\$ -	\$ (8,012)	\$ (1,147)
Receipts:								
Local sources	-	-	-	-	-	31,471	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Federal sources	19,336	40,556	-	97,405	688,352	820,297	8,017	2,295
Other	-	-	-	-	-	-	-	-
Total receipts	<u>19,336</u>	<u>40,556</u>	<u>-</u>	<u>97,405</u>	<u>688,352</u>	<u>851,768</u>	<u>8,017</u>	<u>2,295</u>
Disbursements:								
Current:								
Instruction	266	21,859	-	97,245	271,031	548,788	-	1,148
Support services	2,880	5,453	-	-	131,367	346,655	-	-
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	5	-
Total disbursements	<u>3,146</u>	<u>27,312</u>	<u>-</u>	<u>97,245</u>	<u>402,398</u>	<u>895,443</u>	<u>5</u>	<u>1,148</u>
Excess (deficiency) of receipts over disbursements	<u>16,190</u>	<u>13,244</u>	<u>-</u>	<u>160</u>	<u>285,954</u>	<u>(43,675)</u>	<u>8,012</u>	<u>1,147</u>
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	(9)	(79)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(9)</u>	<u>(79)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>16,190</u>	<u>13,244</u>	<u>(9)</u>	<u>81</u>	<u>285,954</u>	<u>(43,675)</u>	<u>8,012</u>	<u>1,147</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,759)</u>	<u>\$ (43,675)</u>	<u>\$ -</u>	<u>\$ -</u>

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012  
 (Continued)

	Pre-School 11-13	Adult Education 11-12	Empowerment Zone	Title IV - Drug Free Schools 09-11	Walmart Literacy Grant	Vocational and Technical Education Grant 10-11	Vocational and Technical Education Grant 11-12
Cash and investments - beginning	\$ -	\$ -	\$ 977	\$ 2,727	\$ 1,000	\$ (1,489)	\$ -
Receipts:							
Local sources	-	-	-	-	-	304	563
Intermediate sources	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-
Federal sources	60,081	29,823	-	30,000	-	72,435	93,645
Other	-	-	-	-	-	-	200
Total receipts	<u>60,081</u>	<u>29,823</u>	<u>-</u>	<u>30,000</u>	<u>-</u>	<u>72,739</u>	<u>94,408</u>
Disbursements:							
Current:							
Instruction	65,645	50,342	681	-	-	71,250	94,676
Support services	-	6,855	-	17,674	1,000	-	1,475
Noninstructional services	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	1,178	-	-	5,000
Total disbursements	<u>65,645</u>	<u>57,197</u>	<u>681</u>	<u>18,852</u>	<u>1,000</u>	<u>71,250</u>	<u>101,151</u>
Excess (deficiency) of receipts over disbursements	<u>(5,564)</u>	<u>(27,374)</u>	<u>(681)</u>	<u>11,148</u>	<u>(1,000)</u>	<u>1,489</u>	<u>(6,743)</u>
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	(13,875)	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,875)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(5,564)</u>	<u>(27,374)</u>	<u>(681)</u>	<u>(2,727)</u>	<u>(1,000)</u>	<u>1,489</u>	<u>(6,743)</u>
Cash and investments - ending	<u>\$ (5,564)</u>	<u>\$ (27,374)</u>	<u>\$ 296</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,743)</u>

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012  
 (Continued)

	Diesel Emissions Reduction Act	IDEM Clean Diesel Grant 2011	Medicaid Reimbursement - Federal	Indiana Mathematics Initiative	School to Work Development Act	Title II - Part A FY 10-12	Title II - Part A FY 09-11
Cash and investments - beginning	\$ -	\$ -	\$ 115,133	\$ 7	\$ 2,214	\$ -	\$ (23,501)
Receipts:							
Local sources	-	-	-	-	-	838	1,132
Intermediate sources	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-
Federal sources	47,210	59,967	126,827	-	-	288,197	164,602
Other	-	-	-	-	-	-	-
Total receipts	<u>47,210</u>	<u>59,967</u>	<u>126,827</u>	<u>-</u>	<u>-</u>	<u>289,035</u>	<u>165,734</u>
Disbursements:							
Current:							
Instruction	-	-	34,122	-	-	189,154	66,602
Support services	36,719	59,967	43,259	-	-	124,492	54,662
Noninstructional services	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	32,003	34,844
Total disbursements	<u>36,719</u>	<u>59,967</u>	<u>77,381</u>	<u>-</u>	<u>-</u>	<u>345,649</u>	<u>156,108</u>
Excess (deficiency) of receipts over disbursements	<u>10,491</u>	<u>-</u>	<u>49,446</u>	<u>-</u>	<u>-</u>	<u>(56,614)</u>	<u>9,626</u>
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	13,875
Transfers out	-	-	-	(7)	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7)</u>	<u>-</u>	<u>-</u>	<u>13,875</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>10,491</u>	<u>-</u>	<u>49,446</u>	<u>(7)</u>	<u>-</u>	<u>(56,614)</u>	<u>23,501</u>
Cash and investments - ending	<u>\$ 10,491</u>	<u>\$ -</u>	<u>\$ 164,579</u>	<u>\$ -</u>	<u>\$ 2,214</u>	<u>\$ (56,614)</u>	<u>\$ -</u>

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012  
 (Continued)

	Title III Language Instruction 10-12	Title III Language Instruction 11-13	Health Clinic 10-11	Health Clinic 11-12	United Way Summer Enrichment Grant	Laura Bush Foundation	Laura Bush Comm
Cash and investments - beginning	\$ (17,125)	\$ -	\$ (8,901)	\$ -	\$ 477	\$ 11	\$ 238
Receipts:							
Local sources	-	-	-	-	2,582	-	-
Intermediate sources	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-
Federal sources	56,744	66,658	31,772	33,379	-	-	-
Other	-	-	-	-	-	-	-
Total receipts	<u>56,744</u>	<u>66,658</u>	<u>31,772</u>	<u>33,379</u>	<u>2,582</u>	<u>-</u>	<u>-</u>
Disbursements:							
Current:							
Instruction	5,827	50,213	-	-	-	11	-
Support services	33,792	32,104	22,871	42,476	-	-	217
Noninstructional services	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-
Nonprogrammed charges	-	1,942	-	-	-	-	-
Total disbursements	<u>39,619</u>	<u>84,259</u>	<u>22,871</u>	<u>42,476</u>	<u>-</u>	<u>11</u>	<u>217</u>
Excess (deficiency) of receipts over disbursements	<u>17,125</u>	<u>(17,601)</u>	<u>8,901</u>	<u>(9,097)</u>	<u>2,582</u>	<u>(11)</u>	<u>(217)</u>
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(21)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>17,125</u>	<u>(17,601)</u>	<u>8,901</u>	<u>(9,097)</u>	<u>2,582</u>	<u>(11)</u>	<u>(238)</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ (17,601)</u>	<u>\$ -</u>	<u>\$ (9,097)</u>	<u>\$ 3,059</u>	<u>\$ -</u>	<u>\$ -</u>



SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012  
 (Continued)

	Title I - Grants to LEAs ARRA	Title I - School Improvement ARRA	Special Education - Part B ARRA	Education Jobs	Workers Compensation	Withholding	Totals
Cash and investments - beginning	\$ 167,725	\$ (105,213)	\$ (5,038)	\$ -	\$ 27,202	\$ 14,588	\$ 17,612,143
Receipts:							
Local sources	-	745	-	-	145,453	-	36,650,283
Intermediate sources	-	-	-	-	-	-	229,908
State sources	-	-	-	-	-	-	43,595,373
Federal sources	25,225	107,754	40,060	444,554	-	-	11,801,963
Other	534	-	-	-	-	11,311,496	11,417,309
Total receipts	25,759	108,499	40,060	444,554	145,453	11,311,496	103,694,836
Disbursements:							
Current:							
Instruction	170,694	-	30,595	644,965	-	-	32,430,950
Support services	9,203	3,369	4,405	-	-	-	39,155,793
Noninstructional services	10,512	-	-	-	-	-	4,202,963
Facilities acquisition and construction	-	-	-	-	-	-	3,361,533
Debt services	-	-	-	-	-	11,297,275	29,117,104
Nonprogrammed charges	8,059	-	22	-	156,375	-	227,578
Total disbursements	198,468	3,369	35,022	644,965	156,375	11,297,275	108,495,921
Excess (deficiency) of receipts over disbursements	(172,709)	105,130	5,038	(200,411)	(10,922)	14,221	(4,801,085)
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	1,865,714
Transfers out	-	-	-	-	-	-	(1,865,714)
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(172,709)	105,130	5,038	(200,411)	(10,922)	14,221	(4,801,085)
Cash and investments - ending	\$ (4,984)	\$ (83)	\$ -	\$ (200,411)	\$ 16,280	\$ 28,809	\$ 12,811,058

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SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013

	General	Debt Service	Exempt Debt	Exempt Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Retirement/ Severance Bond
Cash and investments - beginning	\$ 979,760	\$ 105,526	\$ 1,659,922	\$ (7,764)	\$ 907,820	\$ 511,628	\$ 272,587	\$ 20,257
Receipts:								
Local sources	1,537,407	1,184,347	10,455,389	457,300	2,547,318	2,618,550	32,249	-
Intermediate sources	148,054	-	-	-	-	-	-	-
State sources	41,011,112	-	-	-	-	-	-	-
Federal sources	20,371	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	20,795	-	-	-
Other	14,031	-	-	-	-	815	-	-
Total receipts	42,730,975	1,184,347	10,455,389	457,300	2,568,113	2,619,365	32,249	-
Disbursements:								
Current:								
Instruction	23,942,129	-	-	-	-	-	-	-
Support services	22,536,380	-	-	-	1,824,331	2,423,606	262,103	-
Noninstructional services	263,907	-	-	-	-	-	-	-
Facilities acquisition and construction	150,537	-	-	-	576,078	419,820	-	-
Debt services	-	964,828	11,536,618	207,995	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	46,892,953	964,828	11,536,618	207,995	2,400,409	2,843,426	262,103	-
Excess (deficiency) of receipts over disbursements	(4,161,978)	219,519	(1,081,229)	249,305	167,704	(224,061)	(229,854)	-
Other financing sources (uses):								
Transfers in	1,501,411	-	-	-	900,000	-	-	-
Transfers out	-	(338,999)	-	-	(1,800,000)	-	-	-
Total other financing sources (uses)	1,501,411	(338,999)	-	-	(900,000)	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(2,660,567)	(119,480)	(1,081,229)	249,305	(732,296)	(224,061)	(229,854)	-
Cash and investments - ending	\$ (1,680,807)	\$ (13,954)	\$ 578,693	\$ 241,541	\$ 175,524	\$ 287,567	\$ 42,733	\$ 20,257

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

	Post- Retirement/ Severance Future Benefits	Lincoln Bond/ Building Corporation Proceeds	School Lunch	Textbook Rental	Repair and Replacement	Self- Insurance	Dropout Prevention	Early Intervention Grant
Cash and investments - beginning	\$ 1,929,441	\$ 494,418	\$ 284,607	\$ 362,160	\$ 813,478	\$ 3,912,252	\$ -	\$ 4,816
Receipts:								
Local sources	-	865	318,998	3,997	-	-	35	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	3,200	362,903	-	-	24,512	-
Federal sources	-	-	2,742,855	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-
Other	-	-	-	8,130	-	-	-	-
Total receipts	-	865	3,065,053	375,030	-	-	24,547	-
Disbursements:								
Current:								
Instruction	-	-	-	-	-	-	27,776	4,816
Support services	-	-	-	209,590	650,119	-	-	-
Noninstructional services	-	-	2,980,792	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	-	2,980,792	209,590	650,119	-	27,776	4,816
Excess (deficiency) of receipts over disbursements	-	865	84,261	165,440	(650,119)	-	(3,229)	(4,816)
Other financing sources (uses):								
Transfers in	-	-	-	338,999	1,800,000	-	-	-
Transfers out	(600,000)	-	-	-	(900,000)	(900,000)	-	-
Total other financing sources (uses)	(600,000)	-	-	338,999	900,000	(900,000)	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(600,000)	865	84,261	504,439	249,881	(900,000)	(3,229)	(4,816)
Cash and investments - ending	\$ 1,329,441	\$ 495,283	\$ 368,868	\$ 866,599	\$ 1,063,359	\$ 3,012,252	\$ (3,229)	\$ -

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

	Back Packs	Scholarship	Youth Inv Award	School Improvement	Comm Higher Education	Let's Read CHS	State ABE Grant	Education Collaboration FEC08-835
Cash and investments - beginning	\$ 2,440	\$ 2,000	\$ 1,276	\$ 58,664	\$ (127)	\$ 80	\$ -	\$ 572
Receipts:								
Local sources	5,000	4,000	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	5,000	-	23,742	-
Federal sources	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-
Other	-	-	-	24	-	-	-	-
Total receipts	5,000	4,000	-	24	5,000	-	23,742	-
Disbursements:								
Current:								
Instruction	-	-	-	5,425	-	-	40,591	-
Support services	-	-	-	1,854	4,873	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	-	-	7,279	4,873	-	40,591	-
Excess (deficiency) of receipts over disbursements	5,000	4,000	-	(7,255)	127	-	(16,849)	-
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(80)	-	-
Total other financing sources (uses)	-	-	-	-	-	(80)	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	5,000	4,000	-	(7,255)	127	(80)	(16,849)	-
Cash and investments - ending	\$ 7,440	\$ 6,000	\$ 1,276	\$ 51,409	\$ -	\$ -	\$ (16,849)	\$ 572

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

	Foundations of East Chicago Fitness Equipment Grant	Printing and Binding	Kids in Need Foundation 12-13	Twin Cities Education Foundation Youth Employment Program	Special Olympics	Rally	Parent University	Vision Athena Grant
Cash and investments - beginning	\$ 3	\$ 144	\$ -	\$ 977	\$ 24,506	\$ 1,791	\$ 213	\$ 1,958
Receipts:								
Local sources	-	-	500	-	7,521	3,100	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	-	-	500	-	7,521	3,100	-	-
Disbursements:								
Current:								
Instruction	-	-	499	-	-	-	-	-
Support services	-	-	-	-	21,486	-	-	-
Noninstructional services	-	-	-	-	-	374	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	-	499	-	21,486	374	-	-
Excess (deficiency) of receipts over disbursements	-	-	1	-	(13,965)	2,726	-	-
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	(3)	-	-	-	-	-	-	-
Total other financing sources (uses)	(3)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(3)	-	1	-	(13,965)	2,726	-	-
Cash and investments - ending	\$ -	\$ 144	\$ 1	\$ 977	\$ 10,541	\$ 4,517	\$ 213	\$ 1,958

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

	Arcelormittal - Project Lead the Way 2009	IUN Urban Teacher Education Program Grant	IN Dept of Health Tobacco Prevention Grant - Block	MHS Health and Enrollment Fair Sponsorship	Indiana Youth Institute	Education Technology	High Ability 11-12	High Ability 12-13
Cash and investments - beginning	\$ 25,014	\$ 46,685	\$ -	\$ -	\$ -	\$ 282,504	\$ 10,853	\$ -
Receipts:								
Local sources	-	-	250	900	-	646,135	-	-
Intermediate sources	-	-	-	-	730	-	-	-
State sources	-	-	-	-	-	-	-	48,139
Federal sources	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	-	-	250	900	730	646,135	-	48,139
Disbursements:								
Current:								
Instruction	-	-	-	-	-	-	10,853	34,108
Support services	-	80	-	390	730	419,517	-	-
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	80	-	390	730	419,517	10,853	34,108
Excess (deficiency) of receipts over disbursements	-	(80)	250	510	-	226,618	(10,853)	14,031
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	(250)	-	-	-	-	-
Total other financing sources (uses)	-	-	(250)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(80)	-	510	-	226,618	(10,853)	14,031
Cash and investments - ending	\$ 25,014	\$ 46,605	\$ -	\$ 510	\$ -	\$ 509,122	\$ -	\$ 14,031

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

	Medicaid Reimbursement	Minority Awareness	Harcourt Testing Donation	Non-English Speaking 11-12	Non-English Speaking 12-13	Technology Loan A1547	Technology Loan A1565	Adult Basic Education - Workone
Cash and investments - beginning	\$ 168,105	\$ 950	\$ 1,686	\$ 3,960	\$ -	\$ (208,900)	\$ (113,626)	\$ 532
Receipts:								
Local sources	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	22,814	-	-	-	70,978	472,921	113,626	-
Federal sources	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	<u>22,814</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,978</u>	<u>472,921</u>	<u>113,626</u>	<u>-</u>
Disbursements:								
Current:								
Instruction	-	-	-	3,960	53,045	-	-	-
Support services	-	-	-	-	1,758	264,021	-	-
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,960</u>	<u>54,803</u>	<u>264,021</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>22,814</u>	<u>-</u>	<u>-</u>	<u>(3,960)</u>	<u>16,175</u>	<u>208,900</u>	<u>113,626</u>	<u>-</u>
Other financing sources (uses):								
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>22,814</u>	<u>-</u>	<u>-</u>	<u>(3,960)</u>	<u>16,175</u>	<u>208,900</u>	<u>113,626</u>	<u>-</u>
Cash and investments - ending	<u>\$ 190,919</u>	<u>\$ 950</u>	<u>\$ 1,686</u>	<u>\$ -</u>	<u>\$ 16,175</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 532</u>



SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

	Medical Insurance Claims Fund	GED	Senator David Ford Technology	Title I - School Improvement Block 11-12	Title I - School Improvement Block 12-13	Title I Basic Grant 11-12	Title I Basic Grant 12-13	Title I - School Improvement Franklin 11-12
Cash and investments - beginning	\$ 577,683	\$ 46	\$ -	\$ -	\$ -	\$ (176,081)	\$ -	\$ (2,581)
Receipts:								
Local sources	7,950,171	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	2,097	15,000	-	-	-	-	-
Federal sources	-	-	-	2,000	5,000	653,643	2,517,661	29,588
Temporary loans	-	-	-	-	-	-	-	-
Other	12,714	-	-	-	-	-	-	-
Total receipts	<u>7,962,885</u>	<u>2,097</u>	<u>15,000</u>	<u>2,000</u>	<u>5,000</u>	<u>653,643</u>	<u>2,517,661</u>	<u>29,588</u>
Disbursements:								
Current:								
Instruction	-	492	-	-	-	223,071	1,718,542	-
Support services	7,519,831	-	15,000	2,000	5,000	235,765	805,780	27,007
Noninstructional services	-	-	-	-	-	18,726	107,528	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	<u>7,519,831</u>	<u>492</u>	<u>15,000</u>	<u>2,000</u>	<u>5,000</u>	<u>477,562</u>	<u>2,631,850</u>	<u>27,007</u>
Excess (deficiency) of receipts over disbursements	<u>443,054</u>	<u>1,605</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>176,081</u>	<u>(114,189)</u>	<u>2,581</u>
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	(1,328)	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>(1,328)</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>443,054</u>	<u>277</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>176,081</u>	<u>(114,189)</u>	<u>2,581</u>
Cash and investments - ending	<u>\$ 1,020,737</u>	<u>\$ 323</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (114,189)</u>	<u>\$ -</u>

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

	Title I - School Improvement Franklin 12-13	Title I - School Improvement Harrison 12-13	Title I - School Improvement Lincoln 12-13	IDEA 10-12	IDEA 11-13	IDEA 12-14	Special Education Improvement Award 11-12	Pre-School 11-13
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ (4,759)	\$ (43,675)	\$ -	\$ -	\$ (5,564)
Receipts:								
Local sources	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Federal sources	5,000	5,000	5,000	161,405	399,351	838,176	68,686	24,137
Temporary loans	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	5,000	5,000	5,000	161,405	399,351	838,176	68,686	24,137
Disbursements:								
Current:								
Instruction	-	-	-	105,595	225,013	585,339	68,686	18,573
Support services	5,000	5,000	5,000	51,051	151,829	319,564	-	-
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	5,000	5,000	5,000	156,646	376,842	904,903	68,686	18,573
Excess (deficiency) of receipts over disbursements	-	-	-	4,759	22,509	(66,727)	-	5,564
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	-	4,759	22,509	(66,727)	-	5,564
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ (21,166)	\$ (66,727)	\$ -	\$ -

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

	Pre-School 12-14	Adult Education 11-12	Adult Education 12-13	Empowerment Zone	Vocational and Technical Education Grant 11-12	Vocational and Technical Education Grant 12-13	Diesel Emissions Reduction Act	Medicaid Reimbursement - Federal
Cash and investments - beginning	\$ -	\$ (27,374)	\$ -	\$ 296	\$ (6,743)	\$ -	\$ 10,491	\$ 164,579
Receipts:								
Local sources	-	-	-	-	-	477	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Federal sources	43,381	38,406	23,788	-	45,620	98,739	5,246	62,921
Temporary loans	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	710	-	-
Total receipts	43,381	38,406	23,788	-	45,620	99,926	5,246	62,921
Disbursements:								
Current:								
Instruction	43,800	11,032	32,878	-	38,869	119,151	-	1,894
Support services	-	-	-	-	8	250	5,246	33,622
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	5,000	-	-
Total disbursements	43,800	11,032	32,878	-	38,877	124,401	5,246	35,516
Excess (deficiency) of receipts over disbursements	(419)	27,374	(9,090)	-	6,743	(24,475)	-	27,405
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(419)	27,374	(9,090)	-	6,743	(24,475)	-	27,405
Cash and investments - ending	\$ (419)	\$ -	\$ (9,090)	\$ 296	\$ -	\$ (24,475)	\$ 10,491	\$ 191,984

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

	School to Work Development Act	Title II - Part A FY 10-12	Title II - Part A FY 11-13	Title II - Part A FY 12-14	Title III Language Instruction 11-13	Title III Language Instruction 12-14	Health Clinic 11-12	Health Clinic 12-13
Cash and investments - beginning	\$ 2,214	\$ (56,614)	\$ -	\$ -	\$ (17,601)	\$ -	\$ (9,097)	\$ -
Receipts:								
Local sources	-	-	533	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Federal sources	-	265,484	371,888	4,140	28,015	90,609	31,485	38,327
Temporary loans	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	-	265,484	372,421	4,140	28,015	90,609	31,485	38,327
Disbursements:								
Current:								
Instruction	-	74,070	245,151	7,228	2,657	52,318	-	-
Support services	-	134,800	112,124	-	7,757	39,686	22,388	49,464
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	26,460	-	-	-	-	-
Total disbursements	-	208,870	383,735	7,228	10,414	92,004	22,388	49,464
Excess (deficiency) of receipts over disbursements	-	56,614	(11,314)	(3,088)	17,601	(1,395)	9,097	(11,137)
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	56,614	(11,314)	(3,088)	17,601	(1,395)	9,097	(11,137)
Cash and investments - ending	\$ 2,214	\$ -	\$ (11,314)	\$ (3,088)	\$ -	\$ (1,395)	\$ -	\$ (11,137)

SCHOOL CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

	Foundations of EC Robotics Team	United Way Summer Enrichment Grant	Title I - Grants to LEAs ARRA	Title I - School Improvement ARRA	Education Jobs	Workers Compensation	Withholding	Totals
Cash and investments - beginning	\$ -	\$ 3,059	\$ (4,984)	\$ (83)	\$ (200,411)	\$ 16,280	\$ 28,809	\$ 12,811,058
Receipts:								
Local sources	600	3,681	-	-	-	227,156	-	28,006,479
Intermediate sources	-	-	-	-	-	-	-	148,784
State sources	-	-	-	-	-	-	-	42,176,044
Federal sources	-	-	27,783	15,088	1,015,630	-	-	9,684,423
Temporary loans	-	-	-	-	-	-	-	20,795
Other	-	-	-	-	-	-	11,093,031	11,129,455
Total receipts	<u>600</u>	<u>3,681</u>	<u>27,783</u>	<u>15,088</u>	<u>1,015,630</u>	<u>227,156</u>	<u>11,093,031</u>	<u>91,165,980</u>
Disbursements:								
Current:								
Instruction	600	469	20,015	-	323,645	-	-	28,042,290
Support services	-	-	2,784	15,005	491,574	-	-	38,683,373
Noninstructional services	-	-	-	-	-	-	-	3,371,327
Facilities acquisition and construction	-	-	-	-	-	-	-	1,146,435
Debt services	-	-	-	-	-	-	-	12,709,441
Nonprogrammed charges	-	-	-	-	-	180,910	11,106,086	11,318,456
Total disbursements	<u>600</u>	<u>469</u>	<u>22,799</u>	<u>15,005</u>	<u>815,219</u>	<u>180,910</u>	<u>11,106,086</u>	<u>95,271,322</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>3,212</u>	<u>4,984</u>	<u>83</u>	<u>200,411</u>	<u>46,246</u>	<u>(13,055)</u>	<u>(4,105,342)</u>
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	4,540,410
Transfers out	-	-	-	-	-	-	-	(4,540,660)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(250)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>-</u>	<u>3,212</u>	<u>4,984</u>	<u>83</u>	<u>200,411</u>	<u>46,246</u>	<u>(13,055)</u>	<u>(4,105,592)</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 6,271</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,526</u>	<u>\$ 15,754</u>	<u>\$ 8,705,466</u>

SCHOOL CITY OF EAST CHICAGO  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

The financial statement presented in this report included the following funds with overdrawn cash balances at June 30, 2012 and 2013, which were not due to anticipation of a reimbursement from a State or Federal grant award:

Fund	Amount Overdrawn at 06-30-12	Amount Overdrawn at 06-30-13
General	\$ -	\$ 1,680,807
Debt Service	-	13,954
Exempt Retirement/Severance		
Bond Debt Service	7,764	-

The Self-Insurance fund (Fund 110) made a \$3,000,000 temporary loan to the General fund on December 27, 2013. The loan will have to be repaid by December 31, 2014. As of March 11, 2014, the General fund had a cash deficit balance of \$958,405.

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

**DEFICIT FINANCING**

The School Board approved a Collective Bargaining Agreement with the teachers on June 28, 2011. The bargaining agreement stated that salaries and other benefits "are intended to be part of this Agreement the details of which remain to be negotiated in accordance with Indiana law that shall be in effect beginning July 1, 2011."

A Memorandum of Understanding approved October 25, 2011, and signed by the School Board on November 22, 2011, included one-time stipends to teachers; 2 percent in December 2011 and 1 percent in June 2012.

As of September 30, 2011, the General fund had a cash balance of \$3,991,399; however, by June 30, 2012, the cash balance had decreased to \$979,760.36.

Another amendment to the collective bargaining agreement approved on October 30, 2012, included one-time stipends to teachers of 2 percent on January 1, 2013.

As of September 30, 2012, the General fund cash balance was at a deficit of \$1,222,507. As of October 31, 2012, the cash balance deficit had increased to \$2,256,417.

The School Board had also approved Collective Bargaining Agreements with other bargaining units.

The following items were not presented for audit. Had they been presented, these documents would have provided information regarding how the agreement and subsequent amendments would affect the balance of the General fund.

SCHOOL CITY OF EAST CHICAGO  
AUDIT RESULTS AND COMMENTS  
(Continued)

1. Current and projected costs from the General fund for bargaining unit members, including salary, wages, and related benefits.
2. Documentation on how the School Corporation could afford the agreement with the bargaining unit.

Since some of the requested information was not available for review, we were unable to determine the effect that the Collective Bargaining Agreements, with the amendments, had on the General fund balance. However, the General fund deficit cash balance as of June 30, 2013, was \$1,680,807.

Indiana Code 20-29-6-3, Unlawful deficit financing, states:

"(a) It is unlawful for a school employer to enter into any agreement that would place the employer in a position of deficit financing due to a reduction in the employer's actual general fund revenue or an increase in the employer's expenditures when the expenditures exceed the employer's current year actual general fund revenue.

(b) A contract that provides for deficit financing is void to that extent, and an individual teacher's contract executed under the contract is void to that extent."

SBOA will review school corporations' collective bargaining agreements during the audit process to determine whether the agreements contained prohibited subjects of bargaining. . . . Financial losses related to a corporation's inclusion of prohibited subjects may be the personal obligation of the responsible school official or employee. (The School Administrator and Uniform Compliance Guidelines Volume 198, June 2012)

### ***SCHOOL LUNCH - COLLECTION OF AMOUNTS DUE***

The School Corporation's food service program allows students to pre-pay for meals. Individual student accounts are established to account for payments made on students' accounts and reduction in the accounts for meal charges. The School Corporation has not established a policy addressing the authorization to charge a meal when a student account balance is not sufficient to cover the meal provided. Additionally the School Corporation does not have a collection policy for enforcing payment of delinquent student accounts.

A negative student balance indicates that the child's family has not paid for meals served to the child. A review of student balances at June 24, 2013, and January 30, 2014, noted an increase in the amounts owed to the School Corporation. At June 24, 2013, the list of student balances (excluding inactive students who have left the School Corporation) was \$39,397.75. At January 30, 2014, the student balances (excluding inactive students) was approximately \$77,000. Including inactive students, the balance owed was \$88,307.72. These balances did not include amounts owed as of July 30, 2012.

On July 30, 2012, the amount owed to the School Corporation was \$75,692.55. During the 2011-2012 school year, there were some issues with the Meal Magic point of sale software (used to track meals sold and charged) and the RDS student software system (accounting software used to maintain records on pre-payments, charges, and balances remaining). The RDS software interfaced nightly with the Meal Magic software, and provided the information for which students were eligible for free or reduced price meals. The Meal Magic software had a benefit expiration field which was not discovered until later in the school year. This benefit expiration field in Meal Magic overrode the free and reduced status being imported from the RDS system. As a result of the override, some students in Meal Magic were reclassified from free and reduced status to paid status in the system and were charged for meals for which they had no obligation to pay. This override process generated balances owed for students eligible for free or reduced price meals.

SCHOOL CITY OF EAST CHICAGO  
AUDIT RESULTS AND COMMENTS  
(Continued)

To correct this problem, all student balances in Meal Magic were written-off on July 30, 2012. The write-off was not submitted to or approved by the School Board. Some students, who had large balances at July 30, 2012, written off, continued to charge and accumulate large balances as of January 30, 2014.

Review of student activity during May 2013 noted student charges continued to occur during the last week of May, days before the end of the school year. These charges were for students who did not maintain a pre-paid balance.

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)

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

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances.

Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs.

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

***TEACHER COLLECTIVE BARGAINING AGREEMENTS***

Public Law 48-2011 was enacted on April 20, 2011, and created Indiana Code 20-29-6 that became effective upon passage of the law. Public Law 148-2012, Public Law 205-2013, and Public Law 286-2013 amend Indiana Code 20-29-6.

The School Board approved a Collective Bargaining Agreement (Agreement) with the teachers on June 28, 2011. Article XIII of the Agreement states: "Salaries, the extracurricular activities schedule, group insurance benefits, paid leaves, and retirement benefits are intended to be a part of this Agreement the details of which remain to be negotiated in accordance with Indiana law that shall be in effect beginning July 1, 2011."

An Amendment (Memorandum of Understanding) to the Agreement was approved by the School Board on October 25, 2011, signed by the School Board on November 22, 2011, and by the East Chicago Teacher Federation on December 7, 2011.



SCHOOL CITY OF EAST CHICAGO  
AUDIT RESULTS AND COMMENTS  
(Continued)

There were issues noted in the Agreement and subsequent amendments as follows:

1. Appendix E of the 2011 amendment discussed hours of work and special leave of absence without pay. Provisions that include the words hours and leave without pay, are prohibited from inclusion in the collective bargaining agreement under the amended law.
2. Appendix A is a Salary Schedule based upon level of education and years of service. Appendix B discusses stipends to be paid in 2011 and 2012. The salary schedule and stipend do not include the factors required by Indiana Code 20-28-9-1.5.
3. The Amendment was entered into after July 1, 2011. Therefore the amendment and the original document it amended must comply with Indiana Code 20-29-6. The Agreement included the following items that are no longer allowed to be included in collective bargaining agreements entered into after July 1, 2011:

"A. Union Recognition. The Board recognizes the Union as the sole and exclusive representative for the bargaining unit which includes all certificated school employees. . ."

"Article III Teacher Rights"

"Article IX Payroll Deductions. A. Mandatory and B. Optional"

4. An Amendment was approved by the School Board on October 30, 2012, with an effective date of January 1, 2013. Appendix A of this Amendment discusses percentage increases in the base salary for 2012 and 2013. The salary schedule does not include the combination of factors required in Indiana Code 20-28-9-1.5.
5. The School Corporation has an internet website of [www.scec.k12.in.us](http://www.scec.k12.in.us). The collective bargaining agreement provisions were not posted to the website as of March 2014.

SBOA will review school corporations' collective bargaining agreements during the audit process to determine whether the agreements contained prohibited subjects of bargaining. . . . Financial losses related to a corporation's inclusion of prohibited subjects may be the personal obligation of the responsible school official or employee. (The School Administrator and Uniform Compliance Guidelines Volume 198, June 2012)

Indiana Code 20-29-6-4.7 states:

"(a) A school employer may not bargain collectively with the exclusive representative on teacher evaluation procedures and criteria after this section has been enacted into law.

(b) A contract entered into between a school employer and an exclusive representative after this section has been enacted into law may not extend past the end of a state budget biennium."

Indiana Code 20-29-6-4 states:

"(a) A school employer shall bargain collectively with the exclusive representative on the following:

(1) Salary.

(2) Wages.

SCHOOL CITY OF EAST CHICAGO  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (3) Salary and wage related fringe benefits, including accident, sickness, health, dental, vision, life, disability, retirement benefits, and paid time off as permitted to be bargained under IC 20-28-9-11.

(b) Salary and wages include the amounts of pay increases available to employees under the salary scale adopted under IC 20-28-9-1, but do not include the teacher evaluation procedures and criteria, or any components of the teacher evaluation plan, rubric, or tool."

Indiana Code 20-29-6-2 states in part: "(b) A subject that is set forth in section 4.5 (a) of this chapter may not be included in any contract after June 30, 2011."

Indiana Code 20-29-6-4.5 states:

"(a) For a contract entered into after June 30, 2011, a school employer may not bargain collectively with the exclusive representative on the following:

- (1) The school calendar.
- (2) Teacher dismissal procedures and criteria.
- (3) Restructuring options available to a school employer under federal or state statutes, regulations, or rules because of the failure of the school corporation or a school to meet federal or state accountability standards.
- (4) The ability of a school employer to contract, partner, or operate jointly with an educational entity that provides postsecondary credits to students of the school employer or dual credits from the school employer and the educational entity.
- (5) Any subject not expressly listed in section 4 of this chapter.

(b) A subject set forth in subsection (a) that may not be bargained collectively may not be included in an agreement entered into under this article."

Indiana Code 20-28-9-1.5 states in part:

"(b) Increases or increments in a local salary scale must be based upon a combination of the following factors:

- (1) A combination of the following factors taken together may account for not more than thirty-three percent (33%) of the calculation used to determine a teacher's increase or increment:
  - (A) The number of years of a teacher's experience.
  - (B) The attainment of either:
    - (i) additional content area degrees beyond the requirements for employment; or
    - (ii) additional content area degrees and credit hours beyond the requirements for employment, if required under an agreement bargained under IC 20-29.

SCHOOL CITY OF EAST CHICAGO  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (2) The results of an evaluation conducted under IC 20-28-11.5.
- (3) The assignment of instructional leadership roles, including the responsibility for conducting evaluations under IC 20-28-11.5.
- (4) The academic needs of students in the school corporation."

Indiana Code 20-29-6-19 states: "Not later than fourteen (14) business days after the parties have reached an agreement under this chapter, the school employer shall post the contract upon which the parties have agreed on the school employer's Internet web site."

***CONDITION OF RECORDS (Applies to Carrie Gosch Elementary School)***

During the period July 1, 2011 to December 31, 2012, the extra-curricular records were on prescribed handwritten records, except that the Extra-Curricular Treasurer maintained detail activity ledgers and reports in the commercially packaged Microsoft Excel worksheets.

Beginning January 1, 2013, the extra-curricular records were maintained using computer software specially designed and approved for school use.

*Summary of Collection Forms:*

Fundraisers and field trips were held during both school years in which one or more staff members collected money from the children, which was subsequently receipted by the Extra-Curricular Treasurer. The Summary of Collection Form (SA-8) was not used to support the collections received by the Extra-Curricular Treasurer from the staff members.

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)

*Receipts:*

1. Receipts were not always issued in sequential order. Receipt Number 15309 was issued on April 8, 2013, for cafeteria collections, but surrounding Receipt Numbers 15308 and 15310 were issued on March 15 and March 18, 2013.

Receipts were not issued for all collections. A receipt was issued on October 4, 2012, for collections from a fundraiser. The amount deposited exceeded the receipt by \$270, which based upon the deposit composition was cash.

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)

SCHOOL CITY OF EAST CHICAGO  
AUDIT RESULTS AND COMMENTS  
(Continued)

2. Receipts were voided which were not properly documented as void. To void an electronically generated receipt, the Extra-Curricular Treasurer prints the receipt, and writes across the receipt the word void. A reason as to why the receipt was voided or any authorizing signature of the principal or another staff member was not provided.

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

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

3. Receipts did not always indicate the dollar amount of the cash and check collections. We noted deposits in which checks were deposited in place of cash. In these instances, the composition was not indicated on the receipts, but the checks included in the deposit exceeded any one day's collections.

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."

4. Collections were not deposited without unreasonable delay. Generally, collections were deposited about twice a month. A cash count performed on March 6, 2014 included cash field day donations dated November 13, 2013, December 2013, January 2014, and February 2014. Cash collections were also on hand for the music department from February 11, 2014. The Extra-Curricular Treasurer indicated that the field day donations had not yet been receipted or deposited because she was waiting upon the School Board to officially accept the donations.

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

*Funds Not Extra-Curricular in Nature:*

The School Corporation participates in Market Day fundraisers. Participants purchase food items and the Market Day organization issues a check to the School Corporation for their share of the profits. All profits were receipted to the Teacher Social fund. The Teacher Social fund pays for retirement and holiday dinners, as well as other food items.

The School Corporation maintains a Flower fund. The only collections receipted to the fund were received from staff members. The Flower fund disbursements are memorial donations to staff members.

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

SCHOOL CITY OF EAST CHICAGO  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Disbursements:*

Checks issued did not always indicate the fund or nature of the purchase. For the 2012-2013 school year, disbursements records by fund could not be adequately verified to supporting documentation due to the lack of information on the check.

The duplicate copy serves as a permanent check register from which all disbursements are posted to the proper activity funds and to the control account. Checks to be properly issued shall show the date, the payee, the amount, the purchase order number, the activity fund to be charged and the purpose for which the check was issued. Space is provided for entering the invoice number, if desired. The check is to be signed by the treasurer and countersigned by the principal or other designated official of the school. Posting to the control account will be made from the duplicate checks either by individual items or by daily totals, showing by reference the serial numbers of the checks included in such total posting. If each check is posted individually to the control, the fund number should be entered as well as the check number. Posting to the separate activity funds will be made from the check register, individually or in total. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE SCHOOL CITY OF EAST CHICAGO, LAKE COUNTY, INDIANA

***Report on Compliance for Each Major Federal Program***

We have audited the School City of East Chicago's (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, 2011 to June 30, 2013. 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.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the School Corporation's compliance.

***Basis for Adverse Opinion on Child Nutrition Cluster***

As described in items 2013-002, 2013-003, and 2013-004 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Activities Allowed, Allowable Costs, Eligibility, and Reporting that are applicable to its Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
(Continued)

***Basis for Qualified Opinion on Title I, Part A Cluster***

As described in items 2013-007, 2013-008, 2013-009, and 2013-010 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Allowable Costs, Procurement, Suspension and Debarment, and Special Tests and Provisions - Comparability that are applicable to its Title I, Part A Cluster. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

***Basis for Qualified Opinion on Special Education Cluster (IDEA)***

As described in items 2013-010 and 2013-011 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Procurement, Suspension and Debarment, and Equipment and Real Property Management that are applicable to its Special Education Cluster (IDEA). Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

***Basis for Qualified Opinion on Improving Teacher Quality State Grants***

As described in item 2013-007 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Allowable Costs that are applicable to its Improving Teacher Quality State Grants. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

***Basis for Qualified Opinion on Education Jobs Fund***

As described in items 2013-009 and 2013-012 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Special Tests and Provisions - Comparability and Allowable Costs that are applicable to its Education Jobs Fund. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

***Adverse Opinion on Child Nutrition Cluster***

In our opinion, because of the significance of the noncompliance described in the *Basis for Adverse Opinion* paragraph, the School Corporation did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on the Child Nutrition Cluster for the period of July 1, 2011 to June 30, 2013.

***Qualified Opinion on Title I, Part A Cluster***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Title I, Part A Cluster for the period of July 1, 2011 to June 30, 2013.

***Qualified Opinion on Special Education Cluster (IDEA)***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Special Education Cluster (IDEA) for the period of July 1, 2011 to June 30, 2013.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
(Continued)

***Qualified Opinion on Improving Teacher Quality State Grants***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Improving Teacher Quality State Grants for the period of July 1, 2011 to June 30, 2013.

***Qualified Opinion on Education Jobs Fund***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Education Jobs Fund for the period of July 1, 2011 to June 30, 2013.

***Other Matters***

The School Corporation's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Report on Internal Control Over Compliance***

Management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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 over compliance 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 2013-002, 2013-003, 2013-004, 2013-005, 2013-006, 2013-009, 2013-010, and 2013-11 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
(Continued)

The School Corporation's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

April 24, 2014

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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.

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SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Years Ended June 30, 2012 and 2013

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 06-30-12	Total Federal Awards Expended 06-30-13
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 968,428	\$ 987,289
National School Lunch Program	10.555		2,067,494	1,954,195
Summer Food Service Program for Children	10.559		<u>41,206</u>	<u>66,057</u>
Total for cluster			<u>3,077,128</u>	<u>3,007,541</u>
Child and Adult Care Food Program	10.558		<u>15,747</u>	<u>23,938</u>
Total for federal grantor agency			<u>3,092,875</u>	<u>3,031,479</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through City of Gary				
Renewal Community and Empowerment Zone Programs	14.244		<u>682</u>	<u>-</u>
<u>NATIONAL SCIENCE FOUNDATION</u>				
Pass-Through Indiana University				
Education and Human Resources	47.076		<u>7</u>	<u>-</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through American Lung Association of Upper Midwest (ALAUM)				
ARRA National Clean Diesel Emissions Reduction Program, Recovery Act	66.039		<u>36,719</u>	<u>5,246</u>
Pass-Through Indiana Department of Environmental Management (IDEM)				
ARRA State Clean Diesel Grant Program, Recovery Act	66.040		<u>59,967</u>	<u>-</u>
Total for federal grantor agency			<u>96,686</u>	<u>5,246</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster (IDEA)				
Special Education - Grants to States	84.027			
		14210-014-PN01	97,324	-
		14211-014-PN01	402,398	156,646
		14212-014-PN01	895,444	376,843
		14213-014-PN01	-	904,903
		A58-3-13DL-0072	<u>-</u>	<u>68,686</u>
Total for program			<u>1,395,166</u>	<u>1,507,078</u>
Special Education - Preschool Grants	84.173			
		45710-014-PN01	5	-
		45711-014-PN01	1,148	-
		45712-014-PN01	65,646	18,572
		45713-014-PN01	<u>-</u>	<u>43,800</u>
Total for program			<u>66,799</u>	<u>62,372</u>

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

SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Years Ended June 30, 2012 and 2013  
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-12	Total Federal Awards Expended 06-30-13
<b>U.S. DEPARTMENT OF EDUCATION (continued)</b>				
Pass-Through Indiana Department of Education (continued)				
Special Education Cluster (IDEA) (continued)				
ARRA Special Education Grants to States, Recovery Act	84.391	33310-014-SN01	<u>35,022</u>	-
Total for cluster			<u>1,496,987</u>	<u>1,569,450</u>
Adult Education - Basic Grants to States	84.002			
		2011-12	57,197	11,032
		2012-13	-	<u>32,878</u>
Total for program			<u>57,197</u>	<u>43,910</u>
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies				
Basic Grant 10-11	84.010	11-4670	431,836	-
Basic Grant 11-12		12-4670	3,447,815	477,562
Basic Grant 12-13		13-4670	-	2,631,850
School Improvement Grant Block Jr. High 10-11		10/1/10-9/30/11	7,462	-
School Improvement Grant Block Jr. High 11-12		7/1/11-9/30/12	321	2,000
School Improvement Grant Block Jr. High 12-13		7/1/12-9/30/13	-	5,000
School Improvement Grant Gosch 10-11		7/1/10-9/30/11	3,146	-
School Improvement Grant Lincoln 10-11		7/1/10-9/30/11	27,312	-
School Improvement Grant Franklin 11-12		7/1/11-9/30/12	27,048	27,007
School Improvement Grant Franklin 12-13		7/1/12-9/30/13	-	5,000
School Improvement Grant Harrison 12-13		10/1/12-9/30/13	-	5,000
School Improvement Grant Lincoln 12-13		10/1/12-9/30/13	-	5,000
Total for program			<u>3,944,940</u>	<u>3,158,419</u>
ARRA Title I Grants to Local Educational Agencies, Recovery Act	84.389			
Fund 7951 - Basic		10-4670	198,468	22,799
Fund 7952 - Improvement		7/1/10-9/30/11	<u>3,369</u>	<u>15,006</u>
Total for program			<u>201,837</u>	<u>37,805</u>
Total for cluster			<u>4,146,777</u>	<u>3,196,224</u>
Direct				
Impact Aid Cluster				
Impact Aid	84.041		<u>21,909</u>	<u>20,371</u>
Pass-Through Indiana Department of Education				
Career and Technical Education - Basic Grants to States				
	84.048			
		7/1/10-6/30/11	71,249	-
		7/1/11-6/30/12	101,151	38,868
		7/1/12-6/30/13	-	<u>124,401</u>
Total for program			<u>172,400</u>	<u>163,269</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186			
		09-4670	<u>18,852</u>	-

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



SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Years Ended June 30, 2012 and 2013  
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-12	Total Federal Awards Expended 06-30-13
<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>				
Pass-Through Indiana Department of Education (continued)				
English Language Acquisition State Grants	84.365			
		10/01/10-09/30/11	39,618	-
		01112-044-PN01	84,259	10,414
		01113-049-PN01	-	92,004
Total for program			<u>123,877</u>	<u>102,418</u>
Improving Teacher Quality State Grants	84.367			
		09-4670	156,108	-
		10-4670	345,649	208,870
		FFY 2011	-	383,735
		FFY 2012	-	7,228
Total for program			<u>501,757</u>	<u>599,833</u>
Education Jobs Fund	84.410		644,966	815,219
Total for federal grantor agency			<u>7,184,722</u>	<u>6,510,694</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Indiana Department of Health				
Maternal and Child Health Services Block Grant to the States	93.994			
		10/1/10-9/30/11	22,871	-
		10/1/11-9/30/12	42,476	22,389
		10/1/12-9/30/13	-	49,464
Total for federal grantor agency			<u>65,347</u>	<u>71,853</u>
Total federal awards expended			<u>\$ 10,440,319</u>	<u>\$ 9,619,272</u>

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

SCHOOL CITY OF EAST CHICAGO  
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 School Corporation and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. 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, 2012 and 2013. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2012	2013
School Breakfast Program	10.553	\$ 61,795	\$ 66,735
National School Lunch Program	10.555	131,925	132,987

SCHOOL CITY OF EAST CHICAGO  
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; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

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:  
    Title I, Part A Cluster  
    Special Education Cluster (IDEA)  
    Improving Teacher Quality State Grants  
    Education Jobs Fund

Adverse for:  
    Child Nutrition Cluster

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

CFDA Number	Name of Federal Program or Cluster
	Child Nutrition Cluster
	Title I, Part A Cluster
	Special Education Cluster (IDEA)
84.367	Improving Teacher Quality State Grants
84.410	Education Jobs Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$601,788

Auditee qualified as low-risk auditee?	no
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SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section II - Financial Statement Findings**

**FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE  
RELATED TO 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 and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
  - a. One individual is responsible for issuing receipts for cash and check collections; not Electronic Funds Transfers (EFT). The same individual issues the receipt, prepares the deposit, and takes the deposit to the bank. This individual also compares the receipts to amounts recorded in the financial accounting system. Another employee, responsible for issuing receipts for EFT collections, performs the bank reconciliations; however, only the reconciled bank balance is compared to the ledger balance. This employee does not ensure that all collections were receipted, recorded, and deposited.
  - b. Bank reconciliations are reviewed and signed by the School Corporation Treasurer to document the review, except for the reconciliation of the worker's compensation fund. This account reconciliation has not been provided to the Treasurer for review.
2. Preparing Financial Statement: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the School Corporation's audited financial statement and then determining how those identified risks should be managed. The School Corporation has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement.
  - a. The Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) are prepared by a business office employee. An oversight or review process has not been established to ensure an accurate Financial Statement and SEFA.
  - b. The transactions for the self-insured worker's compensation bank account are not recorded in the School Corporation's financial accounting system. The School Corporation maintains an excel file with a calculated cash balance. Receipts are not issued for collections. Additions to the cash balance in the excel file are based upon deposits to the bank account. Deductions from the cash balance are based upon information provided by the third party administrator. The claims processed should agree with the checks issued from the bank account. This calculated cash balance is reconciled to the bank balance. At June 30, 2012 and 2013, the calculated cash balances not reported in the financial statement were \$16,280 and \$62,526, respectively. Receipts and disbursements for the two year period of \$372,609 and \$337,285, respectively, were also omitted from the School Corporation's financial accounting system (ledger) and the financial statement.
  - c. On January 1, 2012, the School Corporation began recording previously omitted activity of the self-insured medical depository account, but excluded the cash balance as of January 1, 2012. The School Corporation calculated monthly cash balances based upon the financial

SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

transactions reported by the third-party administrator. The cash balances were reconciled to the bank balances for the period July 1, 2011 to December 31, 2011; however, the activity and the cash balance have not been recorded in the ledgers or financial statement. Receipts and disbursements for this period were under reported by \$2,487,272 and \$2,501,173, respectively.

d. Various adjustments are noted in the reconciliation of the self-insured medical insurance depository account balance. The adjustments are created by bank charges and errors, refunds, and other items that are recorded to either the ledger or the bank account, but not to both. Since July 2010, addition adjustments of \$208,241 and deduction adjustments of \$425,184 have accumulated and have not been recorded in the ledger.

e. Corrections or adjustments are recorded as negative disbursements. Often there is no supporting documentation for the adjustments.

f. Several transfers between funds were made without supporting documentation or School Board resolutions. Three transfers totaling \$2,000,000 were made during the audit period. School Board approval for these transfers was obtained by including them in the Accounts Payable Voucher Register. Accounts Payable Vouchers were not prepared for these transfers.

g. Disbursements were approved for payment by the School Board without adequate supporting documentation. Some of these payments made from federal grant awards were made on the basis of an invoice with only a total. These payments lacked itemized detailed supporting documentation as required by Indiana Code 5-11-10-1.6(b).

h. Expenditures from three grant awards were excluded from the SEFA. This included the expenditures for the Education Jobs Fund; the ARRA National Clean Diesel Emissions Reduction Program, Recovery Act; and the ARRA State Clean Diesel Grant Program, Recovery Act. The expenditures not reported for these grant awards totalled \$741,652 and \$820,465, for the years ended June 30, 2012 and 2013, respectively.

i. Some of the program titles reported on the SEFA were not correct.

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 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 has no process to identify or communicate corrective actions to improve controls.

Corrections approved by management have been made to the financial statement and SEFA for the amounts noted above which results in a financial statement that is fairly presented and a SEFA that is materially correct in relation to the financial statement.

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.

SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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)

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section.310."

OMB Circular A-133, Subpart C, section .310(b) states in part:

"Schedule of expenditures of Federal awards: The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available."

***Section III - Federal Award Findings and Questioned Costs***

***FINDING 2013-002 - INTERNAL CONTROLS AND COMPLIANCE OVER ACTIVITIES ALLOWED AND ALLOWABLE COSTS REQUIREMENTS FOR THE CHILD NUTRITION CLUSTER GRANTS***

Federal Agency: U.S. Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,  
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Years: FY 2012, FY 2013

Pass-Through Entity: Indiana Department of Education

SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Management of the School Corporation has not established an effective internal control system related to the grant agreement and the compliance requirements over Activities Allowed and Allowable Costs that have a direct and material effect on the programs. 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. This 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.

*Food Service Management*

The School Corporation contracted with Sodexo, Inc. (Sodexo) to manage and operate the food service program. Sodexo was paid for its services after the invoice was submitted to the School Corporation. The Sodexo invoices were signed and dated by the School Corporation's Treasurer prior to payment to document the review and approval. The payments to Sodexo were made from the School Lunch fund, which accounts for all disbursements and revenues of the food service program.

The claims paid to Sodexo generally contained only a net amount (goods and services and management fees less any discounts, rebates or other credits). The majority of the claims did not have supporting documentation or details of the amount billed to determine if it agreed with the contract requirements. Payments made to Sodexo during the two years ended June 30, 2013, totaled \$6,600,318. Of this amount, \$5,186,282 (79 percent) lacked supporting documentation.

Without supporting documentation, the School Corporation is unable to verify adherence with the contract and the compliance requirements. This indicates a lack of sufficient internal controls, which would detect or correct errors in a timely manner. The payments to Sodexo without supporting documentation of \$5,186,282 are considered questioned costs.

*Waste Disposal*

Multiple payments were made from the School Lunch fund to Allied Waste Services (Allied) for trash pickup at schools with food service preparation sites. Review of the claims paid to Allied determined that these schools had multiple dumpsters which were paid from the School Lunch fund. These schools also needed dumpsters for the removal of school trash which should have been paid from the General fund; not the School Lunch fund. It was determined that payment for all dumpsters from the School Lunch fund was due to the continuation of past practice.

A total of \$45,474.62 was paid to Allied Waste from the School Lunch fund for the audit period. An allocation of allowable and unallowable costs could not be determined due to the different sizes and related costs of the various dumpsters. The lack of identification and documentation of dumpsters allocable to the food service program resulted in the total paid of \$45,474.62 to be considered questioned costs.

An internal control system 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, 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.

SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"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."

OMB Circular A-87, Attachment A, Section C states in part:

"1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular. . . .
- j. Be adequately documented. . . .

3. Allocable costs.

- a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

The failure to establish effective 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 programs could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, related to the grant agreement and the activities allowed and allowable costs compliance requirements that have a direct and material effect on the programs. In addition, we recommended that the School Corporation comply with activities allowed and allowable costs requirements of the programs.

***FINDING 2013-003 - INTERNAL CONTROLS AND COMPLIANCE OVER ELIGIBILITY REQUIREMENTS FOR THE SCHOOL BREAKFAST AND NATIONAL SCHOOL LUNCH PROGRAMS***

Federal Agency: U.S. Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Years: FY 2012, FY 2013  
Pass-Through Entity: Indiana Department of Education

*Internal Controls*

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 the compliance requirements over eligibility that have a direct and material effect on the programs. 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 programs.



SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

For both school years, a central office clerk performed the eligibility determinations and approved the applications for free and reduced price meals. The School Corporation did not have a review or oversight process to ensure accurate eligibility determinations and approval of applications.

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, 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.

*Compliance*

The School Corporation permits electronic online applications for free and reduced priced meals during the registration period. After the registration period has ended, applicants prepare a paper application. Testing of the applications noted the following:

1. Electronic applications approved in November 2012, printed for audit purposes, had the eligibility determination section of the application completed. This section documented the basis for the eligibility for free or reduced priced meals, or the reason for denial, and the signature of the determining official. The electronic applications approved in November 2012 contained information necessary to ensure compliance.

The eligibility determination sections of the electronic applications approved in December 2012 were incomplete. These applications contained only the electronic signature of the determining official and did not document the basis for eligibility. Although the software determines the eligibility, there was no documentation of the basis for the eligibility on the application. Twenty-three of the applications tested were approved in December 2012.

2. Four applications either did not have the information to support the determination made or were missing. Two missing applications were for applicants that later became eligible under direct certification from the state. The applications used to determine eligibility prior to direct certification were disposed of after the direct certifications were received. The other two applications were incomplete and lacked sufficient information.

OMB Circular A-133, Subpart C, section .300 states in part:

"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."

7 CFR 210.7(c)(1) states in part:

"*Lunch count system.* To ensure that the Claim for Reimbursement accurately reflects the number of lunches and meal supplements served to eligible children, the school food authority shall, at a minimum:

SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (i) Correctly approve each child's eligibility for free and reduced price lunches and meal supplements based on the requirements prescribed under 7 CFR part 245;
- (ii) Maintain a system to issue benefits and to update the eligibility of children approved for free or reduced price lunches and meal supplements. The system shall:
  - (A) Accurately reflect eligibility status as well as changes in eligibility made after the initial approval process due to verification findings, transfers, reported changes in income or household size, etc.; . . ."

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

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the eligibility requirements and also comply with the eligibility requirements that have a direct and material effect on the programs.

***FINDING 2013-004 - INTERNAL CONTROLS AND COMPLIANCE OVER REPORTING REQUIREMENTS THAT AFFECT THE SCHOOL BREAKFAST AND NATIONAL SCHOOL LUNCH PROGRAMS***

Federal Agency: U.S. Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Years: FY 2012, FY 2013  
Pass-Through Entity: Indiana Department of Education

*Internal Controls*

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 the reporting compliance requirements that have a direct and material effect on the programs. 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 programs.

The School Corporation contracted with Sodexo, Inc. (Sodexo), a management company, to operate its food service program. Sodexo's General Manager for the School Corporation's food service program prepared and submitted the claims for reimbursement and the annual financial reports. An oversight or review process has not been established to reduce the potential for errors to occur and not be detected.

The Cafeteria Manager at each school manually prepares and submits a "daily meal count and collection report" (Daily Report) to the General Manager's Office based upon information from a point of sale software program. The reports from the point of sale software programs are attached to the Daily Reports; however, discrepancies may exist due to timing differences when adding or removing new or inactive students from the point of sale software.

SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

An administrative assistant of Sodexo manually entered the number and types of meals served (free, reduced, or paid) from the Daily Reports into a Sodexo software program. The General Manger used the information from the Sodexo software to prepare the claim for reimbursement online and submit the claim to the Indiana Department of Education for the School Corporation. An employee of the School Corporation's business office printed a copy of the claim summary for their records and to be able to anticipate amounts to be received by the School Corporation.

The information entered by the administrative assistant was not reviewed. The claim for reimbursement prepared by Sodexo's General Manager was not reviewed. Due to the lack of reviews or oversight, there were no internal controls over reporting requirements.

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, 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.

*Compliance*

A. Tests of the claims for reimbursement noted variances in the number of meals claimed for five of seven months tested which resulted in over and under claiming of meals served. Types of errors observed were as follows:

1. Daily Report - some schools added new, inactive students, or alternative school students (to be counted at their home school) to the count entered on the Daily Report while others did not. This resulted in over and under claiming of meals served.

New and inactive students do not appear in the point of sale software until they have been entered into the system by School Corporation employees. Such students should be manually noted on the Daily report, along with alternative school students.

2. Omission of or Incorrect Daily Report - input errors into the Sodexo software included switching the free and reduced numbers, entering the same information for a school twice, and omitting a day's information from a school.

The net effect of the errors noted for the months tested resulted in the School Corporation being over reimbursed \$3,931.32, based upon the meal reimbursement rates in use at the time. The \$3,931.32 is considered questioned costs.

B. While reviewing a claim for reimbursement from 2013-2014, Sodexo's General Manager determined that a school was being reported incorrectly. A school that reopened for the 2013-2014 school year should have been designated as Severe Need for Breakfast but was not. This inaccurate designation resulted in the School Corporation receiving less reimbursement for free and reduced priced breakfasts served than it was entitled to receive. The School Corporation was under reimbursed \$5,644.16 for the breakfast meals served at West Side School for the months of August to December 2013.

SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"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."

7 CFR 210.8 states in part:

"(a) *Internal controls.* The school food authority shall establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly Claim for Reimbursement . . .

- (2) *School food authority claims review process.* Prior to the submission of a monthly Claim for Reimbursement, each school food authority shall review the lunch count data for each school under its jurisdiction to ensure the accuracy of the monthly Claim for Reimbursement. The objective of this review is to ensure that monthly claims include only the number of free, reduced price and paid lunches served on any day of operation to children currently eligible for such lunches."

7 CFR 3016.40 (a) states: "*Monitoring by grantees.* Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

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 programs could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the reporting requirements that have a direct and material effect on the program. We also recommended that the School Corporation comply with reporting requirements.

***FINDING 2013-005 - INTERNAL CONTROLS OVER PROGRAM INCOME AND SPECIAL TESTS AND PROVISIONS REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE SCHOOL BREAKFAST AND NATIONAL SCHOOL LUNCH PROGRAMS***

Federal Agency: U.S. Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Years: FY 2012, FY 2013  
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system related to the grant agreement and some of the compliance requirements that have a direct and material effect on the program. These include Program Income and Special Tests and Provisions - School Food Accounts, Verification and Paid Lunch Equity compliance requirements. 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 program.

SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Program Income, Special Tests and Provisions - School Food Accounts*

The School Corporation contracted with Sodexo, Inc. (Sodexo) to operate and manage the School Breakfast and National School Lunch Programs. Program income (sales to adults and students) is collected by Sodexo employees at each cafeteria. The collections are remitted to each school's Extra-Curricular Account (ECA) Treasurer by the building's Cafeteria Manager. According to the contract, this is to be done daily. Most schools remit daily except for one elementary school which has very little in cash sales.

At the end of the week, a "Weekly Recap of Cash Collected" report (weekly recap) is prepared and signed by each school's Cafeteria Manager. This weekly recap is presented to and signed by the ECA Treasurer. The weekly recap documents the total amount received from Sodexo employees, classified by student and adult sales. The ECA Treasurer submits a copy of the weekly recap with the collections when they are remitted to the School Corporation to be receipted into the School Lunch fund.

The School Corporation has a verbal policy that school lunch collections are to be remitted to the School Corporation Treasurer weekly by the ECA Treasurer, but not all of the schools comply. The schools that do not comply remit monthly, sporadically or just several times a school year.

Sodexo's operations office also submits a "Weekly Money Collected" (collection summary) to the School Corporation. The collections received by the School Corporation per the weekly recap are not compared to the collection summary to ensure that all collections have been received from the schools or that the collections remitted agree to what was expected. Additionally, the School Corporation does not receive original source documents from Sodexo to periodically review and confirm the accuracy of the weekly recap.

There are no controls in place to ensure that all program income is received and recorded in the School Lunch fund.

*Special Tests and Provisions - Verification*

For both school years, a central office clerk performed the verification of free and reduced price lunch applications. Although the applications have a place for a confirming reviewer to sign, they were not signed. The School Corporation did not have a review or oversight process to ensure the accuracy of the verifications.

*Special Tests and Provisions - Paid Lunch Equity*

The School Corporation contracted with a management company to operate its food service program and to advise them of lunch prices to be charged. Policies or procedures had not been established by management to ensure compliance with paid lunch equity requirements. The School Corporation has no knowledge of the requirements and relies upon the management company to comply.

An internal control system 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, on a timely basis. An effective internal control system 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.

OMB Circular A-133, Subpart C, section .300 states in part:

"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."

SCHOOL CITY OF EAST CHICAGO  
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The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements noted above that have a direct and material effect on the programs could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls related to the grant agreement and all compliance requirements that have a direct and material effect on the programs.

***FINDING 2013-006 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO TITLE I, PART A CLUSTER, SPECIAL EDUCATION CLUSTER (IDEA), IMPROVING TEACHER QUALITY STATE GRANTS, AND EDUCATION JOBS FUND***

Federal Agency: U.S. Department of Education

Federal Programs: Title I Grants to Local Educational Agencies; ARRA Title I Grants to Local Educational Agencies, Recovery Act; Special Education - Grants to States; Special Education - Preschool Grants; ARRA Special Education Grants to States, Recovery Act; Improving Teacher Quality State Grants; Education Jobs Fund

CFDA Numbers: 84.010, 84.389, 84.027, 84.173, 84.391, 84.367, 84.410

Federal Award Numbers and Years: 11-4670, 12-4670, 13-4670, 10/1/10-9/30/11, 7/1/11-9/30/12, 7/1/12-9/30/13, 7/1/10-9/30/11, 10/1/12-9/30/13, 10-4670, 7/1/10-9/30/11, 14210-014-PN01, 14211-014-PN01, 14212-014-PN01, 14213-014-PN01, A58-3-13DL-0072, 45710-014-PN01, 45711-014-PN01, 45712-014-PN01, 45713-014-PN01, 33310-014-SN01, 09-4670, 10-4670, FFY 2011, FFY 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 agreements and the compliance requirements that have a direct and material effect on the programs. This includes the following compliance requirements: Activities Allowed, Allowable Costs, Cash Management, Eligibility, Level of Effort, Earmarking, Period of Availability, Reporting, and Special Tests and Provisions - Participation of Private School Children. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreements 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.

*Activities Allowed, Allowable Costs, and Period of Availability*

*Vendor Payments (Title I, Part A Cluster, Special Education Cluster (IDEA), Improving Teacher Quality State Grants)*

The Director of each grant has a copy of the grant agreement which specifies how the funds are to be used and the time frame for spending or obligating the funds. Accounts payable vouchers or claims were used for most purchases and were to be signed or initialed by the Director. By signing or initialing the accounts payable voucher, the Grant Directors indicated that they have determined that the expenditure occurred within the grant period, the purchase was for an allowable activity, and the cost was allowable. The business office, which processed the accounts payable vouchers for payment, did not have a system in place to ensure that the Grant Director had signed or initialed the accounts payable voucher prior to payment. Many items were paid from grant funds which did not indicate that the Grant Director reviewed the accounts payable voucher.

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*Payroll (Title I, Part A Cluster, Special Education Cluster (IDEA),  
Improving Teacher Quality State Grants)*

At the start of each school year, the Grant Directors provide the payroll department a list of employees to be paid from each grant. After processing each payroll, the payroll department provides each Grant Director with a "Payroll Distribution Report." The Payroll Distribution Report provides a detailed list of the employees paid from each grant fund, as well as the dollar amount paid individually and in total. There was no evidence of review or verification that the employees who received compensation from the grant funds were those that worked on grant related activities.

*Payroll (Education Jobs Fund)*

On November 22, 2011, the School Board approved a Memorandum of Understanding (MOU) with the East Chicago Federation of Teachers; the teachers would receive a stipend on December 23, 2011, and June 22, 2012. A similar MOU was approved on August 14, 2012, to pay a stipend to the custodial, clerical/paraprofessionals, and non-union employees in September. The payroll department personnel prepared spreadsheets which detailed the stipend amounts according to the MOU's. There was no indication that the School Corporation Treasurer reviewed the spreadsheets to verify that the proper employees would receive the correct amount of compensation.

On September 14 and 28, 2012, the payroll department personnel provided the School Corporation Treasurer with a "Payroll Distribution Report." The report provided a detailed list of the employees paid from each fund, as well as the dollar amounts paid individually and in total. There was no evidence that the Grant Directors reviewed or verified that the employees who received compensation from the grant funds were those that worked on grant related activities.

*Eligibility (Applies to Title I, Part A Cluster Only)*

An eligible schools summary, which is part of the grant application, was prepared electronically on the Indiana Department of Education website. For each grant award, parts of the eligible schools summary were prepopulated into the grant application. The Grant Director used this enrollment and poverty information by school building to determine the method that each school building qualified or was eligible for Title I and to determine the allocation method and amount by school building. Supporting documentation was not retained to indicate how the amount for the school allocation was calculated. Also, there was no evidence that there was a review or verification of the eligible schools summary or of the entire Title I application prepared by the Grant Director.

*Cash Management and Reporting (Title I, Part A Cluster, Special Education Cluster (IDEA),  
Improving Teacher Quality State Grants, Education Jobs Fund)*

Special Education Cluster (IDEA) Programs - A secretary prepared the claims for reimbursement and provided them to the business office for review and verification with supporting documentation (copies of ledgers); however, there was no evidence that a review or verification had been performed. Additionally, a clerk within the business office indicated that she inspected the cash balances of the grant funds to ensure that they were overdrawn by the amount claimed for reimbursement; however, no evidence was retained to indicate that the inspections were performed.

Title I, Part A Cluster and Improving Teacher Quality State Grants - The Grants Management Specialist prepared the claims for reimbursement and provided them to the School Corporation Treasurer for review and verification and a signature; however, there was no evidence of review or approval of the claims for reimbursement.

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(Continued)

Education Jobs Fund - An employee in the business office prepared the claims for reimbursement. There was no evidence of review or approval of the claims for reimbursement by the School Corporation Treasurer or any other employee.

*Level of Effort (Title I, Part A Cluster, Special Education Cluster (IDEA),  
Improving Teacher Quality State Grants, Education Jobs Fund)*

Special Education Cluster (IDEA) grants - The School Corporation contracted with a consultant to provide assistance in determining compliance with level of effort requirements. After compiling the information for the calculation, the consultant met with the Special Education Grant Director, the School Corporation Treasurer, and the Special Education Secretary to review the compilation and calculations. There was no evidence of a review or verification of the information used to make the calculations.

Title I, Part A Cluster, Improving Teacher Quality State Grants, Education Jobs Fund - The Indiana Department of Education (IDOE) prepares calculations to ensure compliance with maintenance of effort (level of effort) based upon the financial reports, commonly referred to as "Form 9s." The Form 9's are prepared and submitted by the School Corporation to the IDOE every six months. The School Corporation designated an employee of the business office to prepare and submit the Form 9's to the IDOE. There was no evidence of review or verification of the accuracy and completeness of the financial information reported.

*Earmarking (Title I, Part A Cluster, Special Education Cluster (IDEA),  
Improving Teacher Quality State Grants, Education Jobs Fund)*

For each grant award, a budget, which is part of the grant application, is prepared electronically on the IDOE website. For each grant award, the earmarking amount, which is based upon the grant award, is prepopulated into the grant budget. The School Corporation enters the budget as approved by the IDOE into their financial accounting software as a control and monitoring tool; however, there was no evidence that the budget and earmarking requirements were monitored. Appropriation reports were not retained to document that the grant budget had been entered into the financial records. Additionally, there was no evidence of a review or monitoring process.

*Special Test and Provision - Participation of Private School Children  
(Title I, Part A Cluster and Improving Teacher Quality State Grants)*

The Grant Director conducted consultations with the private schools to determine their needs and discuss the services to be provided; however, there was no evidence of review or verification of consultations. Additionally, there is no evidence of verification that services were provided.

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, 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 states in part:

"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."



SCHOOL CITY OF EAST CHICAGO  
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(Continued)

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

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreements and all compliance requirements that have a direct and material effect on the programs.

***FINDING 2013-007 - COMPLIANCE RELATED TO ALLOWABLE COSTS FOR PAYROLL FOR TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, ARRA TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, AND IMPROVING TEACHER QUALITY STATE GRANTS***

Federal Agency: U.S. Department of Education

Federal Programs: Title I Grants to Local Educational Agencies,  
ARRA Title I Grants to Local Educational Agencies,  
Improving Teacher Quality State Grants

CFDA Numbers: 84.010, 84.389, 84.367

Federal Award Numbers and Years: 11-4670, 12-4670, 13-4670, 7/1/11-9/30/12, 7/1/10-9/30/11,  
10/1/10-9/30/11, 09-4670, 10-4670, FFY 2011, FFY 2012

Pass-Through Entity: Indiana Department of Education

The School Corporation paid \$25 per hour or \$150 per day to teachers for overtime (generally referred to as a stipend). This overtime rate or stipend was not approved by the School Board.

Per state statute, all compensation must be established by the School Board. To be considered allowable, salaries and wages must be paid in accordance with local laws and regulations. Charges for employees who are compensated entirely by a federal grant are also to be supported by periodic certifications. The certifications are to be signed by the employee or a supervisor having first-hand knowledge of the work performed by the employee. They must also certify that the employee worked solely on that program for the period covered by the certification.

*Title I Grants to Local Educational Agencies and ARRA Title I Grants to Local Educational Agencies, Recovery Act*

In the 2011-2012 school year, overtime including the associated fringe benefits totaled \$3,364 and \$4,455, respectively from the 11-4670 (Fund 4111) and 12-4670 (Fund 4112) Title I Grants to Local Educational Agencies awards. In the 2012-2013 school year, overtime and the associated fringe benefits totaled \$25,755 from the 12-4670 (Fund 4112) Title I Grants to Local Educational Agencies award. These overtime payments and associated fringe benefits are considered questioned because the rates were not approved by the School Board.

When employees are compensated from more than one funding source, time and effort reports are required to document the time worked on each activity. These reports are required to be signed by the employee.

For each school year, timesheets were maintained by the School Corporation listing multiple employees. In most cases the employee recorded his name and noted the hours worked; however, many of the timesheets reviewed had the employee's name typed into the form. In all cases, the employees did not sign the timesheets to support payroll expenditures as an allowable cost.

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 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 (Continued)

An attendance register is prepared by each school secretary and signed by the principal certifying that the employees worked the hours and activities indicated on the attendance register. Because of this certification by a supervisor, these costs were not considered questioned costs.

*Improving Teacher Quality State Grants*

In the 2011-2012 school year, overtime and the associated fringe benefits totaled \$11,772 and \$12,650, respectively from the 10-4670 (Fund 6842) and FFY 2011 (Fund 6843) Improving Teacher Quality State Grants awards. In the 2012-2013 school year, overtime and the associated fringe benefits totaled \$24,550 from the 10-4670 (Fund 6842) Improving Teacher Quality State Grant. These overtime payments and associated fringe benefits are considered questioned costs because the rates were not approved by the School Board.

The School Corporation prepared Semi-Annual Certifications (certifications) for the employees who were compensated entirely from the Improving Teacher Quality State Grants awards; however, the certifications were not signed or dated. The School Corporation paid salaries and associated fringe benefits as follows from the Improving Teacher Quality State Grants which were not supported by signed and dated certifications:

<u>Grant Identifying Number</u>	<u>School Year</u>	
	<u>2011-2012</u>	<u>2012-2013</u>
09-4670 (Fund 6848)	\$ 65,941	\$ -
10-4670 (Fund 6842)	186,642	73,992
FFY 2011 (Fund 6843)	-	235,107
FFY 2012 (Fund 6844)	-	7,228

OMB Circular A-87, Attachment B states, in part:

"8. Compensation for personal services.

a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Circular, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and
- (3) Is determined and supported as provided in subsection h. . . .

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

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- (3) 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.
- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
  - (a) More than one Federal award,
  - (b) A Federal award and a non-Federal award,
  - (c) An indirect cost activity and a direct cost activity,
  - (d) Two or more indirect activities which are allocated using different allocation bases, or
  - (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
  - (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
  - (b) They must account for the total activity for which each employee is compensated,
  - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
  - (d) They must be signed by the employee."

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

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

- (8) To:
  - (B) Fix and pay the salaries and compensation of persons and services described in this subdivision that are consistent with IC 20-28-9-1.
  - (C) Classify persons or services described in this subdivision and to adopt schedules of salaries or compensation that are consistent with IC 20-28-9-1."

SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The failure to comply with state, local, and federal requirements regarding compensation could result in loss of future federal funding.

We recommended that the School Board establish and approve all compensation paid. We also recommended that officials maintain adequate documentation to support payroll costs and ensure compliance with allowable costs requirements.

***FINDING 2013-008 - COMPLIANCE RELATED TO ALLOWABLE COSTS RELATED TO VENDOR DISBURSEMENTS FOR TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES***

Federal Agency: U.S. Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Federal Award Numbers and Years: 11-4670, 12-4670  
Pass-Through Entity: Indiana Department of Education

In order to comply with the allowable cost compliance requirements, a cost paid from a grant must be adequately documented.

In the 2011-2012 and 2012-2013 school years, the School Corporation paid \$15,000 each from the 11-4670 (Fund 4111) and 12-4670 (Fund 4112) Title I Grants to Local Educational Agencies awards for a copy machine lease. Nothing was attached to either claim form to document how this cost was derived. The copy machine lease agreements indicated that one was for the Title I program. The lease expired at the end of the 2011-2012 school year. The annual lease rental was determined to be \$5,771.40. Thus, the \$9,228.60 excess allocation to the 11-4670 (Fund 4111) and the \$15,000 allocated to 12-4670 (Fund 4112) without adequate documentation has been determined to be questioned costs.

OMB Circular A-87, Attachment A, Part C. Basic Guidelines states in part:

- "1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
  - b. Be allocable to Federal awards under the provisions of this Circular.
  - c. Be authorized or not prohibited under State or local laws or regulations.
  - d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
  - e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
  - f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
  - g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.

SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- i. Be the net of all applicable credits.
- j. Be adequately documented. . . .

The failure to adequately document costs paid from grant funds could result in loss of future federal grant awards.

We recommended that officials attach itemized vendor invoices to all claims to ensure such costs have been properly documented in compliance with allowable costs requirements.

***FINDING 2013-009 - CONTROLS AND COMPLIANCE RELATED TO SPECIAL TESTS AND PROVISIONS COMPARABILITY REQUIREMENTS FOR TITLE I, PART A CLUSTER AND EDUCATION JOBS FUND***

Federal Agency: U.S. Department of Education

Federal Programs: Title I Grants to Local Educational Agencies,  
ARRA Title I Grants to Local Educational Agencies,  
Recovery Act, Education Jobs Fund

CFDA Numbers: 84.010, 84.389, 84.410

Federal Award Numbers and Years: 11-4670, 12-4670, 13-4670, 10/1/10-9/30/11, 7/1/11-9/30/12,  
7/1/12-9/30/13, 7/1/10-9/30/11 10/1/10-9/30/11, 10/1/12-9/30/13,  
10-4670

Pass-Through Entity: Indiana Department of Education

*Controls*

Management of the School Corporation has not established and implemented an effective internal control system, which would include segregation of duties, related to the grant agreement and the Special Tests and Provisions of comparability compliance requirements that have a direct and material effect on the programs. The failure to effectively establish and implement an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the comparability compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with the 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.

*Compliance*

The School Corporation is required to file a Comparability Report every two years with the Indiana Department of Education (IDOE) which documents the full-time equivalent (FTE) of staff to students by school. The information reported by the School Corporation is used by the IDOE to determine if services provided with state and local funds, when taken as a whole, are substantially comparable at each school.

The School Corporation reported the FTE for five elementary schools. The Title I Director prepared the Comparability Report annually and retained the written documentation used in preparing the report; however, there is no evidence of an independent review or verification of the comparability report to the supporting documentation.

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(Continued)

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, 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 states in part:

"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 and implement effective internal controls has enabled material noncompliance to go undetected. Noncompliance of the grant agreement or the comparability compliance requirements that have a direct and material effect on the programs could result in the loss of federal funds to the School Corporation.

Documentation provided to support the FTE reported did not agree to the FTE reported for any of the five elementary schools. In all cases the FTE reported was less than the FTE computed from the supporting documents by .33 to 5.56 FTE. Because IDOE determines comparability based upon the numbers reported, we could not determine if these discrepancies would affect the School Corporation's comparability.

Section 1120A (c) of Public Law 107-110 "requires procedures for compliance with the comparability requirement. All local education agencies (LEA) must complete comparability yearly and submit information to the state education agency (SEA) every two years for compliance with the comparability requirement. Also, Title I LEAs must develop procedures for compliance with the comparability requirement and implement those procedures annually."

The failure to comply with comparability requirements could result in the loss of future federal funding.

We recommended that officials establish and implement effective internal controls over, and comply with, the comparability requirements that have a direct and material effect on the programs.

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(Continued)

***FINDING 2013-010 - CONTROLS AND COMPLIANCE RELATED TO PROCUREMENT, SUSPENSION, AND DEBARMENT REQUIREMENTS FOR TITLE I, PART A CLUSTER AND SPECIAL EDUCATION CLUSTER (IDEA)***

Federal Agency: U.S. Department of Education

Federal Programs: Title I Grants to Local Educational Agencies; ARRA Title I Grants to Local Educational Agencies, Recovery Act; Special Education - Grants to States; Special Education - Preschool Grants; ARRA Special Education Grants to States, Recovery Act

CFDA Numbers: 84.010, 84.389, 84.027, 84.173, 84.391

Federal Award Numbers and Years: 11-4670, 12-4670, 13-4670, 10/1/10-9/30/11, 7/1/11-9/30/12, 7/1/12-9/30/13, 7/1/10-9/30/11, 10/1/10-9/30/11, 10/1/12/9/30/13, 14210-014-PN01, 14211-014-PN01, 14212-014-PN01, 14213-014- PN01, A58-3-13DL-0072, 45710-014-PN01, 45711-014-PN01, 45712-014-PN01, 45713-014-PN01, 33310-014-SN01

Pass-Through Entity: Indiana Department of Education

*Controls*

Management of the School Corporation has not established and implemented an effective internal control system, which would include segregation of duties, related to the grant agreement and Procurement, Suspension and Debarment compliance requirements that have a direct and material effect to the programs. The failure to effectively establish and implement an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the Procurement, Suspension and Debarment compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with the 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 Special Education and Title I Department personnel were not aware of the School Corporation's purchasing policy or state laws regarding purchasing.

The purchasing policy adopted by the School Board designated the School Corporation Treasurer as the purchasing agent, but individuals within the various departments were assuming that role. Generally, one person within the Special Education and Title I Departments was responsible for seeking quotes or proposals for the purchase of goods. There was no review or oversight process to verify compliance with state statutes and local purchasing policies.

The Special Education and Title I Departments relied upon the business office to notify them of any issues with a vendor. The business office relied upon the Special Education and Title I Departments to perform due diligence regarding suspension and debarment. There was no evidence that either department performed procedures to ensure that vendors paid with federal funds were not suspended or debarred from participation in federal programs.

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, 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.

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(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"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 and implement effective internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreements or the procurement, suspension, and debarment compliance requirements that have a direct and material effect on the programs could result in the loss of federal funds to the School Corporation.

*Compliance*

The Special Education Department purchased four file cabinets in a single purchase of \$11,200 and 120 computer tablets (IPADS) in a single purchase of \$45,800.40 without seeking quotes or bids from multiple vendors.

The School Corporation has adopted a procurement or purchasing policy (Policy # 6320) which states in part:

"The purchasing agent must seek at least three (3) price quotations on purchases of more than \$5,000 but less than \$10,000 except in cases of emergency or where materials are of such nature that price quotations would not result in a savings to the School Corporation. . . ."

When the purchase of, and contract for, single items of supplies, materials, or equipment amounts to \$75,000 or more, the Treasurer shall obtain competitive bids . . ."

The policy does not address procedures for the purchase of supplies, materials, or equipment expected to cost between \$10,000 and \$75,000.

On October 26, 2011, the Special Education Department purchased 230 computer tablets (IPADs) at a total cost of \$110,170 by soliciting a single quote from one vendor.

Indiana Code 5-22-8-3 states in part:

"(a) This section applies only if the purchasing agent expects the purchase to be:

- (1) At least fifty thousand dollars (\$50,000); and
- (2) Not more than one hundred fifty thousand dollars (\$150,000).

(b) A purchasing agent may purchase supplies under this section by inviting quotes from at least three (3) persons known to deal in the lines or classes of supplies to be purchased."

34 CFR 80.36(b) states in part:

*"Procurement standards.* (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. . . ."



SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."

The failure to adequately abide by state and local laws when purchasing materials, supplies, and equipment with Special Education grant funds could result in loss of future federal funding.

Contracts for services entered into by the School Corporation do not require vendors to certify that they have not been suspended or debarred from doing business with the federal government. There is also no evidence that anyone at the School Corporation verified that vendors had not been suspended or debarred from participating in federal programs by inspecting the federal website (SAM.gov), which lists vendors and their business status.

34 CFR 80.35 states: "Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, Debarment and Suspension."

The failure to comply with federal guidelines for determining if vendors have been suspended or debarred could result in payment of federal funds to unauthorized parties.

We recommended that officials establish and implement effective internal controls over Procurement, Suspension and Debarment to ensure compliance and to comply with Procurement, Suspension and Debarment requirements.

***FINDING 2013-011 - CONTROLS AND COMPLIANCE RELATED TO EQUIPMENT AND REAL PROPERTY MANAGEMENT REQUIREMENTS FOR THE SPECIAL EDUCATION CLUSTER (IDEA)***

Federal Agency: U.S. Department of Education

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

CFDA Numbers: 84.027, 84.173, 84.391

Federal Award Numbers and Years: 14210-014-PN01, 14211-014-PN01, 14212-014-PN01,  
14213-014-PN01, A58-3-13DL-0072, 45710-014-PN01,  
45711-014-PN01, 45712-014-PN01, 45713-014-PN01,  
33310-014-SN01

Pass-Through Entity: Indiana Department of Education

*Controls*

Management of the School Corporation has not effectively implemented an internal control system related to the grant agreement and Equipment and Real Property Management requirements that have a direct and material effect on the programs. The failure to effectively implement an internal control system places the School Corporation at risk of noncompliance with the grant agreement and the Equipment Management compliance requirements.

SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The School Corporation adopted a capital asset policy (Policy # 7450) which states, in part:

"For purposes of this policy, 'equipment' shall mean a unit of furniture or furnishings, an instrument, a machine, an apparatus, or a set of articles which retains its shape and appearance with use, is non-expendable, costs at least \$1,000 to replace and does not lose its identity when incorporated into a more complex unit.

It shall be the duty of the Director of Support Services to ensure that inventories are recorded systematically and accurately and property records of equipment are updated and adjusted annually by reference to purchase orders and withdrawal reports.

Each principal/supervisor shall conduct an annual spot-check inventory of major items of equipment to determine loss, mislocation, or depreciation; any major loss shall be reported to the Board."

The secretary of the Special Education Department maintains a list of all equipment purchased with federal awards by fund. The Special Education Department also employs an information technology (IT) person, who maintains a list by location of all small electronic equipment such as computer tablets (handheld electronics). Each year, the IT person compares his list of small electronic equipment to the list of equipment maintained by the Secretary; however, evidence of that comparison is incomplete.

At the end of each school year, the Special Education Department requires that each school principal verify the inventory of small electronics by completing a form which must be signed and dated by the principal. At the same time, an employee of the Special Education Department is responsible for verifying the items are on hand by initialing each line of the inventoried piece of equipment and signing the form.

Some inventory forms completed in June 2013 for the small electronic equipment lacked the required signatures and dates to ensure that the controls have been properly implemented. In addition, these inventories are not compared to the equipment list maintained by the secretary and IT person.

OMB Circular A-133, Subpart C, section .300 states in part:

"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 effectively implement internal controls over equipment and real property management resulted in noncompliance with the federal requirements.

*Compliance*

Only small handheld electronic equipment is inventoried and there is no evidence that those inventories are verified to the equipment lists maintained by the Special Education Department. Furthermore, larger electronic equipment such as cameras, file cabinets, and laptop computers are not inventoried on an annual or biennial basis.

CFR 34 80.32(d) states in part:

*"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:

SCHOOL CITY OF EAST CHICAGO  
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."

The failure to adequately inventory and verify all equipment purchased with the Special Education grant funds could result in inaccurate property records.

We recommended that School Corporation officials properly implement controls over and comply with Equipment and Real Property Management requirements.

***FINDING 2013-012 - COMPLIANCE RELATED TO ALLOWABLE COSTS REQUIREMENTS FOR EDUCATION JOBS FUND***

Federal Agency: U.S. Department of Education  
Federal Program: Education Jobs Fund  
CFDA Number: 84.410  
Pass-Through Entity: Indiana Department of Education

On August 17, 2012, the School Corporation paid a one-time 3 percent stipend to certain employees employed on January 1, 2012, and still employed on August 1, 2012, based upon the employee's 2011-2012 school year base salary. The employer payroll costs for FICA and Medicare were also paid on that date from the grant funds. Included in the stipend were payments to seven employees with the following titles: Director of Grounds and Facilities, Director of Support Services, Transportation Manager, Interim Treasurer/Fiscal Officer, Director of Human Resources, Coordinator of Graphics Print Shop, and Assistant to the Coordinator of Graphics Print Shop. The stipend payments and the related employer FICA and Medicare costs for these seven employees totaled \$15,363.23. Since these payments were for general administrative central services costs and were not school-level educational and related services, they are considered questioned costs.

Public Law 111-226, Title I, Education Jobs Fund (5) states in part:

"... funds awarded to local educational agencies . . . (A) may be used only for compensation and benefits and other expenses, such as support services, necessary to retain existing employees, to recall or rehire former employees, and to hire new employees, in order to provide early childhood, elementary, or secondary educational and related services; and (B) may not be used for general administrative expenses . . . "

On April 15, 2011, the U.S. Department of Education issued *Initial Guidance for States on the Education Jobs Fund Program*, which states, in part D-3, "Which employees may an LEA support with Ed Jobs funds? An LEA may use the funds to pay the salaries of teachers and other employees who provide school-level educational and related services. In addition to teachers, employees supported with program funds may include, among others, principals, assistant principals, academic coaches, in-service teacher trainers, classroom aides, counselors, librarians, secretaries, social workers, psychologists, interpreters, physical therapists, speech therapists, occupational therapists, information technology personnel, nurses, athletic coaches, security officers, custodians, maintenance workers, bus drivers, and cafeteria workers."

SCHOOL CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Also the same publication states in part D-4, "What are the statutory prohibitions on an LEA's use of Ed Jobs funds? The statute prohibits LEAs from using Ed Jobs funds for general administrative expenses as that term is defined by the National Center for Education Statistics (NCES) in its Common Core of Data. These prohibited expenses are administrative expenditures related to the operation of the superintendent's office or the LEA's board of education, including the salaries and benefits of LEA-level administrative employees. The statute also prohibits LEAs from using Ed Jobs funds for other LEA-level support services expenditures as that term is defined in the Common Core of Data. These prohibited activities include the payment of expenditures for fiscal services, LEA program planners and researchers, and human resource services."

The School Corporation did not comply with the allowable costs compliance requirements that have a direct and material effect on the program. The failure to comply with federal guidelines could result in the loss of future federal funding.

We recommended that the School Corporation officials comply with allowable costs requirements that have a direct and material on the program.

# School City of East Chicago



210 E. Columbus Drive  
East Chicago, Indiana 46312  
Phone: (219) 391-4100  
Fax: (219) 391-4126

**Jesse Gomez**  
School Board President

**Terence Hill**  
School Board Vice-President

**Mariecruz Perez**  
School Board Secretary

**Frank Rivera**  
School Board Member

**Joel Rodriguez**  
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**Kenny (Coach) Monroe**  
School Board Member

**Kathleen A. Dowling**  
Chief Financial Officer

February 19, 2014

Dear State Board of Accounts:

## SCHOOL CITY OF EAST CHICAGO SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### Schedule III – Federal Award Findings and Questioned Costs

#### Finding 2011-2 – Suspension and Debarment

Federal Agency: U.S. Department of Agriculture and U.S. Department of Education  
Federal Program: Child Nutrition Cluster, Title I, Part A Cluster, Special Education Cluster, State Fiscal Stabilization Fund Cluster

CFDA Number: 10.553, 10.555, 10.559, 84.010, 84.389, 84.027, 84.173, 84.391, 84.392, and 84.394

Federal Award Number: 09-4670, 10-4670, 11-4670, School Improvement, 14209-014-PN01, 14209-014-PY02, 14210-014-PN01, 14211-014-PN01, 45709-014-PN01, 45710-014-PN01, 33310-014-SN01, 44410-014-SN01

Pass-Through Entity: Indiana Department of Education

The initial response with a corrective action plan was submitted by Francisco Ramirez on February 21, 2012. In his response, Mr. Ramirez indicated that as of January 1, 2012 the School City of East Chicago would design and implement controls to prevent the potential of a disbarred or suspended vendors from being paid with federal funds. This procedure was to require that all vendors be checked against the Federal Vendor Verification website located at <https://www.ipls.gov> to ensure that the vendors are eligible to be paid from federal funds.

I was unable to locate a specific policy that mandated this procedure. I was unable to verify if vendors were being checked against the Federal Vendor Verification website. Based on the aforementioned information, I must acknowledge that the corrective action plan for Finding 2011-2 was not developed nor implemented.

I am working currently working with the existing grant management personnel to develop a policy with the appropriate levels of control to prevent the potential of disbarred or suspended vendors from being paid with federal funds. This policy will require use of the System of Award Management. It is our goal to have this policy approved and in place no later than thirty (30) days after the completion of the audit.

### Schedule III – Federal Award Findings and Questioned Costs

#### Finding 2011-3 – Reporting – Child Nutrition Cluster

Federal Agency: U.S. Department of Agriculture

Federal Program: Child Nutrition Cluster

CFDA Number: 10.553, 10.555, 10.559

# School City of East Chicago

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**Kenny (Coach) Monroe**  
School Board Member



210 E. Columbus Drive  
East Chicago, Indiana 46312

Phone: (219) 391-4100

Fax: (219) 391-4126

---

**Kathleen A. Dowling**  
Chief Financial Officer

Pass-Through Entity: Indiana Department of Education

The initial response with a corrective action plan was submitted by Francisco Ramirez on February 21, 2012. In his response, Mr. Ramirez indicated that as of January 1, 2012 the School City of East Chicago would implement a review process to ensure all reports submitted by Sodexo on behalf of the school corporation are reconciled to the supporting documentation before the monthly, quarterly, or annual reports are submitted to the State of Indiana. This process would be designed ensure that the reimbursement amounts are accurate and to also ensure that the annual financial reports accurately reflect the financial records of the School City of East Chicago.

I was unable to locate a specific policy that documented or mandated the revised review process. Based on this information, I must acknowledge that the corrective action plan for Finding 2011-3 was not developed nor implemented.

I am currently working with our new account manager from Sodexo to develop a procedure that will include the appropriate levels of control to ensure that all reports submitted by Sodexo on behalf of the school corporation to the State of Indiana are properly reconciled prior to submission.

Should you have any questions, or require any additional information, please contact me at your convenience.

Sincerely,



Katy Dowling  
Chief Financial Officer

# School City of East Chicago



210 E. Columbus Drive  
East Chicago, Indiana 46312  
Phone: (219) 391-4100  
Fax: (219) 391-4126

**Jesse Gomez**  
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**Mariecruz Perez**  
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**Kathleen A. Dowling**  
Chief Financial Officer

March 26, 2014

## *FINDING 2013-001*

The School City of East Chicago has reviewed Finding 2013-001 in Section II – Financial Statement Findings as listed in the Schedule of Findings and Questioned Costs. The response and corrective action plan are as follows:

1(a) – The School City of East Chicago will identify a best practice with regard to segregation of duties to ensure that all incompatible activities are properly segregated to reduce the risk of material misstatements and irregularities in the financial reporting. This process will be implemented before July 1, 2014.

1(b) – The worker's compensation claims were once paid through a separate bank account. This fund is now included in the School City of East Chicago's main bank account. The account that remains contains monies for outstanding checks that were previously issued. Going forward, this account reconciliation will be submitted to the Treasurer for review and approval until such time as the account may be closed. This change in process will be implemented with the March bank statement.

2(a) – The School City of East Chicago has designated the Chief Financial Officer as the person responsible for reviewing all financial reports, prior to submission to the proper government agency. Going forward, the chief financial officer will review all financial statements and schedules prior to their submission to the proper government agency. The staff responsible for preparing the financial statements have been notified of the additional review step. This change in process will be implemented immediately.

2(b) - The School City of East Chicago began posting the self-insured worker's compensation activity within the district financial system on January 1, 2013. This change ensures that all future activity will be posted in the district financial system. As of February 28, 2014, a balance of \$79,704.92 was in the self-insured account that does not appear in the district financial system. Of this balance, \$2,430.33 is obligated in the form of outstanding checks. This leaves an unobligated balance of \$77,274.59. This unobligated balance (\$77,274.59) will be transferred to the district general fund before July 1, 2014. The only monies remaining will be outstanding checks in the amount of \$2,430.33.

2(c) – The School City of East Chicago will determine the appropriate cash balance in the medical self-insurance fund as of January 1, 2012 and ensure that it is receipted into the district financial system to ensure the proper accounting of all monies. This exercise will take place prior to July 1, 2014.

# School City of East Chicago

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East Chicago, Indiana 46312

Phone: (219) 391-4100

Fax: (219) 391-4126

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**Kathleen A. Dowling**  
Chief Financial Officer

2(d) – The School City of East Chicago has begun working to rectify the outstanding reconciling items on both the medical self-insurance account as well as all other accounts. We anticipate that this process will be completed before July 1, 2014.

2(e) - From this point forward, all corrections or adjustments will have supporting documentation. In addition, all corrections and adjustments will be reviewed and approved by the Treasurer.

2(f) – From this point forward, all transfers will be approved by the Board of School Trustees prior to execution. Proof of the approval will be attached as supporting documentation to the accounts payable voucher. All accounts payable vouchers are reviewed and approved by the Treasurer, prior to submission to the Board of School Trustees for claims approval.

2(g) – Previously, the Treasurer’s signature was printed on the accounts payable vouchers. This process has been changed so that the Treasurer must sign each individual accounts payable voucher. Each voucher is reviewed to ensure that the proper documentation has been attached. The Treasurer will ensure that all invoices are itemized and that all accounts payable vouchers contain the proper documentation.

2(h) - The School City of East Chicago has designated the chief financial officer as the person responsible for reviewing all financial reports, prior to submission to the proper government agency. Going forward, the chief financial officer will review all financial statements and schedules prior to their submission to the proper government agency. The staff responsible for preparing the financial statements have been notified of the additional review step. This change in process will be implemented immediately.

2(i) – The School City of East Chicago will review the Catalog of Federal Domestic Assistance (CFDA) website and make corrections to the program titles on the Schedule of Expenditures of Federal Awards (SEFA) to ensure they are accurate. This process will be complete prior to July 1, 2014.

3 – The School City of East Chicago will identify a best practice to utilize as a tool in designing internal controls over financial reporting that allow the School Board to monitor and assess the quality of the School Corporation’s system of internal controls. The School Corporation will also provide a process to identify or communicate corrective actions to improve controls.

Sincerely,

Katy Dowling



# School City of East Chicago

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210 E. Columbus Drive  
East Chicago, Indiana 46312  
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Fax: (219) 391-4126

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**Kathleen A. Dowling**  
Chief Financial Officer

March 26, 2014

## *FINDING 2013-002*

**Federal Agency: U.S. Department of Agriculture**

**Federal Program: School Breakfast Program, National School Lunch Program, Child and Adult Care Food Program, Summer Food Service Program for Children**

**CFDA Number: 10.553, 10.555, and 10.558**

**Federal Award Year: FY 2012, FY 2013**

**Pass-Through Entity: Indiana Department of Education**

The School City of East Chicago has reviewed Finding 2013-002, internal controls and compliance over activities allowed/allowable costs for the child nutrition cluster grants and child and adult care food program. The response and corrective action plan are as follows:

Before July 1, 2014, the School City of East Chicago will establish an effective internal control system, related to the grant agreement and the compliance requirements over activities allowed/allowable costs that have a direct and material effect to the program. This system will be designed 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.

With regard to food service management, the School City of East Chicago now requires Sodexo, the food service management provider, to include all supporting documentation that provides the detail that determines the amount billed on each invoice. The supporting documentation for the period of July 1, 2011 – June 30, 2013 is available, however, it was not previously attached to the monthly invoice. This process was modified effective in March, 2014 for the February, 2014 invoice.

With regard to waste disposal, the School City of East Chicago will end the current process for allocating costs for dumpsters. This change will take place as of the March invoices from Allied Waste Services. Going forward, the district will evaluate the allocation of dumpsters to identify those that are solely dedicated to food service and/or a reasonable method to determine the cost allocation.

Sincerely,



Katy Dowling

# School City of East Chicago

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210 E. Columbus Drive  
East Chicago, Indiana 46312  
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Fax: (219) 391-4126

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**Kathleen A. Dowling**  
Chief Financial Officer

March 26, 2014

## *FINDING 2013-003*

**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 2012, FY 2013**

**Pass-Through Entity: Indiana Department of Education**

The School City of East Chicago has reviewed Finding 2013-003, internal controls and compliance over eligibility for the school breakfast program and national school lunch program. The response and corrective action plan are as follows:

Before July 1, 2014, the School City of East Chicago will establish an effective internal control system, related to the grant agreement and the compliance requirements over activities allowed/allowable costs that have a direct and material effect to the program. This system will be designed 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.

With regard to the eligibility determinations and approved applications for free and reduced price lunch, the Treasurer, or his/her designee, will be responsible for oversight to ensure that the eligibility determinations and application approvals are accurate. This process will be changed before July 1, 2014.

With regard to compliance, the School City of East Chicago will develop a procedure that reasonably assures that all free and reduced priced meal applications are properly filled out, reviewed, and that all appropriate documentation is attached. This procedure will be implemented before July 1, 2014.

Sincerely,

Katy Dowling

# School City of East Chicago

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210 E. Columbus Drive  
East Chicago, Indiana 46312  
Phone: (219) 391-4100  
Fax: (219) 391-4126

---

**Kathleen A. Dowling**  
Chief Financial Officer

March 26, 2014

## *FINDING 2013-004*

**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 2012, FY 2013**

**Pass-Through Entity: Indiana Department of Education**

The School City of East Chicago has reviewed Finding 2013-004, internal controls and compliance over reporting that affect the school breakfast program and the national school lunch program. The response and corrective action plan are as follows:

With regard to internal controls, the School City of Chicago and Sodexo will develop a policy that ensures that the Sodexo general manager reviews or tests the data that is entered by the Sodexo administrative assistant. In addition, this policy will also include a process of review of the reimbursement claim by the chief financial officer, prior to its submission by the Sodexo general manager. This policy will be in place prior to July 1, 2014.

With regard to compliance, a procedure will be put into place that standardizes how new or inactive students are tracked and provides for comparison between the daily report and the meal magic daily sales activity report. In addition, this procedure will also include a review process that compares the information entered into the Sodexo software against the daily report source document. Finally, the general manager and the chief financial officer will review the school designations on an annual basis to ensure that all buildings are properly classified. This policy will be in place prior to July 1, 2014.

Sincerely,

Katy Dowling

# School City of East Chicago

---

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**Stacy Winfield**  
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**Stephanie Ramos**  
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School Board Member



210 E. Columbus Drive  
East Chicago, Indiana 46312

Phone: (219) 391-4100

Fax: (219) 391-4126

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**Kathleen A. Dowling**  
Chief Financial Officer

March 26, 2014

## *FINDING 2013-005*

**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 2012, FY 2013**

**Pass-Through Entity: Indiana Department of Education**

The School City of East Chicago has reviewed Finding 2013-005, internal controls over program income and special tests and provisions – compliance requirements that have a direct and material effect to the school breakfast program and national school lunch program. The response and corrective action plan are as follows:

With regard to program income, special tests and provisions in the school food account, the School City of East Chicago will develop a policy that mandates the timelines for submission of school lunch collections. This policy will also include a provision that the “Weekly Money Collected” report provided by Sodexo be compared to the “Weekly Recap of Cash Collected” that is submitted with the deposits from the ECA treasurer. This process will be in place prior to July 1, 2014.

With regard to special tests and provisions – verification, the School City of East Chicago will ensure that the chief financial officer, or her designee, performs a review to ensure the accuracy of the free and reduced lunch applications. This change will be in place prior to July 1, 2014.

With regard to special tests and provisions – paid lunch equity, the School City of East Chicago will develop a policy to ensure compliance with paid lunch equity requirements. This policy will be in place prior to July 1, 2014.

Sincerely,



Katy Dowling

# School City of East Chicago



210 E. Columbus Drive  
East Chicago, Indiana 46312  
Phone: (219) 391-4100  
Fax: (219) 391-4126

**Jesse Gomez**  
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**Kathleen A. Dowling**  
Chief Financial Officer

March 26, 2014

## *FINDING 2013-006*

**Federal Agency: U.S. Department of Education**

**Federal Program: Title I, Part A Cluster, Special Education Cluster (IDEA), Improving Teacher Quality State Grants, Education Jobs Fund**

**CFDA Number: 84.010, 84.027, 84.173, 84.389, 84.391, 84.410**

**Federal Award Number and Year (or Other Identifying Number): 11-4670, 12-4670, 13-4670, 10/1/10-9/30/11, 7/1/11-9/30/12, 7/1/12-9/30/13, 7/1/10-9/30/11, 10/1/12-9/30/13, 10-4670, 7/1/10-9/30/11, 14210-014-PN01, 14211-014-PN01, 14212-014-PN01, 14213-014-PN01, A58-3-13DL-0072, 45710-014-PN01, 45711-014-PN01, 45712-014-PN01, 45713-014-PN01, 33310-014-SN01**

**Pass-Through Entity: Indiana Department of Education**

The School City of East Chicago has reviewed Finding 2013-006, internal controls over compliance requirements that have a direct and material effect to Title I, Part A Cluster, Special Education Cluster, and Improving Teacher Quality State Grants, Education Jobs Fund. The response and corrective action plan are as follows:

With regard to vendor payments in the Title I Cluster, Special Education Cluster, and Improving Teacher Quality Grants, the business office will put a procedure in place to ensure that the grant director has approved the purchase and has determined that the expenditure occurred during the grant period, the purchase is for an allowable activity, and the cost is allowable in accordance with the grant agreement. The procedure will be in place prior to July 1, 2014.

With regard to payroll in the Title I Cluster, Special Education Cluster, and Improving Teacher Quality Grants, the business office will put a process into place that ensures that the grant directors in each of the aforementioned grants have properly reviewed and verified that the employees receiving compensation from the grant funds are the same employees they designated as working on grant related activities. This process will be in place prior to July 1, 2014.

With regard to payroll in the Education Jobs Fund Grant, the business office will put a process into place that ensures that the grant director in the aforementioned grants have properly reviewed and verified that the employees receiving compensation from the grant funds are the same employees they designated as working on grant related activities. This process will be in place prior to July 1, 2014.

With regard to eligibility in the Title I Cluster, while preparing the Title I Basic Grant application, the grant director will review the average daily membership and attendance report to verify student enrollment numbers for school allocation amounts. The eligibility summary page, along with all supporting documentation, will be provided to the Superintendent for review prior to submission of the

# School City of East Chicago

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**Jesse Gomez**  
*School Board President*

**Terence Hill**  
*School Board Vice-President*

**Mariecruz Perez**  
*School Board Secretary*

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*School Board Member*

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**Kenny (Coach) Monroe**  
*School Board Member*



210 E. Columbus Drive  
East Chicago, Indiana 46312  
Phone: (219) 391-4100  
Fax: (219) 391-4126

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**Kathleen A. Dowling**  
Chief Financial Officer

grant. All supporting documentation and work papers will be retained for audit purposes. This change will be in place for the next grant application cycle.

With regard to cash management and reporting as it applies to the Special Education Cluster grants, the chief financial officer does review all reimbursement claims and the supporting documentation. Effective immediately, the chief financial officer will make notations on the supporting documentation that will serve as proof that a review and verification has been performed. In addition, the finance manager has modified her process to include the cash balance report that demonstrates that the amount of the reimbursement claim is equal to the amount that the fund has been overdrawn.

With regard to cash management and reporting as it applies to Title I and Improving Teacher Quality Grants, the chief financial officer does review all reimbursement claims and the supporting documentation. Effective immediately, the chief financial officer will make notations on the supporting documentation that will serve as proof that a review and verification has been performed.

With regard to cash management and reporting as it applies to the Education Jobs Grant, all future requests for reimbursement will be reviewed by the chief financial officer prior to submission.

In reference to the level of effort for the Special Education Cluster Grants, upon review of findings, this process has been modified to include signatures from all staff present when then information is reviewed with the consultant. In addition, all documentation will be retained for future review.

With regard to the level of effort for the Title I Cluster, Improving Teach Quality State Grant, and the Education Jobs Grant, this process was modified as of the submission of the Form 9 for period ending 12/31/13 to include review by the chief financial officer, prior to submission by an employee of the business office.

In reference to earmarking, the School City of East Chicago will generate an appropriation report immediately after a grant has been entered into the financial system. This report will be provided to the grant directors, or their designee. At that time, a review shall take place in order to ensure that the budget was properly entered. This information shall be retained for audit purposes. In addition, the business office will generate appropriation reports on a monthly basis for all grant funds. These reports will be distributed to the individual grant directors. The grant directors, or their designee, will review the reports and utilize them as a monitoring tool to ensure ongoing review and monitoring. These reports will also be retained for audit purposes. These changes will be in effect for all future grant awards. For current grants, this process will be in place prior to July 1, 2014.

With regard to the special test and provision on participation of private school children as it applies to the Title I and Improving Teacher Quality State Grants, the grant director will include documentation of the consultations that take place with the private schools with regard to their needs and the services to be

# School City of East Chicago

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**Kathleen A. Dowling**  
Chief Financial Officer

provided. In addition, a process will be developed that will provide adequate review and verification that the services were provided in accordance with the calculated budget constraints. All documentation will be retained for audit purposes. This process will be in place prior to July 1, 2014.

Sincerely,

A handwritten signature in cursive script that reads "Katy Dowling".

Katy Dowling

# School City of East Chicago



210 E. Columbus Drive  
East Chicago, Indiana 46312  
Phone: (219) 391-4100  
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School Board Member

**Kenny (Coach) Monroe**  
School Board Member

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**Kathleen A. Dowling**  
Chief Financial Officer

March 26, 2014

## *FINDING 2013-007*

**Federal Agency: U.S. Department of Education**

**Federal Program: Title I Grants to Local Educational Agencies, ARRA Title I Grants to Local Educational Agencies, and Improving Teacher Quality State Grants**

**CFDA Number: 84.010, 84.389, 84.367**

**Federal Award Number and Year (or Other Identifying Number): 11-4670, 12-4670, 13-4670, 7/1/11-9/30/12, 7/1/10-9/30/11, 10/1/10-9/30/11, 7/1/10-9/30/11, 10-4670, FFY 2011, FFY2012, 09-4670**

**Pass-Through Entity: Indiana Department of Education**

The School City of East Chicago has reviewed Finding 2013-007, compliance related to allowable costs for payroll for Title I grants to local educational agencies, ARRA Title I grants to local educational agencies, and Improving Teacher Quality State Grants. The response and corrective action plan are as follows:

With regard to stipends for teacher overtime, the current rates have been in place for the last 10-15 years. The Board of School Trustees will approve the current rate of \$25 per hour or \$150 per day for the current school year as well as the associated fringe benefits. In addition, the Board of School Trustees will approve all future rates for teacher overtime compensation, including the fringe benefits. The stipend and the associated fringe benefits will be approved by the Board of School Trustees before April 30, 2014.

In reference to the teacher stipends as it applies to the Title I Grants to local educational agencies and the ARRA Title I Grants to local educational agencies, the current rates have been in place for the last 10-15 years. The Board of School Trustees will approve the current rate of \$25 per hour or \$150 per day for the current school year as well as the associated fringe benefits. In addition, the Board of School Trustees will approve all future rates for teacher overtime compensation, including the associated fringe benefits. The stipend and the associated fringe benefits will be approved by the Board of School Trustees before April 30, 2014.

With regard to Improving Teacher Quality State Grants, the current rates have been in place for the last 10-15 years. The Board of School Trustees will approve the current rate of \$25 per hour or \$150 per day for the current school year as well as the associated fringe benefits. In addition, the Board of School Trustees will approve all future rates for teacher overtime compensation, including the associated fringe benefits. The stipend and the associated fringe benefits will be approved by the Board of School Trustees before April 30, 2014.

In reference to Improving Teacher Quality State Grants, going forward all semi-annual certifications will be signed and dated, in accordance with the rules and regulations of the grant covenant.



# School City of East Chicago

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*School Board Vice-President*

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**Kathleen A. Dowling**  
Chief Financial Officer

Sincerely,

A handwritten signature in cursive script that reads "Katy Dowling".

Katy Dowling

# School City of East Chicago

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**Jesse Gomez**  
School Board President

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School Board Vice-President

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**Kathleen A. Dowling**  
Chief Financial Officer

March 26, 2014

***FINDING 2013-008***

**Federal Agency: U.S. Department of Education**

**Federal Program: Title I Grants to Local Educational Agencies**

**CFDA Number: 84.010**

**Federal Award Number and Year (or Other Identifying Number): 11-4670, 12-4670**

**Pass-Through Entity: Indiana Department of Education**

The School City of East Chicago has reviewed Finding 2013-008, compliance related to allowable costs related to vendor disbursements for Title I grants to local educational agencies. The response and corrective action plan are as follows:

Previously, the Treasurer's signature was printed on the accounts payable vouchers. This process has been changed so that the Treasurer must sign each individual accounts payable voucher. Each voucher is reviewed to ensure that the proper documentation has been attached. The Treasurer will ensure that all invoices are itemized and that all accounts payable vouchers contain the proper documentation to ensure that the appropriate cost allocation has been utilized.

Sincerely,

A handwritten signature in cursive script that reads "Katy Dowling".

Katy Dowling

# School City of East Chicago

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School Board President

**Terence Hill**  
School Board Vice-President

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**Kathleen A. Dowling**  
Chief Financial Officer

March 26, 2014

## *FINDING 2013-009*

**Federal Agency: U.S. Department of Education**

**Federal Program: Title I Part A Cluster, Education Jobs Fund**

**CFDA Number: 84.010, 84.389, 84.410**

**Federal Award Number and Year (or Other Identifying Number): 11-4670, 12-4670, 13-4670, 10/1/10-9/30/11, 7/1/11-9/30/12, 7/1/12-9/30/13, 7/1/10-9/30/11, 10/1/10-9/30/11, 10/1/12-9/30/13**

**Pass-Through Entity: Indiana Department of Education**

The School City of East Chicago has reviewed Finding 2013-009, controls and compliance related to special test comparability for Title I Part A Cluster and the Education Jobs Fund. The response and corrective action plan are as follows:

With regard to controls as it applies to the Title I Part A Cluster, the Superintendent will review and approve the annual comparability report that is prepared by the Title I Director. Documentation of the review and approval will be retained for audit purposes. This change in process is effective immediately.

In reference to compliance, the School City of East Chicago will review the current process in place with regard to the preparation of the comparability report and the calculations or metrics utilized to generate the full time equivalents. After the review is completed, the process will be amended to ensure that the supporting documentation supports the information that is submitted on the comparability report. In addition, the Superintendent will review and approve the comparability report prior to its submission. This process will be completed prior to the submission of the next comparability report.

Sincerely,

Katy Dowling

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210 E. Columbus Drive  
East Chicago, Indiana 46312  
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Fax: (219) 391-4126

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School Board Member

**Kathleen A. Dowling**  
Chief Financial Officer

March 26, 2014

## *FINDING 2013-010*

**Federal Agency: U.S. Department of Education**

**Federal Program: Title I Part A Cluster, Special Education Cluster (IDEA)**

**CFDA Number: 84.010, 84.027, 84.173, 84.389**

**Federal Award Number and Year (or Other Identifying Number): 11-4670, 12-4670, 13-4670, 10/1/10-9/30/11, 7/1/11-9/30/12, 7/1/12-9/30/13, 7/1/10-9/30/11, 10/1/10-9/30/11, 10/1/12-9/30/13, 09-4670, 10-4670, FFY 2011, FFY 2012**

**Pass-Through Entity: Indiana Department of Education**

The School City of East Chicago has reviewed Finding 2013-010, controls and compliance related to procurement, suspension, and debarment for Title I Part A Cluster and Special Education Cluster (IDEA). The response and corrective action plan are as follows:

With regard to controls and compliance, the Board of Trustees of the School City of East Chicago will adopt a new purchasing policy in accordance with Indiana Code 5-22-8-3. Once this policy has been adopted, it will be communicated to all district staff that are involved with purchasing. Department level staff will be expected to ensure that their requisitions and/or purchase orders have been done in accordance with the district purchasing policy. Once the department level staff have submitted requisitions and/or purchase orders, the business office staff will serve as the first level of review to ensure compliance with the purchasing policy. The chief financial officer will serve as the final review and approval of all purchases in accordance with the purchasing policy. This process will be in place prior to July 1, 2014.

In reference to controls as it applies to procurement, suspension, and debarment of vendors, the grant support staff will be expected to check the System for Awards Management (SAM) to verify that vendors are considered to be "in good standing" and are able to be paid from federal funds. Proof of this verification will be attached to the requisition and/or purchase order. This process will be in place prior to July 1, 2014.

Sincerely,

Katy Dowling

# School City of East Chicago

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**Kathleen A. Dowling**  
Chief Financial Officer

March 26, 2014

## *FINDING 2013-011*

**Federal Agency: U.S. Department of Education**

**Federal Program: Special Education Cluster (IDEA)**

**CFDA Number: 84.027, 84.173, 84.391**

**Federal Award Number and Year (or Other Identifying Number): 14210-014-PN01, 14211-014-PN01, 14212-014-PN01, 14213-014-PN01, A58-3-13DL-0072, 45710-014-PN01, 45711-014-PN01, 45712-014-PN01, 45713-014-PN01, 33310-014-SN01**

**Pass-Through Entity: Indiana Department of Education**

The School City of East Chicago has reviewed Finding 2013-011, controls and compliance related to equipment management for the Special Education Cluster (IDEA). The response and corrective action plan are as follows:

With regard to controls, the Special Education Director will ensure that the listing of equipment prepared by the secretary is compared against the listing retained by the IT staff person on an annual basis. Evidence of this comparison, including all supporting documentation, will be retained for audit purposes. The Special Education Director, or her designee, will ensure that all inventory verification forms contain the proper signatures and dates to ensure that the controls have been properly implemented. These changes will take place immediately.

With regard to compliance, all equipment will be properly inventoried. In addition, the inventory list maintained by the secretary and the IT staff person in the Special Education Department will be compared on an annual basis. Proof of this review, as well as all supporting documentation, will be retained for audit purposes. These changes will immediately take place.

Sincerely,

A handwritten signature in black ink that reads "Katy Dowling".

Katy Dowling

# School City of East Chicago

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**Kathleen A. Dowling**  
Chief Financial Officer

March 26, 2014

*FINDING 2013-012*

**Federal Agency: U.S. Department of Education**

**Federal Program: Education Jobs Fund**

**CFDA Number: 84.410**

**Pass-Through Entity: Indiana Department of Education**

The School City of East Chicago has reviewed Finding 2013-012, compliance related to activities allowed and allowable costs for the Education Jobs Fund. The response and corrective action plan are as follows:

The School City of East Chicago will ensure that the costs posted to any grant program are allowable under the grant guidelines and/or compliance requirements. The School City of East Chicago designates the grant director and/or the chief financial officer as the party tasked with determining the activities allowed and allowable costs. This change is effective immediately.

Sincerely,

Katy Dowling

SCHOOL CITY OF EAST CHICAGO  
EXIT CONFERENCE

The contents of this report were discussed on April 24, 2014, with Katy Dowling, Treasurer; Mary Dywan, Superintendent of Schools; and Stephanie Ramos, School Board member.

The contents of this report were discussed on July 16, 2014, with Laura Hubinger, former Treasurer.

# School City of East Chicago

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Fax: (219) 391-4126

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**Kathleen A. Dowling**  
Chief Financial Officer

Friday, May 2, 2014

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

## Official Response

Dear Indiana State Board of Accounts:

I hope this letter arrives to find you well. I would like to thank the State Board of Accounts for providing the School City of East Chicago with a rigorous audit that identifies areas that must be addressed and gives the district an opportunity to continually improve our operations and processes. Please allow this correspondence to serve as the official response to the audit results and comments for the School City of East Chicago for the current audit period of July 1, 2011 – June 30, 2013.

It is important to note that the current nine-member elected Board of Trustees first took office on January 1, 2013. Therefore, the majority of the audit period is for a time before which this elected board was the governing body for the School City of East Chicago. It is also important to note that the School City of East Chicago has experienced a large amount of transition in its business office. The current Chief Financial Officer, Katy Dowling, started on October 7, 2013, several months after the close of the period for which this audit covers. The purpose of these notations is to communicate the intent of the School City of East Chicago to address all matters brought to our attention through this audit process.

## Overdrawn Cash Balances

The School City of East Chicago is aware that, due to declining enrollment and changes in school funding, the district is receiving less revenue annually. The School City of East Chicago is in the process of evaluating alternatives that will reduce budgetary obligations in order to balance the budget so that expenditures no longer exceed revenues. Most recently, the Board of Trustees approved Resolution 2014-09, which provides for closing and relocation of buildings and staff in order to reduce operating costs.

## Deficit Financing

The School City of East Chicago will properly abide by Indiana Code 20-29-6-3 to ensure that unlawful deficit financing does not take place.

## School Lunch – Collections of Amounts Due



# School City of East Chicago

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East Chicago, Indiana 46312  
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School Board Member

**Kathleen A. Dowling**  
Chief Financial Officer

The School City of East Chicago will develop and implement a written policy that addresses bad debt write-off, uncollectable accounts receivable, "charging" for student meals, and adjustment procedures for record balances.

## Teacher Collective Bargaining Agreements

The School City of East Chicago will ensure that its agreement with the teachers union abides by Indiana Code 20-29-6 and that the improper language/wording is removed during the next negotiation period. The School City of East Chicago will also make sure that all salary schedules abide by Indiana Code 20-28-9-1.5.

## Condition of Records (Applies to Carrie Gosch Elementary School)

The School City of East Chicago will provide training to each extra-curricular school treasurer to be sure that all are aware of the rules and regulations set forth in the Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts. The business office will also review the appropriate forms, procedures for receipts and disbursements, and deposit protocol to ensure that staff are aware of the expectations.

The School City of East Chicago would like to thank the examiners for their professional disposition and all of their assistance during the audit process.

Sincerely,

Mary E. Dywan  
Interim Superintendent

Katy Dowling  
Chief Financial Officer

July 16, 2014

Indiana State Board of Accounts  
302 W. Washington St., Room E418  
Indianapolis, IN 46204-2769

Dear Indiana State Board of Accounts State Examiner;

I would like to thank you for the opportunity to respond to the audit notes and findings for the period of July 1, 2011 through June 30, 2013 for which I was assigned to be Interim/Treasurer during this time at the School City of East Chicago. I have reviewed the responses provided by the current Treasurer, Katy Dowling and concur with the corrective action plans. However, I do feel that I must respond to some of the comments and findings that have been presented.

The first item is the information discussed surrounding Deficit Financing as it relates to the Collective Bargaining Agreements with the School City of East Chicago and the School City of East Chicago Federated Teachers Unit. These notes appear on pages 44 & 45 and pages 47-50. The first notation related to the agreement dated October, November and December of 2011, the collective bargaining agreement was discussed and negotiated with a team that I was not part of at that time. This process was handled under the previous Treasurer. Per his conversations with me, a directive to implement the changes to the bargaining agreement came from a board member that was also part of that team. My job assignment at that time was District Systems Administrator, my primary duties at that time was implementation and management of the administrative software, namely the financial and payroll operation. It was not until the resignation of the former Treasurer was I assigned the duties as Interim Treasurer in March of 2012.

On May 23<sup>rd</sup> of 2012, I prepared a memo that was given to the board that described the EERB regulations for contract negotiations that informed the board to carefully review (see attached). In this memo I indicated that the board must be careful not to put us into a situation for reopening the teacher contract, and any violation of the procedures would result in a financial penalty. Each month I presented cash flow statements for each major fund that was placed in the board's communication packet. On September 17, 2012, I presented a General Fund alert memo that discussed the funding reduction due to the ADM count, and as indicated in the memo, I once again presented the general fund cash flow (see attached). I provided a memo dated October 26, 2012 that describes what transpired throughout our negotiation process in which I was involved. The directive to provide teachers with increases and alter the insurance premium effective date and add extra duties during the October 2012 negotiations came from the board president and the board attorney's that were employed at that time. The Superintendent and I had numerous discussions regarding the condition of the financial state of the general fund, during negotiations and prior to negotiations. Additionally, I informed the board, board president, attorneys and negotiation team the financial status of the general fund and district as a whole. I have attached the memo that was presented to the Superintendent's office, please note that for the purpose of this response I have redacted the names. I do have the memo that does reflect the names if this agency or any other agency does so request.

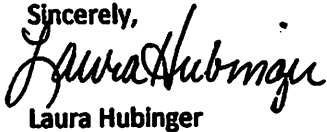
By statute I do not have the authority to approve or enter into a collective bargaining agreement. The Board of Trustees only has the authority to enter and approve legal contracts including collective bargaining agreements. There were several discussions surrounding the financial situation of the

general fund, the Superintendent strongly recommended and informed the board and attorney's not to enter into the agreement, additionally, he recommended cost reduction measures and the board, during this time, did not heed the advice from the Treasurer nor the Superintendent.

The final exception I wish to address is Finding 2013-012. I was informed by the previous treasurer that this fund would support only compensation and associated benefits for all employees. The fund established was not to handle other expenses, this was interpreted that no other purchases or expenses related to the operation of the district such as computers, supplies, and utilities of such. The Board of Trustees gave directive in executive session and subsequently brought to the board meeting that all staff including administrators with the exception of the Superintendent would receive the stipend. The interpretations of the use of the funds were presented to the previous Treasurer. This error was unintentional by the board and previous treasurer and a matter of interpretation, thus the corrective action plan presented by the current Treasurer will prevent this misunderstanding in the future.

If you have any questions or concerns regarding this official response, please do not hesitate to contact my office.

Sincerely,

A handwritten signature in black ink that reads "Laura Hubinger". The signature is written in a cursive style with a large initial "L" and "H".

Laura Hubinger

**MEMORANDUM**

**TO:** Michael Harding, Superintendent  
**FROM:** Laura Hubinger, Acting Treasurer  
**DATE:** May 23, 2012  
**RE:** **State Board of Accounts & IEERB Contract/Bargaining Information**

.....  
I have attached the documentation that we received from IEERB (Indiana Education Employment Relations Board) (<http://www.in.gov/ieerb/>) and from the Indiana State Board of Accounts.

This documentation includes the Bargaining/Impasse Timeline that indicates bargaining deadlines. I have enclosed the check list that will be used by the State Board of Accounts and DLGF and IEERB. This check list will be used as part of the audit, business officials have been assured that this check list will be filed with the Department of Education and ensures that school districts are not in direct violation of the contract negotiations.

Please assure the board that items that are not followed in the proper category and time line will place the district in direct violation of IEERB. They must be careful that the processes do not place us in a situation for a reopening of the teacher contract. Any violation of these procedures will result in a financial penalty. Although the State Board of Accounts and the DLGF and IEERB have not determined the penalty amounts, the penalty will be issued.

**MEMORANDUM**

**TO:** Michael Harding, Superintendent  
**FROM:** Laura Hubinger, Acting Treasurer  
**DATE:** September 17, 2012  
**RE:** **General Fund Cash Balance ALERT**

.....  
I have attached the 2012 Cash Flow for your reference. Please note that we must meet together to discuss the impact of the proposed cost cutting plan, what portions have been implemented and what additionally we need to prepare for.

Our estimated ADM count is projected to be 4585. This results in a reduction of \$2,484,090.

As you discuss with the board of trustees please inform them what the insurance committee will be presenting a recommendation to me to provide to your office a request to transfer funds from the insurance reserve account.

**M E M O R A N D U M**

**TO:** Michael Harding, Superintendent  
**FROM:** Laura Hubinger, Acting Treasurer  
**DATE:** October 26, 2012  
**RE:** Negotiation Notes-2012

.....

On October 1<sup>st</sup> I was asked to attend AFT meeting to discuss financial situation of the district with the AFT team and attorneys. Previously, I provided to \_\_\_\_\_ and \_\_\_\_\_ documentation of financial transactions, such as form 9's, expenditure reports and general budget information. This meeting allowed me to explain what transactions have been processed through general fund and how I determined the 2013 budget. I detailed the effects of our declining enrollment over the course of the past few years and the anticipation of a reduction in funding in the approximate amount of \$3,000,000. I explained that this could be higher and the district would see the revenue reduction in January of 2013.

The union reviewed the documentation and at the request of Attorney \_\_\_\_\_ ~~the~~ the union was asked to look at the financial information. He indicated that options were limited, unless they could come up with a way to show savings in the general fund that would allow an offer to be made. The union did review, they asked for a 6% increase to the base salary schedule. They looked at appropriations and thought that the district could disburse funds because the supply line items had remaining appropriations. I explained that although appropriations are the authority to spend I quickly explained that the revenue/cash was not available, and the extensive insurance claim costs that the general fund appropriations and cash must cover.

When \_\_\_\_\_ Attorney \_\_\_\_\_ and I left the room to return to my office, I again stressed the position of the general fund and the negative cash flow that will be evident and that was currently evident. Attorney \_\_\_\_\_ informed us that he had "marching orders" from Board President \_\_\_\_\_ which he was to give something to the teachers and settle. He mentioned that we need to look at the jobs fund money that the board directed me to utilize to offset general fund payroll. (We received additional funding in the jobs fund that had to be utilized by September 30, 2012-we presented this information at executive session. I suggested that the remaining balance be distributed to groups that have not received any type of salary impact from the past 7 years-non-certified areas, such as custodial, support staff etc. The board directed me to use the funds to offset the general portion of the next payroll on September 28<sup>th</sup>, we applied approximately \$350,000)

I began some calculations as a starting point. I calculated a 1% one-time stipend from Salary figures just for teachers, I also calculated a random 2% number to be used to see the cost associated with adding to the teacher base. I did not include additional costs, such as benefits that would be affected by the increase, because the costs of these two options were too high to be supported by our declining general fund revenue. I did not share the calculations with Attorney [redacted] and [redacted] because I wanted to discuss with the Superintendent to inform him of these calculations because of our numerous discussion about the state of the general fund. Before I left the office Attorney [redacted] requested that I inform him of what I was going to talk to the Superintendent about. I explained that I wanted to discuss with him what options the Superintendent thought we had knowing that the board has giving the Attorney a directive. Reluctantly I told him I did rough estimates just for teacher salary, the 1% onetime stipend or a 2% increase on the base salary. I proceeded to the Superintendent's office and informed him of the status of negotiations and shared with him the cost associated with these options. He concurred with my concern about the decline in revenues. I came back to my office to explain to Attorney [redacted] that we could not afford these calculations because of the following reasons: increase in medical costs, decline in enrollment that affects our revenue (reduced by 3 million), the board did not take our recommendations for RIF at the beginning of the 2012/2013 school year, the board publically stated that they will hire more counselors, they directed that ENL teachers be removed from the classroom-that caused us to have to pay ENL teachers in offices and replace them in the classroom with new teachers, the board directed us not to consolidate classrooms with low number of students, the board did not allow us to move teachers between buildings to avoid having to hire additional teachers, the board continued to allow teachers to remain in the classroom that opted not to renew their license. Also reminding that it was made very clear from the IDOE that we could not be in deficit financing and I must inform and do what I can to protect the general fund. I also reminded that we do not have an operating cash balance, and at the previous meeting with the teachers they support a 6% to 8% cash balance. We will not be able to support that at this time.

Attorney [redacted] indicated that he spoke with [redacted] in the hallway as I was with the Superintendent and explained that we are looking at the options of a onetime 1% stipend to be paid in December and an increase to the base salary of 2% beginning in January. After returning from speaking with the Superintendent, I informed Attorney [redacted] that we could not financially support [redacted] and that I was concerned about deficit financing. I did remind him of the things that we have done for teachers such as, the board reduced the length of the working day and shortened year, and they received no increase in contribution to health insurance in January of 2012 and for many years prior, and they received a 3% stipend from the Jobs Fund. Attorney [redacted] then informed me of his discussion with [redacted] and subsequently [redacted] had let Attorney [redacted] know that the union did not accept the "offer". Needless to say I was not happy about how the "offer" was handled and that I never make an offer without the Superintendent being informed or without the support of the Administrative Team. None the less, another meeting was established on October 11<sup>th</sup> for further discussion.

On October 11<sup>th</sup> Attorney \_\_\_\_\_ returned to my office prior to the meeting with the union. I strongly explained that we absolutely could not give the 1% onetime stipend because the general fund cash flow is expected to be in the negative between \$1.9 million to \$2.3 million. Also, explained that we were able to submit our final numbers to the DOE for the ADM count, I explained that from the last meeting (October 1<sup>st</sup>) until the meeting on October 11<sup>th</sup> our numbers reduced by 100 students. This occurred after data submissions to the DOE and students that were teacher's rosters that really did attend other schools. Of course those were corrected and thus caused the decrease in students; this cost was estimated to be around \$760,000 to \$800,000. Again stressing that no offers should be made, and that there was not sufficient funding to support the discussion he had with \_\_\_\_\_. He indicated that we needed to hear what the union had to say since the last word was they did not accept. He indicated that the union was aware the insurance rates were expected to increase and that reductions needed to be made.

The October 11<sup>th</sup> meeting resulting in an impasse and request for mediation from Attorney \_\_\_\_\_ because the teacher's asked for a 1% stipend for December and a 3% on the base beginning January. Attorney Dickson indicated during that meeting that the 1% stipend was off the table because of the additional reduction in the 100 students. Thus the mediation meeting was set for October 17<sup>th</sup>.

Our mediator was \_\_\_\_\_ We meet with her and union beginning at 8:00 with instructions and we went to our separate rooms, at this time Attorney \_\_\_\_\_ Board Member \_\_\_\_\_ and I were the team. I explained the general fund cash flow and expenses and teacher's current salary schedule and showed what impact the 2% was going to have on the general fund. \_\_\_\_\_ knew that we could not be in deficit financing and stressed that point. We also discussed the cuts that had been proposed and the request for additional counselors and the ENL teachers and the high cost of health insurance. We repeated these concerns when Mary the mediator came to meet with us to hear about our financial information. I shared with her our cash flow for general fund and also gave her a copy of our certified revenues from DOE for this year and last year. This clearly shows a reduction in revenue of \$3.1 million. After a lengthy discussion about the options the teachers were considering and our financial state it was concluded that we need to set up another time with the mediator after the insurance committee meeting that was scheduled for October 18<sup>th</sup>.

We had the insurance committee meeting, at which point the two new plans and employee rate increase was shared by \_\_\_\_\_ of Educational Services (our insurance consultant). The committee also reviewed and accepted the Dependent Audit and new insurance for retirees (Anthem Advantage Health Plan), both of which were submitted to the board and approved on October 24<sup>th</sup>.

The meeting on Monday October 22<sup>nd</sup> began at 8:00 am. The team present at that time was Attorney \_\_\_\_\_ Attorney \_\_\_\_\_ Superintendent Harding and me. Board President \_\_\_\_\_ attended a little after 10:00 am. The mediator met with us and indicated that the teachers wanted a 2% raise on the current salary schedule to be effective January 1, 2013 and wanted 2 extra duties to be added to the extra duty list



and requested that the insurance plans presented become effective January 1, 2013, but the employee contribution remain the same as 2012 and the new employee deduction amount would begin with the first pay in February. The mediator left the room, we discussed and the administration team felt that still there would be an adverse affect on the general fund, but President [redacted] informed Attorney [redacted] and Attorney [redacted], to accept the offer. This was shared with the mediator and she returned to the teachers to tell them of this news. The mediator returned and said the teachers also wanted a .1% increase to the base. The mediator left the room; I immediately said no we could not afford additional dollars at this time. I explained to the group the things I had to consider and they were as follows: the current year ending will be in a deficit and I would have to replenish from the insurance reserve to the general fund and at some point I would have to build back the insurance reserve balance, I would have to repay the general fund from the proceeds from the pension fund, and we would have to support as indicated in Ernie Dittman's memo \$40 to \$60 million dollars in unfunded retirement liability for 20 years from the general fund, and insurance costs, and we must replenish the general funds operating cash balance. President [redacted] called both attorneys into the hallway. Upon the return of just Attorney [redacted] and Attorney [redacted]. I asked what was discussed. President [redacted] instructed them to settle with the teachers by giving them the 2 extra duties, 2% on the base beginning in January, insurance plan effective January 1, 2013 with employee contributions beginning in February and to give the teachers at the top of the scale (20 years and more) a onetime \$100 stipend. At that point, Attorney [redacted] left the room to share with the mediator and Attorney [redacted] remained in the room with the [redacted], Mike and I. I very clearly expressed my displeasure with the hallway offers. We agreed with the teachers request and yet they came back and asked for more and we should not have agreed to that. If the teachers wanted that from the beginning then that should be what they should have asked for. Just because they called [redacted] after the fact and he indicated that there would be approximate \$100,000 savings should not warrant us in approving additional requests. We as a team new that the change in insurance was to neutralize such high claim costs that are charged to the general fund. In addition, I disapprove of "deals" that are made without the involvement of the negotiation team. Attorney [redacted] expressed that I should be telling President [redacted] and I again quickly reiterated that the President did not take interest in the concern I had with general fund and that she should have been part of the team meeting and that is where I felt that Attorney [redacted] should have stepped in and advised the President to return to the team to discuss further.

As of today the teachers have ratified, but I want to mention that during the executive session on Wednesday the 25<sup>th</sup> Attorney [redacted] did share with the board that the teachers were meeting on the 26<sup>th</sup> to ratify and he listed the changes. One of the changes that he mentioned that evening other than the above items listed was a change in the grievance filing procedure. This was the first time I heard this and he indicated that the only change was the removal of the teacher filing an informal complaint with the Superintendent. Attorney [redacted] explained that the teacher currently files and informal complaint with the Principal, then and informal complaint with the Superintendent if not satisfied from principal results, then a formal complaint with principal and then a formal complaint with Superintendent and lastly with the board of trustees as the usual steps. It

is the informal submission to Superintendent was removed. As stated earlier this is the first I was made aware. It was not listed from the mediator when finalizing her list, so therefore, the Superintendent was not aware.

I still want to make sure that I will have concerns on protecting the general fund. I am unclear how the reopener was approved, since I thought that it could not unless additional funding was available. At this time it is not. I also have concerns that the Rise to the Top grant has not been signed as of 2:00 pm today by our union. Last year the union did not agree with the length of day and therefore did not agree to the \$4 million dollar 1003 Grant. Because we can never be assured that grant funding will be awarded this is all the more reason I must protect the general fund.

We will need to discuss the reductions necessary for the 2013 budget, and present them to the School Board members for approval.

If you would like any additional information please let me know.

Sincerely,  
Laura