

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
GARY COMMUNITY SCHOOL CORPORATION
LAKE COUNTY, INDIANA
July 1, 2012 to June 30, 2014



FILED
09/17/2015

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2014-001 - Cash and Investment Balances and Reporting.....	4-6
Finding 2014-002 - Receipts and Disbursements Transactions and Reporting.....	6-8
Finding 2014-003 - Preparation of the Schedule of Expenditures of Federal Awards	8-10
Finding 2014-004 - Allowable Costs/Cost Principles.....	10-13
Finding 2014-005 - Allowable Costs/Cost Principles, Cash Management, Period of Availability, Reporting.....	13-17
Finding 2014-006 - Cash Management and Reporting	17-22
Finding 2014-007 - Equipment	22-24
Finding 2014-008 - Period of Availability	24-25
Finding 2014-009 - Special Tests and Provisions - Graduation (Cohort) Rate	26-27
Finding 2014-010 - Special Tests and Provisions - Comparability.....	27-29
Finding 2014-011 - Internal Controls Over Title I Grants to Local Educational Agencies.....	29-30
Finding 2014-012 - Earmarking and Procurement	31
Finding 2014-013 - Activities Allowed, Level of Effort - Maintenance of Effort, Earmarking.....	32
Finding 2014-014 - Special Tests and Provisions - Participation of Private School Children.....	33
Finding 2014-015 - Allowable Costs/Cost Principles.....	34-36
Finding 2014-016 - Allowable Costs/Cost Principles, Cash Management and Special Tests and Provisions for School Food Accounts	36-39
Corrective Action Plan.....	40-50
Audit Results and Comments:	
Financial Concerns	51-55
Rainy Day Fund Noncompliance	55-56
Compensation and Benefits	56-58
Accounts Payable Vouchers.....	58-59
Grant Cash Management - Excess Cash	59-60
Average Daily Membership (ADM) - Incorrect Reporting to the State	60
Average Daily Membership (ADM) - Lack of Records.....	60-61
Contract Disclosure Compliance	61-62
Official Bonds.....	62
Annual Report.....	63-64
Certified Report Not Filed	64
Public Records Retention	64
Official Response	65-67
Exit Conference.....	68

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer/CFO	(Vacant)	07-01-12 to 07-04-12
	Dr. Cheryl L. Pruitt (Interim)	07-05-12 to 09-24-12
	Dr. Nikita White	09-25-12 to 08-02-13
	Michael Washington (Interim)	08-03-13 to 04-15-15
	Mary Comer (Interim)	04-16-15 to 12-31-15
Superintendent of Schools	Dr. Cheryl L. Pruitt	07-01-12 to 12-31-15
President of the School Board	Darren Washington	07-01-12 to 12-31-12
	Rosie G. Washington	01-01-13 to 12-31-14
	Antuwan Clemons	01-01-15 to 12-31-15



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

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

This report is supplemental to our audit report of the Gary Community School Corporation (School Corporation), for the period from July 1, 2012 to June 30, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

July 2, 2015

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2014-001 - CASH AND INVESTMENT BALANCES AND REPORTING

The School Corporation has deficiencies in the internal control system related to financial transactions and reporting. 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.

1. Segregation of Duties: Control activities should be selected and developed at various levels to reduce risks of error and/or fraud of the financial statement. The School Corporation has not separated incompatible activities related to all areas of the financial statement. The failure to establish these controls could enable material misstatements to remain undetected.
2. Monitoring of Controls: An evaluation of the School Corporation's system of internal control has not been conducted. The failure to monitor the internal control system places the School Corporation at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the School Corporation has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the School Corporation to monitor and assess the quality of the system of internal control.
3. Risk Assessment of Controls: This is the identification and analysis by management of relevant risks to achieving predetermined objectives. The School Corporation faces risks from external and internal sources that must be assessed. Failure to perform risk assessment does not provide management a basis for how the risks should be managed.

The failure to establish adequate internal controls could enable material misstatements or irregularities to remain undetected. Controls should be in place to reduce the risks of errors in financial reporting.

Bank Account Reconciliations

The School Corporation is responsible for ensuring that their accounting record balances (ledgers) are reconciled with the bank depository balances at least monthly. Controls have not been developed to ensure that the reconciliations were completed or that they were accurate when completed.

Reconciliations of the fund balances to the Operating and Payroll bank account balances were not presented for audit for 12 and 23 months of our audit period, respectively. The School Corporation operating bank account had not been reconciled since June 2013. The payroll bank accounts have not been reconciled since July 2012. As of July 2, 2015, the status of the reconciliations remained unchanged.

Depository reconciliations of the ledger fund balances to the bank account balances were provided for the operating bank account prior to July 2013. The reconciliation as of June 30, 2013, contained the following identified errors and did not balance:

1. The amount used as outstanding checks in the reconciliation was greater than the outstanding check detail by \$127,001.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2. The amount of Electronic Funds Transfers (EFT) used in the reconciliation was greater than the amount clearing the bank in the following month by \$1,000.
3. The reconciliation did not address the January 2013 payment of principal and interest of \$323,351 for the 2009 General Obligation Bonds which cleared the bank but was not recorded in the financial accounting system.

An outstanding checklist for the payroll bank account had not been prepared because the account had not been reconciled. We obtained an outstanding checklist generated from the financial accounting system for the periods ended June 30, 2013, and June 30, 2014. Checks which had cleared the bank after July 2012 were not removed from the list, which materially overstated the outstanding check amount.

The outstanding checklist for the operating bank account, generated from the financial accounting system, included EFT's as outstanding since October 2013 which had actually cleared the bank. This also materially overstated the outstanding check amount.

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

Reporting

One individual is responsible for preparing the Form 9 financial reports required to be submitted to the Indiana Department of Education every six months. These reports are the basis for the financial statement. This same individual is extensively involved with the disbursement process. Although a required certification for this report is signed by the Superintendent of Schools, President of the School Board, and Fiscal Officer, the report is not compared to supporting documentation or subjected to review before submission.

Due to the lack of controls, an error involving the reporting of federal taxes as paid when they had not been initially appeared in the financial statement. This initially overstated disbursements and understated cash and investment balances in the financial statement. The School Corporation provided documentation for an adjustment of \$5,670,549, which was made to the financial statement.

Impact on Independent Auditor's Report

Due to the School Corporation's failure to reconcile the ledgers to the bank balances and their failure to provide adequate accounting records which would permit the application of other auditing procedures, we were unable to ascertain if the cash and investment balances were fairly stated. This impacted the Independent Auditor's Report, which resulted in a disclaimer of opinion on the financial statement.

Each member of the school board in accepting the responsibility of administering the financial affairs of a public school system must recognize not only his responsibilities toward the educational needs of the student population of the unit but also the board's relationship with and responsibilities toward the taxpayers of the local unit and of the State. Among other items, faithful performance of duty requires adequate budgeting, accurate accounting and informative reporting of all financial transactions and the establishment of sound business practices for effective and efficient operation of all schools. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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

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

FINDING 2014-002 - RECEIPTS AND DISBURSEMENTS TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting that we believe constitute material weaknesses. Control activities should be selected and developed at various levels to reduce risks to the achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related to receipts and disbursements. The failure to establish these controls enabled material misstatements and irregularities to remain undetected.

Receipts

One individual is primarily responsible for issuing and recording receipts, preparing the deposits, and taking the deposit to the bank without a proper system of oversight or review in place.

Disbursements

We noted deficiencies in the internal control system of the School Corporation related to vendor payments and payroll processing. Controls have not been established which would allow management and those charged with governance to detect and prevent errors or omissions of vendor and payroll disbursements. Effective controls include establishing policies and procedures for ensuring federal, state, and local laws and regulations are adhered to by management and staff.

Financial records presented for audit were incomplete and not reflective of the activity of the School Corporation funds. The records presented did not provide sufficient information to audit or establish the accuracy or correctness of the transactions. Some of the deficiencies include:

1. The School Corporation recorded disbursements for FICA, Medicare, and Federal Income Taxes that were not actually disbursed which overstated disbursements and understated the cash and investment balances. This required a net adjusting entry of \$5,670,549 to be recorded in the financial statement by the School Corporation.
2. Transactions were recorded as "negative" receipts and disbursements. Causes include:
 - a. Checks were voided after the end of a 6 month reporting period. These should have been receipted back into the fund instead of voided which created negative disbursements.
 - b. Journal entries were made after the end of a 6 month reporting period. These were made to correct disbursements initially recorded in the wrong fund.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- c. Checks were issued to various vendors but were held and not remitted, or not remitted in a timely fashion. This occurred more frequently during the 2012-2013 school year. Disbursements were recorded in the financial accounting system which had not actually been disbursed or were not disbursed until a subsequent reporting period.
- 3. Errors were made in accounting for the Debt Service Fund:
 - a. A disbursement of \$447,083 was made by check in January 2014 for interest on the 2013 capital lease. The payment was verified to the January 2014 bank statement as cleared. Payment was made based upon a bill received by the School Corporation; however, this amount should have been paid from the capitalized interest portion of bond proceeds held by the trustee.
 - b. The January 2013 payment of \$323,351 in principal and interest for the 2009 General Obligation Bonds cleared the bank but was not recorded in the financial accounting system.
 - c. The amortization schedule for the 2010 capital lease required two interest only payments to be made in 2013. The amount of interest for each payment would have been \$348,000, before applying a reduction due to the debt being a Recovery Zone debt. According to a review of the accounting records, both by fund and vendor, these payments were not made and documentation that these payments were not required was not provided.
- 4. Time records such as timesheets and sign in registers were kept at the building level, not in a centralized location. Due to the closure of buildings, changes in staffing and other factors, certain time records requested could not be located and were not provided for audit.
- 5. We were unable to determine if some employees were paid the correct rate of pay. A board approved salary schedule or a current collective bargaining agreement was not provided for audit.
- 6. A process was not established to ensure a review of the bi-weekly payroll claim before payment.

Impact on Independent Auditor's Report

Due to the lack of supporting documentation for time worked and approved pay rates, we were unable to apply other auditing procedures to ascertain if disbursements for payroll were fairly stated. This impacted the Independent Auditor's Report, which resulted in a disclaimer of opinion on the financial statement.

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

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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

Each member of the school board in accepting the responsibility of administering the financial affairs of a public school system must recognize not only his responsibilities toward the educational needs of the student population of the unit but also the board's relationship with and responsibilities toward the taxpayers of the local unit and of the State. Among other items, faithful performance of duty requires adequate budgeting, accurate accounting and informative reporting of all financial transactions and the establishment of sound business practices for effective and efficient operation of all schools. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

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)

FINDING 2014-003 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). One individual was responsible for compiling the information for the SEFA. However, that individual does not work with all of the grants received by the School Corporation and, therefore, did not provide grant information regarding some programs.

The School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA remain undetected.

During the audit of the SEFA, we noted the inclusion of state matching funds or state grants in addition to the following errors:

1. The following programs were omitted from the SEFA presented for audit for the federal awards expended for the year ended June 30, 2013 and 2014, respectively:
 - a. Child Nutrition Cluster expenditures of \$4,113,330 and \$4,628,825.
 - b. Child and Adult Care Food Program expenditures of \$89,805 and \$10,467.
 - c. Army Junior Reserve Officers' Training Corps (JROTC) FY 2013 expenditures of \$151,523.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- d. Impact Aid Cluster expenditures of \$3,412 and \$13,951.
 - e. Education for Homeless Children and Youth FY 2014 expenditures of \$58,721.
 - f. Medicaid Cluster expenditures of \$279,500 and \$172,777.
2. The following program expenditures were omitted from the SEFA presented for audit. These expenditures were for grants awarded prior to the audit period which had continued activity for the year ended June 30, 2013.
- a. Title I Grants to Local Educational Agencies 12-4690 - \$2,775,210.
 - b. Special Education - Grants to States - \$38,900.
 - c. Career and Technical Education - Basic Grants to States - \$387,128.

Audit adjustments were proposed, approved, and made to the SEFA presented in this report.

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)

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:

"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.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

FINDING 2014-004 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: U.S. Department of Education

Federal Programs: Title I Grants to Local Educational Agencies; School Improvement Grants;
ARRA School Improvement Grants, Recovery Act; Improving Teacher
Quality State Grants

CFDA Numbers: 84.010; 84.377; 84.388; 84.367

Federal Award Numbers: 12-4690; 13-4690; 14-4690; 10-4690; 11-4690

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 Allowable Costs/Cost Principles 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.

The School Corporation did not have controls in place to ensure that adequate supporting documentation was maintained to support all individuals being paid from federal programs, or to ensure these employees completed time and effort logs or semiannual certifications as applicable.

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 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.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Noncompliance

Employees completed "Supplemental Pay Sheets" that included the number of hours worked and a description of the activity for a federal program. In some cases, supplemental pay sheets for the Title I Grants to Local Educational Agencies (Title I) were completed and signed in advance; some were prepared for periods of up to six months. Employees fill out a timesheet at the building level and their time is entered by payroll staff. Timesheets were not provided for some pay periods audited. Supplemental pay sheets also did not always show the total activity of each person. We were unable to determine if the supplemental pay sheets tested represented the employee's entire activity for the pay period.

In addition, Semiannual Certifications for individuals who work solely for one federal program and Time and Effort Logs for individuals who work on multiple programs were not always prepared or maintained.

Supporting documentation of time records, supplemental pay agreements, time and effort logs, or semiannual certifications were not provided for some employees that were paid from Title I, School Improvement Grants, ARRA School Improvement Grants, Recovery Act, and Improving Teacher Quality State Grants. Due to the lack of documentation for these costs, we were unable to determine if the related activities were allowable activities and allowable costs. Undocumented payroll expenditures from each of the federal programs are considered questioned costs, as follows:

Major Program	CFDA #	Amount
Title I Grants to Local Educational Agencies	84.010	\$ 183,423
School Improvement Grants Cluster	84.377/84.388	81,745
Improving Teacher Quality State Grants	84.367	36,637

OMB Circular A-87, Attachment B, Part 8. Compensation for personal services states in part:

"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.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- (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 firsthand 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,. . .
- (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.
 - (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances."

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 internal controls enabled material noncompliance to go undetected. The failure to materially comply with the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Allowable Costs/Cost Principles requirements of the programs.

***FINDING 2014-005 - ALLOWABLE COSTS/COST PRINCIPLES,
CASH MANAGEMENT, PERIOD OF AVAILABILITY, REPORTING***

Federal Agency: U.S. Department of Education

Federal Programs: Special Education - Grants to States, Special Education - Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers: A58-3-13DL-0073, 14212-019-PN01,
14213-019-PN01, 45712-019-PN01,
45713-019-PN01

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 following compliance requirements: Allowable Costs/Cost Principles, Cash Management, Period of Availability, and Reporting. 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.

Allowable Costs/Cost Principles, Cash Management, and Reporting

The School Corporation has not designed or implemented adequate policies or procedures to ensure:

1. Compliance with the program requirements that only allowable costs of the program are charged to the program and properly recorded in the federal grant fund.
2. Required periodic certifications are prepared for all personnel paid with federal funding.
3. An effective oversight or review process over the indirect cost computation for amounts included on grant reimbursement requests.
4. Proper written documentation is retained to support grant expenditures.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation records special education disbursements in its Special Education grant funds, whether or not those disbursements are related to the grants.

Period of Availability

The School Corporation has not designed or implemented adequate policies or procedures to ensure that all obligations for expenditures made from program funds were incurred during the period of availability.

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 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.

Noncompliance

The School Corporation received Special Education - Grants to States (Special Education), and Special Education - Preschool Grants (Preschool) funding. The activity of each grant should be reported in a manner that allows the federal grant activity to be separately identified. The School Corporation comingled special education grant and non-grant disbursements in the grant funds.

The Special Education Director (Director) and the Business Office each had a copy of the various grant agreements which specified how the funds were to be used and the time frame for spending or obligating the funds. An approved budget was included as part of each grant agreement. Payroll claims and accounts payable vouchers or claims were used for grant disbursements, and were to be signed or initialed by the Director. Evidence of the determination that the expenditure occurred within the grant period and the cost was allowable was the Director's signature or initials. The Business Office, which processes both payroll claims and accounts payable claims for payment, did not have a system in place to ensure that only the claims signed or initialed by the Director were paid from the funds established to account for the grants. Many payroll claims and related benefits paid which were recorded in the grant funds were not included in the approved grant budgets.

The comingling of the special education grant and non-grant disbursements in the grant funds affected the School Corporation's ability to file accurate reimbursement requests and other reports. Documentation was not available that detailed which payroll and related disbursements from the funds were included in each of the reimbursement requests.

Reimbursement requests for the special education grants were submitted for disbursements totaling \$2,892,672, of which \$2,566,384 was for payroll and related benefits. For the same time period, the special education funds reported \$6,019,530 in payroll and related benefits disbursements. Since the grant and non-grant disbursements were comingled in the grant funds and no detail was available to support the requested reimbursements, the entire \$2,566,384 for payroll and related benefits are considered questioned costs. The questioned costs consist of \$2,375,343 for Special Education and \$191,040 for Preschool funding.

When employees are paid entirely from a grant, the grantee is required to obtain signed semiannual certifications from the grant personnel. The School Corporation did not complete the required semiannual certifications for the personnel paid with special education grant funds.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

School Corporation officials did not retain written documentation to support the computation of the indirect cost amounts included on the special education grant reimbursement requests totaling \$41,868, composed of \$39,824 for award 14212-019-PN01 and \$2,044 for award 45712-019-PN01. Although indirect costs were included in the grant budgets, federal cost principles require written documentation to support the amounts in order for them to be considered allowable costs of the program. Therefore, the total indirect cost amount of \$41,868 is considered questioned costs.

Due to the comingled disbursements, we could not determine if all the obligations for expenditures made from program funds were incurred during the period of availability.

34 CFR 76.702 states: "A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds."

34 CFR 76.730 states:

"A State and a subgrantee shall keep records that fully show:

- (a) the amount of funds under the grant or subgrant;
- (b) How the State or subgrantee uses the funds;
- (c) The total cost of the project;
- (d) The share of that cost provided from other sources; and
- (e) Other records to facilitate an effective audit."

34 CFR 76.731 states: "A State and a subgrantee shall keep records to show its compliance with program requirements."

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.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- 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.
- 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 . . .

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."

OMB Circular A-87, Attachment B, paragraph 8.h. states in part:

- "(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."

34 CFR 80.23 states:

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

- (b) *Liquidation of obligations.* A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee."

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."

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls enabled material noncompliance to go undetected. The failure to materially comply with the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Allowable Costs/Cost Principles, Cash Management, Period of Availability, and Reporting requirements of the programs.

FINDING 2014-006 - CASH MANAGEMENT AND REPORTING

Federal Agency: U.S. Department of Education

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

CFDA Numbers: 84.010; 84.027; 84.173; 84.377; 84.388; 84.367

Federal Award Numbers: 12-4690; 13-4690; 14-4690; A58-3-13DL-0073;
14212-019-PN01; 14213-019-PN01; 45712-019-PN01;
45713-019-PN01; 10-4690; 11-4690

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 Cash Management and Reporting compliance requirements.

The School Corporation has designated one individual to prepare and submit the reimbursement requests and the final expenditure reports. This same individual also computes the indirect cost amounts claimed for reimbursement. An oversight, review, or approval process has not been established.

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.

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 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 programs. 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.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Noncompliance

1. During the 2012-2013 school year, until May 2013, requests for reimbursement were prepared from accrual based information from the accounting system. Accrual based disbursements were obligated or incurred but not actually paid. The Indiana Department of Education (IDOE) required the requests to be submitted on the cash basis; when the disbursement is actually made. The accrual method of requesting reimbursement resulted in the School Corporation receiving reimbursements before disbursements occurred.

Additionally, the School Corporation held checks prepared but not released during the 2012-2013 school year due to its financial condition. The School Corporation also paid payroll before paying vendors and certain payroll benefits (including taxes) due to its overall cash position. These benefits and taxes were included in the amounts submitted for reimbursement. Due to effect of these two issues, the School Corporation received reimbursements in excess of actual disbursements.

The School Corporation had to reimburse the IDOE for unexpended grant funds due to the receipt of reimbursements for funds not actually disbursed. On February 18, 2014, the School Corporation returned \$175,124 and \$59,982 for unexpended Title I and School Improvement Grants, respectively, from the 2012-2013 school year.

2. When requests for reimbursement were prepared, a cumulative financial report was generated at the summary level by fund, account and object. The amounts previously requested were subtracted from the current cumulative amounts and the difference was the amount of reimbursement requested. In some cases, the cumulative report was generated several days before the end of the time period covered by the report. No detailed report of the actual disbursements was generated and retained for audit.

When we generated financial reports for the same time periods covered by the requests for reimbursement, over 80 percent of the reports tested did not agree with the supporting reports for the requests. We were able to identify some minor differences that were due to timing; the original report was generated before some disbursements were recorded in the financial accounting system. However, without an original detailed report from the time the reimbursement was requested, we could not readily identify the causes for most of the differences or easily trace actual disbursements to the requests for reimbursement.

3. The employer share of Social Security and Medicare taxes are recorded as a disbursement to the various funds when payroll is processed. Due to the financial condition of the School Corporation, a portion of these taxes were not paid in 2013. Between September and December 2013, only one remittance of taxes occurred in November 2013. This resulted in the overstatement of disbursements and understatement of cash and investment balances. The School Corporation recorded an adjusting entry after the close of the audit period and approved an adjustment to the financial statement to correct this. The net effect of the adjustment increased cash and investments balances of the impacted funds.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Since the tax amounts recorded as disbursements were the basis for the amounts submitted for reimbursement, the School Corporation received reimbursement for disbursements which did not occur. Therefore, the disbursements for the requests for reimbursement and the final expenditure reports submitted for grant fiscal years 2013 and 2014 were overstated. Additionally, due to the overstatement of disbursements, the base for the indirect costs calculation was overstated. The following schedule is the amount received by the School Corporation for overstated indirect costs, which are considered questioned costs.

Major Program	CFDA #	Overstated Indirect Cost
Title I Grants to Local Educational Agencies	84.010	\$ 2,460
School Improvement Grants	84.377	1,530
Improving Teacher Quality State Grants	84.367	238

The failure to disburse these taxes also resulted in cash on hand in various grant funds for which the period of availability had passed. The IDOE may require the School Corporation to return any unspent funds. The following schedule details the amount received by the School Corporation but not disbursed in 2013 for employer taxes, which are considered question costs:

School Corporation Fund No.	Federal Program	Grant Period	Reimbursement Received, Not Disbursed
404-4	Title I Grants to Local Educational Agencies	07-01-13 to 09-30-14	\$ 340
414-3	Title I Grants to Local Educational Agencies	07-01-12 to 09-30-13	18,283
414-4	Title I Grants to Local Educational Agencies	07-01-13 to 09-30-14	<u>52,280</u>
	Total for CFDA 84.010		<u>\$ 70,903</u>
454-3	ARRA School Improvement Grants, Recovery Act	07-01-12 to 09-30-13	\$ 14,947
454-4	School Improvement Grants	07-01-13 to 09-30-14	<u>29,145</u>
	Total for Cluster		<u>\$ 44,092</u>
684-3	Improving Teacher Quality State Grants	07-01-12 to 09-30-13	\$ 4,566
684-4	Improving Teacher Quality State Grants	07-01-13 to 09-30-14	<u>2,296</u>
	Total for CFDA 84.367		<u>\$ 6,862</u>

Special Education grants were not included in the above table. FICA and Medicare taxes recorded as disbursements between September and December 2013 but not remitted, totaled \$44,481 for the Special Education - Grants to States (Special Education) and \$3,193 for the Special Education - Preschool Grants (Preschool). The amount of taxes recorded for Preschool was not included in any reimbursement request submitted for the audit period. The reimbursement requests submitted for the Special Education grant during the audit

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

period included the September through December 2013 time period. Both grant and non-grant disbursements were comingled within the grant funds; therefore, we could not determine how much of the \$44,481 in unpaid FICA and Medicare taxes were included in the requests for reimbursement, or how much, if any, would need to be returned to the Indiana Department of Education.

4. Final Expenditure Reports were not mathematically accurate, complete, or supported by the School Corporation's records on the required cash basis of accounting.

a. Special Education: Detailed reports of actual federal grant disbursements were not generated and retained to support the final expenditure reports. Detailed reports were necessary to identify which disbursements were funded by the grants since both grant and non-grant disbursements were comingled in the same funds.

b. Improving Teacher Quality State Grants: Disbursements of \$15,458 were included in the report for Project 10-4690 that were not actually disbursed as of the end of the year when the report was due. The \$15,458 should not have been included in the final expenditure report.

c. Title I Grants:

1. Disbursements of \$6,973 were included in the report for Title I Improvement 12-4690 that were not actually disbursed as of the end of the grant period which ended September 30, 2012. These amounts were recorded as open claims (obligations, not disbursements) as of December 3, 2012.

2. The Title I Basic 12-4690 report submitted on January 10, 2013 (due October 30, 2012) reported \$9,019,916 as disbursed. The summary supporting ledger provided for audit was created on April 25, 2013; three months after the report submission date. This ledger covered the time period from July 1, 2011 to April 24, 2013. The grant period ended September 30, 2012. A detailed disbursements ledger that agreed with the total reported could not be reproduced.

3. The Title I Improvement 13-4690 report and summary supporting ledger (generated for the period July 1, 2012 to October 15, 2013) agreed. However, the grant period ended September 30, 2013. A detailed disbursements ledger to support the amounts reported for the correct period was not retained for audit and could not be reproduced.

5. Special Reporting

School Corporations in Indiana are required to submit a School Form 9 report (Form 9) to the Indiana Department of Education (IDOE) every six months. The report provides cash and investment balances, receipts, and disbursements by fund, account and object for all funds except payroll clearing funds. The Form 9 information is used by the IDOE to prepare a State Per Pupil Expenditure (SPPE) report. Each year, the IDOE must submit its SPPE data to the National Center for Education Statistics which is then used to determine certain grant awards. The Form 9 information is also used by the IDOE to determine Maintenance of Effort (MOE) and adjust the grant awards accordingly, if not met for school corporations receiving Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

For the period July 1, 2013 to December 31, 2013, the Form 9 submitted by the School Corporation was inaccurate. Due to the financial condition of the School Corporation, the employer's share of FICA and Medicare for all but one pay period between September and December 2013 was not disbursed. The computerized accounting system was set to automatically record payroll taxes as paid when the payroll was recorded, due to the timing of the required tax payment. The individual preparing the Form 9 for 2013 did not know until April 2015 that the taxes, which had not been paid, had been recorded as paid. This resulted in an overstatement of disbursements totaling \$1,421,295 in the Form 9 submitted for that time period.

The inclusion of disbursement amounts not actually paid inflated the amounts reported by the IDOE for the SPPE report and for the MOE calculation used for subsequent school years.

The IDOE, in a memo dated July 29, 2011, informed school corporations that reimbursement requests are to be based on actual expenditures in accordance with 31 CFR 205.12(b)(5) which states: "Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out funds for Federal assistance program purposes."

34 CFR 76.702 states: "A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds."

34 CFR 80.21(b) states in part: "Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee . . ."

34 CFR 80.20 Standards for financial management systems, states in part:

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

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

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

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant . . ."

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(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 internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements 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, to ensure compliance and comply with the Cash Management and Reporting requirements of the programs. We recommended that the School Corporation officials contact the IDOE regarding the reimbursements received for grant amounts not actually disbursed.

FINDING 2014-007 - EQUIPMENT

Federal Agency: U.S. Department of Education

Federal Programs: Title I Grants to Local Educational Agencies; School Improvement Grants;
ARRA School Improvement Grants, Recovery Act

CFDA Numbers: 84.010; 84.377; 84.388

Federal Award Numbers: 12-4690; 13-4690; 14-4690

Pass-Through Entity: Indiana Department of Education

Internal Controls

Management of the School Corporation has not established an effective internal control system related to the grant agreement and the compliance requirements for Equipment. Controls have not been established by the School Corporation to ensure capital asset records, including building level records, are maintained in accordance with federal guidelines for equipment management.

The failure to establish effective internal controls allowed material noncompliance to go undetected. 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 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 programs.

Noncompliance

The School Corporation received Title I Grants to Local Educational Agencies (Title I) funds through the Indiana Department of Education (IDOE) to assist children from low-income families who are at risk of not meeting academic standards. The IDOE also provides federal School Improvement Grant (SIG) funds to turn around the academic achievement of students in the Nation's persistently lowest-achieving schools. The School Corporation expended \$2,950,623 and \$1,226,484 to purchase equipment from Title I and SIG Funds, respectively, during the audit period.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation did not adequately safeguard or maintain proper records for equipment purchased with federal funds. All but one school, the Area Career Center, are Title I schools. The School Corporation did not provide corporation wide capital asset records. Records were provided by the individual school principals for all but one of the Title I schools.

Equipment from seven invoices tested for the equipment purchased, or 33 percent, could not be traced to individual building equipment inventory records. Issues with the records included:

1. Some equipment was not included in the records provided.
2. Some records provided were inadequate and did not contain sufficient identifying information to verify that the assets were purchased with federal funds. Adequate property records include a description of the asset, the cost of asset, a serial number or other identification number, location and date of purchase.

One of the schools which had received equipment purchased with SIG funds was closed at the end of the 2013-2014 school year. Officials were unable to provide documentation or explain where the equipment purchased with federal funds was currently located. In addition, two Dell laptops and four Apple I Pads purchased with federal funds at the closed school were noted as stolen in the inventory records. We observed Police reports filed for other stolen equipment at the closed school and other School Corporation schools; however, no documentation was provided to indicate follow-up regarding the stolen equipment noted above.

In addition, documentation that physical inventories of equipment purchased with federal funds were performed at least every two years was not presented for audit.

34 CFR 80.32 states in part:

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

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated . . ."

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."

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Equipment requirements of the programs.

FINDING 2014-008 - PERIOD OF AVAILABILITY

Federal Agency: U.S. Department of Education

Federal Programs: Title I Grants to Local Educational Agencies; School Improvement Grants;
ARRA School Improvement Grants, Recovery Act;
Improving Teacher Quality State Grants

CFDA Numbers: 84.010; 84.377; 84.388; 84.367

Federal Award Numbers: 12-4690; 13-4690; 14-4690; 10-4690; 11-4690

Pass-Through Entity: Indiana Department of Education

Internal Controls

Management of the School Corporation has not established an effective internal control system to ensure compliance with the Period of Availability 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 programs.

The period of availability for federal awards is the time period during which a non-federal entity may charge expenses resulting from obligations incurred during the funding period to the grant. The School Corporation has not designed or implemented controls to ensure that all obligations for expenditures made from program funds were incurred and expended within the period of availability. The School Corporation did not have internal controls in place to ensure that expenditures incurred after the period of availability were not claimed for reimbursement.

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 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.

Noncompliance

An obligation is an actual cost owed due to purchase orders issued, contracts signed, or services rendered for which a district is required to make payment. Obligations are not anticipated or estimated costs. (Indiana Department of Education Fiscal Handbook for Basic Title I, and School Improvement [Page 4])

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Per page 4 of the Indiana Department of Education Fiscal Handbook for Basic Title I and School Improvement grants, funds must be obligated by June 30th and expended by September 30th. The Improving Teacher Quality State Grants have an additional 90-day liquidation period (December 30th) during which all outstanding obligations must be paid.

The School Corporation incurred, claimed and received reimbursement for the following grant disbursements after the period of availability and we consider these amounts to be questioned costs:

CFDA #	Grant	Fiscal Year	Last Day To Obligate Funds	Last Day To Expend Funds	Total Expenses Obligated or Expended After Period of Availability
84.010	Title I Grants to Local Educational Agencies	2012	06-30-12	09-30-12	\$ 836,670
		2013	06-30-13	09-30-13	<u>372,052</u>
	Total for CFDA 84.010				<u>\$ 1,208,722</u>
84.388	ARRA School Improvement Grants, Recovery Act	2013	06-30-13	09-30-13	<u>\$ 755,363</u>
84.367	Improving Teacher Quality State Grants	2012	09-30-12	12-30-12	\$ 40,866
		2013	09-30-13	12-30-13	<u>4,247</u>
	Total for CFDA 84.367				<u>\$ 45,113</u>

34 CFR 80.23 states:

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

(b) *Liquidation of obligations.* A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee."

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 internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Period of Availability requirements of the programs.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-009 - SPECIAL TESTS AND PROVISIONS - GRADUATION (COHORT) RATE

Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers: 12-4690, 13-4690, 14-4690
Pass-Through Entity: Indiana Department of Education

Internal Controls

Management of the School Corporation has not established an effective internal control system to ensure compliance with the Special Tests and Provisions - Graduation (Cohort) rate compliance requirement. 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.

The School Corporation operated three high schools during the audit period. When a student was removed from the graduation rate cohort (due to a transfer out, emigrating to another country or death), the removal was performed at the building level. The School Corporation did not have internal controls in place to ensure that written documentation was retained to confirm that a student should be removed from the cohort.

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 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.

Noncompliance

For the 2013 graduating class, the School Corporation's records indicated that seventy-nine students had withdrawn during the 2012-2013 school year. Twenty-four of these students were tested to the Indiana Department of Education (IDOE) Graduation Cohort Status Report. Four students (17 percent) were removed without the proper supporting written documentation. In addition, two deceased students (8 percent) were reported in the cohort since no written documentation had been obtained to remove the students.

34 CFR 200.19(b) states in part:

"High schools—(1) Graduation rate. Consistent with paragraphs (b)(4) and (b)(5) of this section regarding reporting and determining AYP, respectively, each State must calculate a graduation rate, defined as follows, for all public high schools in the State:

(i)(A) A State must calculate a "four-year adjusted cohort graduation rate," defined as the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for that graduating class. . .

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

(ii) The term "adjusted cohort" means the students who enter grade 9 (or the earliest high school grade) and any students who transfer into the cohort in grades 9 through 12 minus any students removed from the cohort.

(A) The term "students who transfer into the cohort" means the students who enroll after the beginning of the entering cohort's first year in high school, up to and including in grade 12.

(B) To remove a student from the cohort, a school or LEA must confirm in writing that the student transferred out, emigrated to another country, or is deceased.

(1) To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.

(2) A student who is retained in grade, enrolls in a General Educational Development (GED) program, or leaves school for any other reason may not be counted as having transferred out for the purpose of calculating graduation rate and must remain in the adjusted cohort."

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 internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Special Tests and Provisions - Graduation (Cohort) Rate requirements of the program.

FINDING 2014-010 - SPECIAL TESTS AND PROVISIONS - COMPARABILITY

Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers: 12-4690, 13-4690, 14-4690
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 Special Tests and Provisions - Comparability requirements. The failure to establish an effective internal control system places the School Corporation at

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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.

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 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.

Noncompliance

The School Corporation did not retain supporting documentation for information reported regarding comparability of services:

1. The School Corporation did not retain detailed student enrollment used in the Comparability Report. We compared the reported enrollment from the Comparability Report to average daily membership (ADM) detailed records for the count taken on September 13, 2013; they did not agree. The difference between the Comparability Report and the ADM records ranged from underreported by 99 students to overreported by 257 students. All 16 schools which took ADM counts had differences between the student enrollment reported and the ADM detail.
2. The reported FTE (full-time equivalent) staff did not agree with the supporting documentation for FTE. The difference ranged from underreported by 25 to overreported by 6.19 staff members. All but one school had differences between the FTE reported and the supporting documentation. The differences appear to be caused in some part by counting the number of staff and not the staff's FTE.
3. The School Corporation submitted a Comparability Report to the Indiana Department of Education by October 15, 2013. The report submitted was incomplete and lacking Form A, which was not filed until December 9, 2013. Revised Forms A and B for Comparability were submitted on January 15, 2014. The written Comparability documents presented for audit were not the records used in the original Comparability Report since most of the records were dated between November 19, 2013, and December 6, 2013; after the October 15 submission date.

34 CFR 76.731 states: "A State and a subgrantee shall keep records to show its compliance with program requirements."

34 CFR 76.700 states:

"A State and a subgrantee shall comply with the State plan and applicable statutes, regulations, and approved applications, and shall use Federal funds in accordance with those statutes, regulations, plan, and applications."

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Indiana Department of Education Title I Comparability of Services Handbook states: "Current year data must be used to complete the district's comparability report. Typically, data are used based on fall counts (enrollment and staff). In any case, two criteria must apply: 1) the date used by the LEA may be no later than October 1 of the comparability reporting year; and 2) all data that an LEA uses in the comparability report must reflect conditions as they currently exist on the date from which the LEA bases comparability."

Indiana Department of Education Title I Comparability of Services Handbook states: "All LEAs must complete comparability yearly and submit information to the 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."

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

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

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Special Tests and Provisions - Comparability requirements of the program.

***FINDING 2014-011 - INTERNAL CONTROLS OVER 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: 12-4690, 13-4960, 14-4960
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 Eligibility, Earmarking, Procurement, and Special Tests and Provisions 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 grant. We noted the following deficiencies in internal control:

Eligibility

Due to the changes in staffing and restructuring of departments related to the School Corporation's financial condition, and the change in food service vendors, we were unable to determine what controls may have existed regarding the October School Lunch Real Time information used to determine eligibility.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Earmarking

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the Earmarking program requirements. There is no segregation of duties. An oversight, review, or approval process has not been established to ensure compliance.

Procurement

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the Procurement requirements of the program. The School Corporation has not ensured that the most current School Board approved procurement policies are provided to and known by the appropriate departments and employees.

Special Tests and Provisions - Participation of Private School Children

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the Special Tests and Provisions for participation of private school children. There was no segregation of duties to ensure that the approved budgets for participating private schools were properly recorded.

Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the Special Tests and Provisions for highly qualified teachers and paraprofessionals. The School Corporation has two individuals in the Human Resources department responsible for ensuring that applicable staff were highly qualified; one for teachers and the other for paraprofessionals. An oversight or review process has not been established.

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 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 internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance related to the grant agreement and all compliance requirements listed above.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-012 - EARMARKING AND PROCUREMENT

Federal Agency: U.S. Department of Education
Federal Program: School Improvement Grants; ARRA School Improvement Grants, Recovery Act
CFDA Number: 84.377; 84.388
Federal Award Numbers: 12-4690; 13-4960; 14-4960
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 Earmarking and Procurement 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 grant. We noted the following deficiencies in internal control:

Earmarking

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the Earmarking program requirements. There is no segregation of duties. An oversight, review, or approval process has not been established to ensure compliance.

Procurement

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the Procurement requirements of the program. The School Corporation has not ensured that the most current School Board approved procurement policies are provided to and known by the appropriate departments and employees.

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 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 internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance related to the grant agreement and all compliance requirements listed above.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

***FINDING 2014-013 - ACTIVITIES ALLOWED, LEVEL OF EFFORT -
MAINTENANCE OF EFFORT, EARMARKING***

Federal Agency: U.S. Department of Education

Federal Programs: Special Education Grants to States, Special Education Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers: A58-3-13DL-0073, 14212-019-PN01, 14213-019-PN01,
45712-019-PN01, 45713-019-PN01

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Activities Allowed, Level of Effort - Maintenance of Effort, and Earmarking.

Activities Allowed

The School Corporation has not implemented effective policies and procedures to ensure compliance with the Activities Allowed program requirements. There are no effective procedures to ensure that grant funds are used for only activities allowed.

Level of Effort - Maintenance of Effort and Earmarking

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the program requirements of Level of Effort - Maintenance of Effort, and Earmarking for early intervening services. There is no segregation of duties. An oversight, review, or approval process has not been established to ensure compliance.

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 noted above.

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 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 internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance related to the grant agreement and all compliance requirements listed above.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

***FINDING 2014-014 - SPECIAL TESTS AND PROVISIONS -
PARTICIPATION OF PRIVATE SCHOOL CHILDREN***

Federal Agency: U.S. Department of Education
Federal Program: Improving Teacher Quality State Grants
CFDA Number: 84.367
Federal Award Numbers: 10-4690, 11-4690, 12-4690, 13-4690
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Special Tests and Provisions - Participation of Private School Children compliance requirement. 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.

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with the Special Tests and Provisions - Participation of Private School Children. There was no oversight or review process to ensure that the approved budgets for participating private schools were properly recorded.

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 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 internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance related to the grant agreement and the compliance requirement listed above.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-015 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: U.S. Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children,
Child and Adult Care Food Program
CFDA Numbers: 10.553, 10.555, 10.559, 10.558
Federal Award Number: FY 2014
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 Allowable Costs/Cost Principles compliance requirements.

1. The School Corporation has not designed or implemented effective controls to ensure that time records are maintained for each school and each employee to support payroll expenditures.
2. The School Corporation has not designed or implemented adequate procedures to ensure that leave time reported on employee time records agrees with the leave time recorded in the payroll system.
3. The School Corporation has not designed or implemented adequate procedures to ensure that food service employees are paid for actual hours worked; not for days when school is not in session. For example, employees were paid for nine "snow days" even though the employees did not work those days.

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 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.

Noncompliance

We audited each payroll recorded in the School Lunch fund for the 2013-2014 school year. We compared the hours worked on the time records to the hours paid for each employee. We compared the approved rate of pay for school lunch employees to the pay rate paid on a test basis. We also attempted to verify the leave time (sick, family illness, personal, and docked pay) paid to the leave time reported on the time records on a test basis. We noted the following issues:

1. Not all time records were available for audit. Four schools either did not submit time records at all or did not submit time records for each pay period. In addition, time records were not submitted for every employee at various other schools. The total amount of gross payroll and the related employer taxes and benefit costs that were not substantiated by time records was \$183,470. These unsubstantiated costs are considered questioned costs.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2. There were differences between the hours worked reported on time records and the hours paid by the School Corporation in many instances. The total amount of gross payroll and the related employer taxes paid for hours not substantiated by time records was \$80,480. These unsubstantiated costs are considered questioned costs.

We were unable to verify that the leave time paid agreed with the leave time reported on the time records in many instances. There were differences between leave time reported on the time records and leave time paid in 17 of the 26 pay periods tested. Therefore, leave time used was not considered in the determination of the questioned costs above.

Hourly employees were paid for nine "snow days" even though school was not in session and those employees did not work. Seven of those days were made up later in the year in which the employees were not supposed to be paid. Because we were not able to readily determine if employees were or were not paid on the make-up days, or if all of them actually worked on the make-up days, snow days paid were also not considered in the determination of the questioned costs above.

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.
 - 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 . . ."

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

OMB Circular A-87, Attachment B, Part 8. Compensation for Personal Services states in part:

"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."

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 internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Allowable Costs/Cost Principles requirements of the programs.

***FINDING 2014-016 - ALLOWABLE COSTS/COST PRINCIPLES, CASH MANAGEMENT
AND SPECIAL TESTS AND PROVISIONS - SCHOOL FOOD ACCOUNTS***

Federal Agency: U.S. Department of Agriculture

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

CFDA Numbers: 10.553; 10.555; 10.559; 10.558

Federal Award Number: FY 2014

Pass-Through Entity: Indiana Department of Education

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 Allowable Costs/Cost Principles, Cash Management and Special Tests and Provisions - School Food Accounts compliance requirements.

The School Corporation did not have internal controls in place to ensure compliance with Allowable Costs/Cost Principles, Cash Management, and Special Tests and Provisions - School Food Accounts requirements. There were no controls to ensure that federal program funds were used only for the operation or improvement of the school food service. In addition, there were no controls to ensure that disbursements for food service were actually paid before reimbursement was claimed as required by the pass-through agency.

The Indiana Department of Education (IDOE) is the State agency responsible for ensuring that the school food authority, the School Corporation, complies with the requirements to account for all revenues and expenditures of their nonprofit school food service. The IDOE mandated that the School Corporation implement new control procedures to ensure that program funds are expended only for the operation or improvement of the food service; however, the School Corporation circumvented these new procedures.

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 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.

Noncompliance

1. The School Corporation maintained one bank account, the Operating account, for all funds except payroll withholding funds. The school food service transactions were included in the Operating account. The School Lunch fund reported a positive cash and investments balance of \$2,172,870 on the June 30, 2014 financial statement; however, the total balance of all funds included in the Operating account was a negative \$2,635,410.

Due to the financial condition of the School Corporation, the cash in the Operating account, which included the School Lunch fund federal reimbursements, was primarily used to pay employee compensation and other disbursements necessary to keep the School Corporation operating.

2. The School Corporation did not pay the Third Party Service Provider (Provider) for services provided between January and June of 2014. School lunch reimbursements were received by the School Corporation for these months; however, the reimbursements were used to pay school general operating expenses; not to pay expenses to operate or improve the school food service. As of June 30, 2014, the School Corporation owed the Provider \$2,025,540. As of March 31, 2015, the amount still unpaid for services through June 30, 2014, was \$1,231,720. The oldest of these invoices has been outstanding for 395 days. The \$1,231,720 in federal reimbursements not used for the operation or improvement of the school food service are considered questioned costs.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

3. The School Corporation did not ensure that the Provider submitted detailed invoices for their services. Although very little was paid to the Provider during the audit period, a payment of \$100,000 was made for the January 2014 services without an itemized invoice. Additional payments for August through October 2014 services which totaled \$234,160 were paid in October and November 2014 without itemized invoices. The \$334,160 in undocumented disbursements are considered questioned costs.
4. The IDOE required the School Corporation to open a separate food service checking account to properly account for the receipts and disbursements of the school food service. The account was opened on August 27, 2014; however, not all food service receipts were deposited into this account.
5. Beginning in October 2014, the IDOE retained the monthly reimbursements based on the number of eligible meals served claimed by the School Corporation. The IDOE used the amount due the School Corporation to pay the food service vendor directly and timely. In addition, the IDOE required the School Corporation to submit supporting documentation for all expenditures of food service funds before they issued reimbursements of these expenditures. These procedures were mandated by the IDOE to ensure that only allowable costs were paid from federal program funds.

The School Corporation circumvented these procedures and received reimbursements in excess of amounts actually expended. The December 2014 reimbursement received by the School Corporation was \$80,981 in excess of the amount disbursed. Review of the disbursement ledger revealed that a portion of the disbursements amount submitted for reimbursement was later reversed in the accounting records as of December 31, 2014. The reimbursement received by the School Corporation in excess of the amount expended of \$80,981 is considered questioned costs.

7 CFR 210.2 states in part:

"Nonprofit school food service account means the restricted account in which all of the revenue from all food service operations conducted by the school food authority principally for the benefit of school children is retained and used only for the operation or improvement of the nonprofit school food service. This account shall include, as appropriate, non-Federal funds used to support paid lunches as provided in §210.14(e), and proceeds from nonprogram foods as provided in §210.14(f)"

7 CFR 210.14 states in part:

"Resource management. (a) *Nonprofit school food service.* School food authorities shall maintain a nonprofit school food service. Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, *except that*, such revenues shall not be used to purchase land or buildings, unless otherwise approved by FNS, or to construct buildings. Expenditures of nonprofit school food service revenues shall be in accordance with the financial management system established by the State agency under §210.19(a) of this part . . ."

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

7 CFR 210.19(a) states in part:

"Additional responsibilities. *General Program management.* Each State agency shall provide an adequate number of consultative, technical and managerial personnel to administer programs and monitor performance in complying with all Program requirements.

- (1) *Assurance of compliance for finances.* Each State agency shall ensure that school food authorities comply with the requirements to account for all revenues and expenditures of their nonprofit school food service . . ."

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 . . .
 - j. Be adequately documented."

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 internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Allowable Costs/Cost Principles, Cash Management, and Special Tests and Provisions - School Food Accounts. We also recommended that the School Corporation continue to address its financial position and cash flow needs, to enable it to fund the school lunch bank account.



1988 Polk St., Gary, Indiana 46407

(219) 886-6400 • (219) 881-5394
DR. CHERYL PRUITT, Superintendent
clpruitt@garycsc.k12.in.us

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Financial Advisor and Gary Board of School Trustees
Contact Phone Number: 219-881-5401

Description of Corrective Action Plan: Legislative agenda passed and signed by Governor Pence in May, 2015.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices.

Anticipated Completion Date: December 2015

FINDING 2014-002

Contact Person Responsible for Corrective Action: Financial Advisor, payroll and Gary Board of School Trustees
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices.

Anticipated Completion Date: December 2015

FINDING 2014-003

Contact Person Responsible for Corrective Action: Financial Advisor, District Accountant and Gary Board of School Trustees
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board

(DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices. Business Office personnel will be required to use the Gateway system as required by the state of Indiana.

Anticipated Completion Date: December 2016

FINDING 2014-004

Contact Person Responsible for Corrective Action: Financial Advisor, Federal Programs Administrator, Human Resources Administrator and Gary Board of School Trustees
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices. The district will discontinue the "supplemental pay sheets". The Superintendent shall recommend to the Board of School Trustees all supplemental assignments from all revenue sources. A procedure will be put in place to make certain work is completed that is assigned to supplemental assignments.

Anticipated Completion Date: December 2015

FINDING 2014-005

Contact Person Responsible for Corrective Action: Financial Advisor, Assistant Director of SPED and Gary Board of School Trustees
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices. The administration will recommend the hiring of an Assistant Director of Special Education to be funded from IDEA. The assistant will create internal controls for SPED and monitor the special education grant and non-grant disbursements in the grant funds in collaboration with the business office. Time-effort logs and semi annual certification oversight will be established.

Anticipated Completion Date: December 2015

FINDING 2014-006

Contact Person Responsible for Corrective Action: Financial Advisor, District Accountant, Federal Programs Administrator and Gary Board of School Trustees
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board

(DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices.

Anticipated Completion Date: December 2015

FINDING 2014-007

Contact Person Responsible for Corrective Action: Financial Advisor, District Accountant, Federal Programs Administrator, Procurement Officer and Gary Board of School Trustees
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices.

The Office of Innovation and Improvements will institute an updated physical inventory of all supplemental equipment supported with Title I and/or School Improvement Grant 1003(g) are consistent with documented policy and procedures.

- Address uniformity in its physical inventory process
- Anticipate the establishment of a comprehensive list of equipment
- Expect individual schools to provide equipment lists in a consistent format
- Expect equipment lists to be kept current
- Expect schools to include cost data on the physical inventory list
- A uniform method of labeling equipment assets
- The use of bar codes, labels, or some alternative method for identifying equipment or property

The efforts of the Office of Innovation and Improvements to maintain control and to create and maintain an accurate comprehensive inventory of property/equipment purchased with federal funds should benefit from an enhancement of its existing system in such a way as to ensure that what is ordered is received and what is received is distributed to and utilized by appropriate personnel for appropriate purposes.

Anticipated Completion Date: December 2015

FINDING 2014-008

Contact Person Responsible for Corrective Action: Financial Advisor, District Accountant, Federal Programs Administrator, and Gary Board of School Trustees
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices.

Anticipated Completion Date: December 2016

FINDING 2014-009

Contact Person Responsible for Corrective Action: Assistant to the Superintendent, Human Resources, Registrars and Gary Board of School Trustees
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices. Training and accountability for registrars will be completed with disciplinary actions to follow for persons who do not comply with data entry.

Anticipated Completion Date: December 2015

FINDING 2014-010

Contact Person Responsible for Corrective Action: Federal Programs Administrator
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective comparability analysis by the Federal Programs Administrator.

The Office of Innovation and Improvements will work in conjunction with all Title I principals to ensure that student count and Average Daily Attendance (ADM) data are consistent with all required reporting. Schools' ADM data will be verified at the building level then submitted to the Office of Innovation and Improvements for final approval.

Anticipated Completion Date: December 2015

FINDING 2014-011

Contact Person Responsible for Corrective Action: Federal Programs Administrator
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective comparability analysis by the Federal Programs Administrator.

The Office of Innovation and Improvements will review and provide more stringent internal control systems for the 2015-2016 school year for consideration by the Superintendent. For example, a reorganizational of the current structure will be developed to ensure that more effective and efficient processes and procedures are in place and able to be sustained over the years. The Office of Innovation and Improvements will work in coordination with the Office of Supervision of Budget in order to strengthen better internal accountability for Special Tests and Provisions – Participation of Private School Children,

FINDING 2014-012

Contact Person Responsible for Corrective Action: Federal Programs Administrator and Procurement Officer
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective comparability analysis by the Federal Programs Administrator and procurement.

Anticipated Completion Date: December 2015

FINDING 2014-013

Contact Person Responsible for Corrective Action: Financial Advisor, Assistant Director of SPED a
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices. The administration will recommend the hiring of an Assistant Director of Special Education to be funded from IDEA. The assistant will create internal controls for SPED and monitor the maintenance of effort and earmarking.

Anticipated Completion Date: December 2015

FINDING 2014-014

Contact Person Responsible for Corrective Action: Human Resources Administrator
Contact Phone Number: 219-881-5401

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, a measure advocated strongly by Senator Earline Rogers will create a plan of action where local officials, school board members, a financial advisor of the board's choosing and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and update district policies and internal procedures manuals for more efficient and effective business and HR practices.

The Office of Innovation and Improvements does have a solid internal accountability plan in place for Provision of Participation of Private School Children services. All participating Title I Nonpublic School has a separate account which shows the balances, account fund number, and balance for all supplemental fund resources (i.e., Title I, Title IIA, and III), during the school year. The segregation of duties are designed to inform nonpublics of the amounts and how the services will be implemented for Title I students during the year.

Anticipated Completion Date: December 2015

FINDING 2014-015

Contact Person Responsible for Corrective Action: Financial Advisor, Sodexo-Magic and Gary Board of School Trustees

Contact Phone Number: 219-881-5401

Description of Corrective Action Plan: The DISTRICT hereby retains SodexoMAGIC and grants to SodexoMAGIC the exclusive right to provide and manage the DISTRICT'S food service program {"Service," "Services," "Food Service" or "Food Service Program") at the DISTRICT's Premises to all of the students of the DISTRICT including but not limited to Pre-Kindergarten, Kindergarten, Elementary, Middle and High School Students. SodexoMAGIC shall render the Food Services within the facilities of the Premises, including but not limited to, the food preparation, serving, dining and storage areas {"Facilities" designated for the Food Service Program). SodexoMAGIC shall also operate the summer food program.

SodexoMAGIC shall be responsible for hiring all Food Service Employees and Lunch Room Matrons and management on its payroll including, but not limited to, responsibility for recruitment, employment, promotion, payment of wages, pension benefits, layoffs and termination. SodexoMAGIC shall comply with all applicable laws and regulations related thereto. SodexoMAGIC shall prepare and process the payroll for its employees and shall withhold and pay all applicable federal and state employment taxes and payroll insurance relating to its employees including, but not limited to, income, social security and unemployment taxes and worker's compensation costs and charges.

Anticipated Completion Date: July 1, 2015

FINDING 2014-016

Contact Person Responsible for Corrective Action: Financial Advisor, Sodexo-Magic and Gary Board of School Trustees

Contact Phone Number: 219-881-5401

Description of Corrective Action Plan: The DISTRICT hereby retains SodexoMAGIC and grants to SodexoMAGIC the exclusive right to provide and manage the DISTRICT'S food service program ("Service," "Services," "Food Service" or "Food Service Program") at the DISTRICT's Premises to all of the students of the DISTRICT including but not limited to Pre-Kindergarten, Kindergarten, Elementary, Middle and High School Students. SodexoMAGIC shall render the Food Services within the facilities of the Premises, including but not limited to, the food preparation, serving, dining and storage areas {"Facilities" designated for the Food Service Program). SodexoMAGIC shall also operate the summer food program.

SodexoMAGIC shall be responsible for hiring all Food Service Employees and Lunch Room Matrons and management on its payroll including, but not limited to, responsibility for recruitment, employment, promotion,

Please see following page for signatures.

July 2, 2015

(Date)

By signing this corrective action plan document, I acknowledge my awareness and responsibility.

Antwan Clemmons
Official Name and Title (Printed)

Antwan Clemmons
Signature

Willie Cook
Official Name and Title (Printed)

Willie Cook
Signature

Cordia P. Moore
Official Name and Title (Printed)

Cordia P. Moore
Signature

Al J. Press ex. Director
Official Name and Title (Printed)

Al J. Press
Signature

Mary Comer - SUPERVISOR
Official Name and Title (Printed)

Mary Comer
Signature

Official Name and Title (Printed)

Signature

Official Name and Title (Printed)

Signature

Doretha Rouse
Official Name and Title (Printed)

Doretha Rouse
Signature

Marianne Fildishin, Ex. Dir. Sp. Ed. & Stud. Services
Official Name and Title (Printed)

Marianne Fildishin
Signature

Assistant to the Superintendent
Official Name and Title (Printed)

Signature

Marie Adkins - Supervisor - Finance
Official Name and Title (Printed)

Marie Adkins
Signature

Dr. Cheryl Pratt
Official Name and Title (Printed)

Dr. Cheryl Pratt
Signature

Official Name and Title (Printed)

Signature

Official Name and Title (Printed)

Signature

BULLETIN NO. 07-03

TO: Title I Principals

FROM: Albert J. Holmes, Jr., Executive Director of Innovation and Improvements/
Federal Grants and Programs

RE: Time and Effort and Periodic/Semi Certification Requirements (Updated)

DATE: Thursday, July 2, 2015

The federal law requires all employees, including teachers, paraprofessionals, and other staff that are paid with federal funds to document the time and effort they spend within that program. The portion of the federally paid salary should be reflective of the time and effort the individual has put forth for that federal program. For instance, if a Title I teacher spends 100% of his/her time working with Title I students and on Title I responsibilities, then 100% of his/her salary is to be paid with Title I funds. On the other hand, if an individual is working as a principal 50% of the time and 50% as the coordinator for another program, only 50% of his/her salary is paid from Title I. The remaining 50% would be paid from district funding. The purpose of documenting time and effort is to ensure that a district does not use federal funds to compensate an employee for time spent on any other program.

Time and effort reporting guidelines are specified in the U.S. Office of Management and Budget (OMB) Circulars [A-87](#) and [A-133](#). The circulars provide instructions to auditors performing Single Audits of states, local governments, and non-profit organizations. OMB-87 establishes standards for charging employee compensation for federal grants. OMB A-133 lists the compliance requirements for federal education programs, including Title I Part A. Districts that receive other federal funds, such as Reading First, Migrant, Homeless, Neglected and Delinquent, Title II A, Title II D, Title III, Title IV A, Title V, Coordinated School Health, etc., must also ensure their employees are documenting their time and effort. School districts are required to maintain auditable "time and effort" documentation that show how each Title I employee spent his or her compensated time. Such documentation are written, after the fact (not estimated or budgeted) documentation of how the time was spent. Time and effort reports should be prepared by any Title I staff with salary charged (1) directly to a federal award, (2) directly to multiple federal awards, or (3) directly to any combination of a federal award and other federal, state or local fund sources.

- **Semi-annual certifications are required for Title I personnel whose compensation is funded solely from the Title I grant.** These certifications document that he/she has been working solely in activities supported by the Title I grant (although some district policies require monthly reports for such personnel). The certification must (1) cover a semiannual period (e.g., September-January and February-June, or September-February and March-August), (2) identify Title I as the program, and (3) be signed and dated by an employee and supervisor having first-hand knowledge of the work performed by the employee.

- **Monthly reports are required for Title I personnel whose time is charged in part to Title I and in part to other revenue sources (split-funded staff).** These reports document the portions of time and effort dedicated to Title I and to other revenue sources. Such records must (1) be completed after-the-fact, (2) account for the total time for which the employee is compensated, (3) be prepared at least monthly, (4) coincide with one or more pay periods, and (5) be signed by the employee and countersigned by an administrator or supervisor.

- **Stipends (and other supplemental contracts) must also be reported.** Record stipends on semi-annual certifications or monthly reports, whichever is utilized for the particular employee. Alternatively, permitted documentation includes (1) a signed supplemental contract that stipulates Title I work activity, (2) sign-in attendance logs approved by the supervisor (e.g., pay for professional development activities), and (3) employee time/pay slips that specify "Title I" and are approved by the supervisor.

When is time and effort documentation required?

All individuals being paid with federal funds must document their time and effort, no matter the percentage of time they are paid or if they are working in a Title I targeted assistance or schoolwide program. An employee dedicating 5% of his/her time to a federal program must document time and effort just as an individual employed 100% to a federal program would have to document time and effort. The difference is the type of documentation that each employee is responsible to complete.

What type of documentation is required?

- *Permanent Schedule* – A permanent schedule is most often used for teachers or individuals who are being paid with federal funds and hold a fixed schedule every day of the week. For instance, a Title I teacher's schedule could document that he/she is being paid 100% with federal funds and 100% of his/her day is dedicated to Title I programming. A teacher who was 50% Title I and 50% reading coach could also use this method if his/her schedule was consistent, day after day. Permanent schedules should be on file and updated throughout the school year.

- *Periodic Certification* – Districts who have full-funded federal personnel or those that are partially funded with federal funds must have individuals submit an assurance every six months (at a minimum) documenting that the amount of time they worked for each particular federal program. This certification should also include documentation of time spent on the federal program (such as a copy of daily planner, schedules, time sheets, daily logs). A sample assurance could state, "From January 1, 2007 to June 30, 2007, Jane Doe spent 100% of her time on Title I Part A instructional activities as evidenced by the enclosed schedule." – Signed by employee and supervisor.

- *Daily Log* – Individuals who work less than 100% for a particular federal program and whose schedule changes from day to day have the option of logging their time spent in the federal program each day. For instance, a principal who is paid 75% from the district

for principal duties and 25% from Title I to coordinate the district's Title I program could keep a daily log of the time spent on principal duties versus Title I coordinator duties. An individual in this situation does not hold a fixed schedule as principal duties are irregular and cannot be scheduled. Daily logs must be signed by the employee and their supervisor.

- *Monthly Certification* – Individuals who are funded from multiple funding sources can document their time and effort through monthly documentation. For this method, an assurance including time documentation would be submitted monthly. This sample assurance could state, "For the month of October 2007, Jane Doe spent 50% of her time on Title I Part A instructional activities and 50% on general fund instructional activities as evidenced by the enclosed schedule." – Signed by employee and supervisor.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

FINANCIAL CONCERNS

Overdrawn Cash Balances

The financial statement presented for the School Corporation included the following funds with overdrawn cash balances as of June 30, 2013 and 2014:

Funds	Amount Overdrawn As of June 30,	
	2013	2014
General	\$ -	\$ 3,060,755
Debt Service	-	1,064,538
Exempt Debt	-	744,666
School Transportation	7,365,648	8,551,606
Extra-Curricular Activities	5,283	5,283
Annuities	2,210	3,303
Retirees Life Insurance	734	26,399

The table above excluded overdrawn grant funds awaiting reimbursement as required by Indiana Department of Education. The primary factor for the overdrawn funds was disbursements in excess of receipts.

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)

Appropriations

The following funds recorded expenditures in excess of calendar year budgeted appropriations:

Funds	Disbursements in Excess of Appropriations	
	2012	2013
General	\$ 1,562,860	\$5,463,779
Exempt Debt	26,293	14,251
School Transportation	623,608	1,133,579

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Each member of the school board in accepting the responsibility of administering the financial affairs of a public school system must recognize not only his responsibilities toward the educational needs of the student population of the unit but also the board's relationship with and responsibilities toward the taxpayers of the local unit and of the State. Among other items, faithful performance of duty requires adequate budgeting, accurate accounting and informative reporting of all financial transactions and the establishment of sound business practices for effective and efficient operation of all schools. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Untimely Payment of Claims

Liabilities were incurred in excess of available cash, which required School Corporation staff to make judgments regarding which vendors could be paid from the available cash, after the payment of payroll. A list of accounts payable was provided by the School Corporation as of February 11, 2015. After audit adjustments, the School Corporation had outstanding accounts payable of \$20,627,905 which included taxes (net of penalties and interest) and other amounts incurred during the audit period. Some of the material amounts owed are detailed below:

1. Remittances to the Indiana Public Retirement System (INPRS) for Teachers and Public Employees Retirement funds for employer provided pension payments were not remitted timely. The School Corporation failed to begin remitting the pension contributions on a bi-weekly payroll basis beginning with the third quarter of 2012 as required. The following occurred:
 - a. Remittances for the last four payrolls of 2012 were made in July 2013.
 - b. Remittances for the payrolls between January and June of 2013 were made in August through November 2013.
 - c. Remittances for the payrolls between July and December of 2013 were made on December 31, 2013.
 - d. Remittances for payrolls in January and February 2014 were made in April 2014. The March payroll remittances were made in May 2014, and the April 2014 payroll remittances were made in June 2014.
 - e. Due to the history of late remittances, INPRS began intercepting portions of the School Corporation's basic state and federal grant distributions before they were electronically transferred from the Auditor of State to the School Corporation in May and June of 2014. As of June 2014, a total of \$754,015 had been diverted to INPRS from the Auditor of State.

From July 2014 to January 2015, INPRS has intercepted \$2,493,988 from state and federal funding intended for the School Corporation.
2. Gas and Electric - during the 2013-2014 school year, gas and electric services between March and November 2013 were paid by the School Corporation. Payments for these services were made between July and September 2013, with additional payments made in April 2014. The School Corporation had not paid for services between December 2013 and June 2014 as of June 30, 2014. As of February 11, 2015, the School Corporation owed \$4,069,178 for gas and electric services.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

3. Transportation - during the 2013-2014 school year, services received were paid up to five months late. The School Corporation did not pay for services received between March and June 2014. As of February 11, 2015, the School Corporation owed \$804,053. A court ordered judgment of \$1,750,000 against the School Corporation for transportation services included the amount owed in addition to accruing debt.
4. As of February 12, 2015, the School Corporation owed \$5,755,493 for health insurance premiums from June 2014 through January 2015. On February 13, 2015, a \$2,000,000 payment was made on the outstanding balance and the remaining balance is to be paid in monthly installments of \$200,000.
5. Other material amounts owed as of February 12, 2015, were \$625,658 for phone services, \$317,365 for sanitary services, \$731,218 for service employees union, and \$726,361 for unemployment taxes to the Indiana Department of Workforce Development.

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

Each member of the school board in accepting the responsibility of administering the financial affairs of a public school system must recognize not only his responsibilities toward the educational needs of the student population of the unit but also the board's relationship with and responsibilities toward the taxpayers of the local unit and of the State. Among other items, faithful performance of duty requires adequate budgeting, accurate accounting and informative reporting of all financial transactions and the establishment of sound business practices for effective and efficient operation of all schools. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Penalties, Interest, and Other Charges

Due to the School Corporation's financial condition and the late payment of taxes and invoices, the School Corporation paid \$413,008 in penalties, interest, and other charges to various agencies and vendors during the audit period as identified in the table below:

<u>Penalties, Interest, and Other Charges Paid</u>	<u>Amount</u>
Credit Cards	\$ 53
Federal Taxes	412,656
Other	<u>299</u>
Total	<u>\$ 413,008</u>

The School Corporation also paid penalties and interest of \$717 on July 1, 2014, for late payment of federal taxes for the 4th quarter of 2012.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

The School Corporation did not pay federal taxes for a portion of the 3rd and 4th quarters of 2013, and remitted a tax payment late for the 1st quarter of 2014. The net unpaid taxes during the 2013-2014 school year totaled \$5,670,549. Due to nonpayment and late payment of these federal taxes, the School Corporation has accumulated approximately \$2,268,376 in penalties and interest as computed from an Internal Revenue Service (IRS) Notice as of February 24, 2015. According to an IRS notice dated March 20, 2015, received by the School Corporation regarding a payment agreement, penalties and interest will continue to be charged until the amount due is paid in full, because the tax was not paid when it was due.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Each member of the school board in accepting the responsibility of administering the financial affairs of a public school system must recognize not only his responsibilities toward the educational needs of the student population of the unit but also the board's relationship with and responsibilities toward the taxpayers of the local unit and of the State. Among other items, faithful performance of duty requires adequate budgeting, accurate accounting and informative reporting of all financial transactions and the establishment of sound business practices for effective and efficient operation of all schools. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Excessive or Unreasonable Costs

1. Travel reimbursement claims:
 - a. Due to the ambiguity of the School Corporation's travel policy, all travel outside of the City limits is treated as nonlocal travel. Therefore individuals traveling within the county to local cities less than 15 miles away are receiving \$50 a day per diem.
 - b. Lodging was paid by the School Corporation for a hotel in a local community less than 16 miles away from the furthest point in the city. The School Corporation paid \$4,395 for the lodging which consisted of six rooms for six nights at a conference.
 - c. When a paid registration fee for a conference included meals, the individual attending the conference was still paid the full per diem amount by the School Corporation.
2. Credit card claims - credit card charges were made at various vendors for meals and food for the School Board served at executive sessions conducted by the School Board. Also observed was a charge for planters for a School Board member, purchased from a local home improvement store. We were advised this purchase was for the death of a School Board family member.

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

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

It is permissible for the legislative body of the local unit having the authority to approve claims to adopt a resolution establishing a reasonable per diem rate intended to cover travel expenses other than hotel and mileage costs and the officer or employee may be reimbursed on the basis of such a per diem rate in lieu of submitting receipts. If a fixed per diem rate is established by policy, the policy should clearly indicate which type of expenses, in addition to meals, are included in the rate and which expenses are to be reimbursed on the basis of actual receipts being submitted by the officer or employee.

The policy should also define the local unit's boundaries for purposes of reimbursing travel; i.e., outside a 50-mile radius of the office, outside of the county, etc. The policy should cover a proportionate reduction in the per diem rate when meals are provided by an outside party.

When state statutes govern the amounts of allowable travel reimbursements, those statutes supersede local policy. Also, when determining the reasonableness of a mileage rate or per diem rate, consideration should be given to rates established by the State of Indiana and the Federal government. The local unit should, however, consider the income tax implications of setting its rates higher than the current Federal rates. (The School Administrator and Uniform Compliance Guidelines, September 2014)

RAINY DAY FUND NONCOMPLIANCE

The School Corporation entered into a 20 year lease dated December 12, 2012, with the Gary Community School Building Corporation, a holding corporation, for two elementary schools. The School Corporation received \$18,527,000 in January 2013 for the sale of the buildings to the holding corporation, which was deposited into the Capital Projects fund of the School Corporation.

The School Board approved a resolution on January 22, 2013, authorizing the transfer of \$14,000,000 from the Capital Projects fund to the Rainy Day fund. This transfer occurred and was recorded in the accounting system of the School Corporation on January 31, 2013. The amount transferred exceeded the maximum amount permitted by state statute. Per statute, the amount to be transferred cannot exceed 10 percent of the total annual budget for the fiscal year. The total annual budget approved by the Department of Local Government Finance for the School Corporation for 2013 was \$94,533,318. Ten percent of the total annual budget for 2013 was \$9,453,332.

However, a transfer of \$14,000,000 from the Rainy Day fund to the General fund was recorded January 31, 2013. The minutes of the School Board did not reflect approval of this transfer. This transfer was not an approved use of Rainy Day funds for School Corporations. Additionally, Indiana Code 36-1-8-5.1(g) does not include school corporations as one of the units allowed to transfer money out of the Rainy Day fund.

Indiana Code 36-1-8-5.1(d) states:

"In any fiscal year, a political subdivision may, at any time, do the following:

- (1) Transfer any unused and unencumbered funds specified in subsection (b)(2)(A) from any fiscal year to the rainy day fund.
- (2) Transfer any other unobligated cash balances from any fiscal year that are not otherwise identified in subsection (b)(2)(A) or section 5 of this chapter to the rainy day fund as long as the transfer satisfies the following requirements:

(A) The amount of the transfer is authorized by and identified in an ordinance or resolution.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

(B) The amount of the transfer is not more than ten percent (10%) of the political subdivision's total annual budget adopted under IC 6-1.1-17 for that fiscal year.

(C) The transfer is not made from a debt service fund."

Indiana Code 36-1-8-5.1(g) states:

"A county, city, or town may at any time, by ordinance or resolution, transfer to:

- (1) its general fund; or
- (2) any other appropriated funds of the county, city, or town; money that has been deposited in the rainy day fund of the county, city, or town."

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

COMPENSATION AND BENEFITS

Board Approval for Salaries and Wages

As noted in the prior audit, most employees of the School Corporation were covered by collective bargaining agreements. The collective bargaining agreements for teachers and paraprofessionals expired December 31, 2007, but the School Corporation continued to operate under the terms of those agreements. The agreements for secretarial and food service also expired on December 31, 2007, but included the following language, "This agreement shall remain in full force and effect unless modified by the parties." The agreement for maintenance employees was effective from January 1, 1997 through December 31, 1999, but stated, "and is to remain in effect until a new agreement is approved."

Pay schedules included in the agreements were not current as raises have been granted since the end of the term of the agreements. The Human Resources Department prepared and maintained electronic pay schedules to record salaries after pay increases. Because the bargaining agreements were not current, it was difficult to substantiate that the salaries and wages paid to some staff were in compliance with School Board approved rates.

For those employees not covered by collective bargaining agreements, the only documentation of salaries and wages to be paid were schedules maintained electronically by the Human Resources Department. For some positions, it was unclear when the wages were approved by the School Board. Such positions included security, miscellaneous hourly positions such as substitutes (including teachers, custodians, secretaries, lunch matrons, etc.), retired administrators, intervention specialists (paid from federal grant funds) and middle management, which covered employees of the Human Resources and Payroll departments.

The board of school trustees has the authority to classify and determine salary schedules for non-instructional employees provided such schedules do not violate any State or federal wage and hour statutes. (Accounting and Uniform Compliance Guidelines for School Corporations, Chapter 8)

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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

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 School Corporations, Chapter 9)

Individual Contracts

1. Teacher contracts were not issued for any teaching staff during the audit period.
2. The School Corporation did not use the contracts prescribed for use by state statutes:
 - a. Some substitute teachers were paid at regular teacher rates of pay if they were considered "Long term temporary employees." The teacher was not provided with a "Temporary Teacher Contract," which included the rate of pay, and was signed by the employee and members of the School Board. The bargaining agreement did not cover this rate of pay.
 - b. Teachers were paid additional compensation for various activities including providing students with after school assistance in core academic areas. The additional compensation was supported by "Supplementary Assignment" sheets, which were completed by the employees and approved by the school principals, and division administrators. This form was used in lieu of a supplemental service teacher's contract.

Indiana Code 20-28-6-2 states in part:

"(a) A contract entered into by a teacher and a school corporation must:

- (1) be in writing;
- (2) be signed by both parties; and
- (3) contain the:
 - (A) beginning date of the school term as determined annually by the school corporation;
 - (B) number of days in the school term as determined annually by the school corporation;
 - (C) total salary to be paid to the teacher during the school year;
 - (D) number of salary payments to be made to the teacher during the school year; . . ."

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 20-28-6-5 states in part:

"The regular teacher's contract must be used statewide without amendment and must contain, in addition to the items in section 2(a)(3) of this chapter:

- (1) the manner of salary payment; . . ."

Indiana Code 20-28-6-6(a) states:

"A temporary teacher's contract shall be used only for employing:

- (1) a teacher to serve in the absence of a teacher who has been granted a leave of absence by the school corporation for:

- (A) engaging in defense service or in service auxiliary to defense service;
- (B) professional study or advancement;
- (C) exchange teaching;
- (D) extended disability to which a licensed physician has attested; or
- (E) serving in the general assembly; or

- (2) a new teacher for a position:

- (A) that is funded by a grant outside the school funding formula for which funding is available only for a specified period or purpose; or
- (B) vacated by a teacher who is under a regular contract and who temporarily accepts a teacher position that is funded by a grant outside the school funding formula for which funding is available only for a specified period or purpose."

Indiana Code 20-28-6-7(b) states: "The supplemental service teacher's contract shall be used when a teacher provides professional service in evening school or summer school employment, except when a teacher or other individual is employed to supervise or conduct noncredit courses or activities."

ACCOUNTS PAYABLE VOUCHERS

The Fiscal Officer/Treasurer appointed by the School Board for the 2012-2013 school year did not sign or approve any accounts payable vouchers or accounts payable voucher registers certifying the payments as required by Indiana Code.

The accounts payable vouchers with vendor invoices attached for \$669,044 of transportation services and \$48,730 for 2012 food service provider were not provided for audit. Prior to 2013, the food service accounts payable vouchers were maintained by the Food Service Department instead of by the Business Office.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

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

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

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 Schools, Chapter 9)

GRANT CASH MANAGEMENT - EXCESS CASH

The employer share of Social Security and Medicare taxes are recorded as disbursements to the various funds when payroll is processed. Due to the financial condition of the School Corporation, a portion of these taxes were not paid in 2013. Between September and December 2013, only one remittance of taxes occurred in November 2013. This resulted in the overstatement of disbursements and understatement of cash and investment balances. The School Corporation recorded an adjusting entry after the close of the audit period and approved an adjustment to the financial statement to correct this. The net effect of the adjustment increased cash and investments balances of the impacted funds.

Since the tax amounts recorded as disbursements were the basis for the amounts submitted for reimbursement, the School Corporation received reimbursement for disbursements which did not occur. Therefore, the disbursements for the requests for reimbursement and the final expenditure reports submitted for grant fiscal years 2013 and 2014 were overstated.

The failure to disburse these taxes also resulted in the School Corporation having cash on hand in various grant funds for which the period of availability had passed. With the conclusion of a grant period, the School Corporation is required by the Indiana Department of Education to return any unspent grant funds. The following schedule is the amount received by the School Corporation which was not disbursed in 2013 for employer taxes:

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

School Corporation Fund No.	Federal Program	Grant Period	Reimbursement Not Disbursed
550-3	Adult Education - Basic Grants to States	07-01-12 to 06-30-13	\$ 382
550-4	Adult Education - Basic Grants to States	07-01-13 to 06-30-14	3,758
626-3	Career and Technical Education - Basic Grants to States	07-01-12 to 06-30-13	1,642
626-4	Career and Technical Education - Basic Grants to States	07-01-13 to 06-30-14	2,478
795-7	Education for Homeless Children and Youth	10-01-13 to 09-30-14	934
Total to be returned to Indiana Department of Education			<u>\$ 9,194</u>

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

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

The information presented for audit indicated that enrollment figures on Form No. 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school year ending June 30, 2013.

The enrollment count date for the 2012-2013 school year was September 14, 2012. The difference between the enrollment reported on the ADM and the verified enrollment was one student; the report exceeded the supporting documentation by one student.

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

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

School Officials did not present sufficient detailed student records to support the Average Daily Membership (ADM) claimed by the School Corporation for September 2013. We were unable to determine if the number of students claimed was accurate for four of the schools in the School Corporation.

1. Webster Elementary - the student counts for the 1st, 3rd, and 6th grades did not agree with the certification signed by the building principal. Three sets of documentation were presented for audit, but none of them agreed to the amounts reported. The signed certification exceeded the number of students reported on the ADM by 5.
2. Jefferson Elementary - the supporting documentation provided for audit contained 2 duplicate pages. After the elimination of the duplicate pages, the supporting documentation exceeded the number of students reported on the ADM by 6. The affected grades were the 3rd, 4th, and 6th grades.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

3. West Side High School - the supporting documentation exceeded the number of students reported on the ADM by 2. The affected grades were the 10th and 11th grades.
4. Brunswick Elementary - the supporting documentation exceeded the number of students reported on the ADM by 0.5 students. The affected grades were Kindergarten and the 2nd grade.

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

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

CONTRACT DISCLOSURE COMPLIANCE

Indiana Statute requires the posting of various contracts and agreements on the School Corporation website. As of the exit conference date, the following agreements were not posted on the School Corporation website.

1. The collective bargaining agreement with the Teachers approved by the School Board on October 2, 2014, effective for the period of January 1, 2015 to June 30, 2015.
2. The 2 year contract with the Superintendent of Schools approved by the School Board on November 25, 2014.
3. Various administrative and non-teaching contracts awarded by the School Board since July 1, 2012 to current.

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."

Indiana Code 20-26-5-4.3(d) states: "A governing body shall post the provisions of an employment contract that the governing body enters into with a superintendent of the school corporation on the school corporation's Internet web site."

Indiana Code 20-26-5-4.7 states:

"(a) This section does not apply to a:

- (1) superintendent of a school corporation; or

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

(2) certificated employee (as defined in IC 20-29-2-4) that is represented by an exclusive representative (as defined in IC 20-29-2-9) under IC 20-29.

(b) The superintendent shall post the provisions of an employment contract that the school corporation enters into with a certificated employee on the school corporation's Internet web site."

OFFICIAL BONDS

An individual was appointed interim Treasurer by the School Board on April 15, 2015, but did not sign the checks immediately after appointment. The Superintendent of Schools signed the checks issued by the School Corporation, between April 17, 2015 and May 15, 2015. Neither individual had a bond for faithful performance.

The School Corporation and Extra-Curricular Treasurers' official bonds were not filed in the Office of the County Recorder for the 2013-2014 school year.

Indiana Code 20-26-4-1(c) states in part: "A governing body shall, at the time that officers are elected under subsection (b), appoint a treasurer of the governing body and of the school corporation who is a person, other than the superintendent of schools, who is not a member of the governing body."

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

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

- (1) issue a receipt for money received by the treasurer;
- (2) deposit money described in subdivision (1) in accordance with the laws governing the deposit of public funds; and
- (3) issue all warrants in payment of expenses lawfully incurred on behalf of the school corporation."

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

"For each school year commencing July 1, the treasurer of each governing body and the governing body's school corporation and a deputy treasurer, if so appointed, shall give a bond for the faithful performance of the treasurer's and deputy treasurer's duties written by an insurance company licensed to do business in Indiana, in an amount determined by the governing body."

The treasurer of the school corporation, and the deputy treasurer if one is appointed, for each school year commencing July 1, shall each give a bond for the faithful performance of duty, written by an insurance company licensed to do business in the State of Indiana, in an amount determined by the governing body. The treasurer shall be responsible under the treasurer's bond for the acts of any deputy treasurer appointed as provided in IC 20-26-4-5. All bonds must be made payable to the State of Indiana, IC 5-4-1-10; and approved by the governing body of the school corporation. The State Board of Accounts is of the audit position bonds should be filed and recorded in the office of the county recorder. No charge is made for recording official bonds, IC 36-2-7-10. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

ANNUAL REPORT

Report Not Filed

Required components of the Annual Report for 2013-2014 were not filed with the State Examiner by the School Corporation. School corporations were required to report information for grants received and disbursed, long term debt outstanding and due within one year, capital assets, and receivables and payables. This information should have been submitted for the year ended June 30, 2014.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

Report Not Advertised

The School Corporation did not advertise the annual financial reports for the 2012-2013 or 2013-2014 school years.

Indiana Code 5-3-1-3 states in part:

"(b) Not earlier than August 1 or later than August 15 of each year, the secretary of each school corporation in Indiana shall publish an annual financial report.

(c) In the annual financial report the school corporation shall include the following:

- (1) Actual receipts and expenditures by major accounts as compared to the budget advertised under IC 6-1.1-17-3 for the prior calendar year.
- (2) The salary schedule for all certificated employees (as defined in IC 20-29-2-4) as of June 30, with the number of employees at each salary increment. However, the listing of salaries of individual teachers is not required.
- (3) The extracurricular salary schedule as of June 30.
- (4) The range of rates of pay for all noncertificated employees by specific classification.
- (5) The number of employees who are full-time certificated, part-time certificated, full-time noncertificated, and part-time.
- (6) The lowest, highest, and average salary for the administrative staff and the number of administrators without a listing of the names of particular administrators.
- (7) The number of students enrolled at each grade level and the total enrollment.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (8) The assessed valuation of the school corporation for the prior and current calendar year.
 - (9) The tax rate for each fund for the prior and current calendar year.
 - (10) In the general fund, capital projects fund, and transportation fund, a report of the total payment made to each vendor for the specific fund in excess of two thousand five hundred dollars (\$2,500) during the prior calendar year. However, a school corporation is not required to include more than two hundred (200) vendors whose total payment to each vendor was in excess of two thousand five hundred dollars (\$2,500). A school corporation shall list the vendors in descending order from the vendor with the highest total payment to the vendor with the lowest total payment above the minimum listed in this subdivision.
 - (11) A statement providing that the contracts, vouchers, and bills for all payments made by the school corporation are in its possession and open to public inspection.
 - (12) The total indebtedness as of the end of the prior calendar year showing the total amount of notes, bonds, certificates, claims due, total amount due from such corporation for public improvement assessments or intersections of streets, and any and all other evidences of indebtedness outstanding and unpaid at the close of the prior calendar year. . . .
- (f) The annual reports required by this section and IC 36-2-2-19 and the abstract required by IC 36-6-4-13 shall each be published one (1) time only, in accordance with this chapter."

CERTIFIED REPORT NOT FILED

The School Corporation did not file a Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100-R) with the Indiana State Board of Accounts by the due date of January 31. The report required for 2014 was not filed. For 2012, the report was submitted February 18, 2013, and for 2013, the report was submitted February 26, 2014.

Indiana Code 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

PUBLIC RECORDS RETENTION

The procurement records for the 2012 emergency roof repair and the 2013 interior repairs to West Side High School were not located or presented for audit.

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



Doing What is Best for Students - Today - Tomorrow - Everyday"

1988 Polk Street Gary, IN 46407

(219) 881-5401 • (219) 881-5394

DR. CHERYL PRUITT,

Superintendent

clpruitt@garycsc.k12.in.us

OFFICIAL RESPONSE

"In an era of limited resources, changes in procedures and increased accountability, it is critical that we make every dollar count," said Dr. Cheryl L. Pruitt, Superintendent, Gary Community School Corporation (GCSC). Pruitt said that's one reason she requested an audit. We are aware that many of our procedures are outdated and we also have gaps because of downsizing.

"I felt the audit would give us a clear picture of where we were financially and procedurally and it would be a necessary tool as we worked to outline attainable goals over the next few years."

The Superintendent added that she's appreciative of the support the district received from the auditors, legislature and the state.

"As a result of Senator Rogers' hard work and others, the Gary Community School Corporation will partner with the Distressed Units Appeal Board. Without changes made in the house bills, our budget would not have received any relief. In addition, it provides for a "turn-key" system that will help us to do the additional heavy lifting to update and outdated system.

Additionally, we did not get the requested referendum, our tax collection is less than 50 percent, and without support from TIFF dollars, we were not headed towards a solution to make the district fiscally solvent.

We were pleased with the opportunity to present budgetary information during the recent DUAB meeting. Now we are heading in the right direction and have the manpower, dollars and resources to correct the procedures and update district policies. Soon the district will have a new chief financial officer and a team that has experience in successfully updating procedures in the business office and human resources as well as transportation and informational technology. We welcome the partnership with DUAB and all of the benefits we expect to follow. It's much needed assistance."

Pruitt said she also appreciates the efforts of Senator Luke Kenley, State Superintendent of Public Instruction Glenda Ritz, State Reps. Vernon Smith and Charlie Brown and others as we move forward.

Gary Community School Corporation

Audit Response

Financial concerns reported by the State Board of Accounts (SBOA) for the audit period July 01, 2012 to June 30, 2014 is the direct results of various administrative failures, during this period, to response adequately to external and internal changes in the surrounding financial environment.

In 2012, Educational Services Corporation (ESC), a school financial consulting company, issued a report to Gary Community School Corporation (GCSC) which indicated that GCSC would essentially run out of cash by the end of that year. GCSC paid \$30,000 for that report. This same information had previously been provided to the Board of School Trustees by the Business Services Director prior to the engagement of ESC.

After having received this information both internally and externally, adequate adjustments to downsize GCSC's financial operations were not implemented as proposed by the Superintendent and Business Services Director, at that time; and, GCSC slipped into financial crisis were it remains today.

Prior to the audit period reported on, many events had occurred that signaled the need to downsize GCSC's financial operations. In many instances, budget cuts were made but they did not keep up with declining enrollment and changes made to the State Funding Formula. Consequently, GCSC found itself in a continued deficit spiral from which it has never recovered.

Another phenomenal event which is systemic in nature is the decline in property tax collection. Property tax collections dropped on average to forty four (44%) percent for the three years ended December 31, 2013. Collection of \$36,956,012 was against an approved levy of \$83,428,933. This means that \$46,472,921 when uncollected due to the Property Tax Cap and Delinquencies. This issued is systemic as previously mentioned and will continue to haunt GCSC's financial operations in the future.

This is just a brief synopsis of the events which have occurred that lead to the audit concerns in the SBOA's audit report. There are many others, but the significant is that they resulted in a continual crisis operation mode; available cash was always inadequate to meet operational needs.

In September, 2013 when I was elevated as Acting Chief Financial Officer, GCSC's had an accumulated deficit of at least \$20,000,000. Budget cuts in 2014, which resulted in the closing of five schools was inadequate to eliminate this existing deficit. In fact, as you've reported, the deficit still hovers around this amount. At the very first Budget/Finance Committee meeting after I was promoted, I specifically informed the Board of School Trustees that GCSC was unable to meet payroll and vendor payment demands on an ongoing basis. Payroll and related benefit payments consumed available cash and there was little left to pay vendors at the operational level GCSC maintained.

The about response is intended to highlight some of the conditions which resulted in the findings reported by the SBOA; and to emphasize that these results occurred in a consistent day-to-day unrelenting crisis operation mode in which decision had to be made.

Submitted By:

July 22, 2015

Michael F. Washington

GARY COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on July 2, 2015, with Dr. Cheryl L. Pruitt, Superintendent of Schools; Antuwan Clemons, President of the School Board; Doretha Rouse, Secretary of the School Board; Mary Comer, Interim Treasurer/CFO; Marie Adkins, Supervisor of Finance; Dr. Albert J. Holmes, Jr., Executive Director of Innovations and Improvements; Willie Cook, Director of Human Resources; and Marianne Fidishin, Executive Director of Special Education and Student, Family Services.

The contents of this report were discussed on July 8, 2015, with Michael Washington, former Treasurer/CFO.