

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCHOOL CITY OF WHITING

LAKE COUNTY, INDIANA

July 1, 2012 to June 30, 2014



**FILED**  
01/22/2016



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director of Finance	Kim Pusateri	07-01-12 to 06-30-16
Superintendent of Schools	Dr. Sandra Martinez	07-01-12 to 06-30-16
President of the School Board	Michael J. Toth Shawn Turpin Anthony Borgo Kathleen Murzyn	01-01-12 to 12-31-12 01-01-13 to 12-31-13 01-01-14 to 12-31-14 01-01-15 to 12-31-15



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SCHOOL CITY OF WHITING, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the School City of Whiting (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/](http://www.in.gov/sboa/).

The Federal Findings, as 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, was not verified for accuracy.

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

October 26, 2015

SCHOOL CITY OF WHITING  
FEDERAL FINDINGS

***FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING***

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

The Director of Finance/Treasurer is responsible for receipting, depositing, and reconciling cash transactions and balances to the bank balances without a proper system of oversight or review. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial transactions and reporting.

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 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, AND PERIOD OF AVAILABILITY***

Federal Agency: Department of Education

Federal Programs: Title I Grants to Local Educational Agencies, Special Education\_Grants to States,  
Special Education - Preschool Grants, English Language Acquisition State Grants

CFDA Numbers: 84.010, 84.027, 84.173, 84.365

Federal Award Numbers: 84.010 FY12-4760; 84.010 FY13-4760; 84.010 FY14-4760;  
14214-096-PN01-4760; 14213-096-PN01-4760; 14212-096-PN01-4760;  
99914-96-TA01; 45712-96-PN01-4760; 45713-96-PN01-4760;  
45714-96-PN01-4760; 84.365 FY12; 84.365 FY13; 84.365 FY14

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 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Availability compliance requirements.

***Activities Allowed or Unallowed and Allowable Costs/Cost Principles***

Over 85 percent of the grant expenditures for the Special Education grants are for payroll and related benefit costs for special education personnel. 100 percent of the grant expenditures for the Title I grants are for payroll and related benefit costs for Title I personnel. Over 98 percent of the grant expenditures for the English Language Acquisition State Grants are for payroll and related benefit costs. One employee is responsible for preparing, recording, and paying the bi-weekly payroll and related benefits without evidence of an oversight or review process.

SCHOOL CITY OF WHITING  
FEDERAL FINDINGS  
(Continued)

*Period of Availability*

The School Corporation historically expends the available funds in advance of the end of the period of availability. However, evidence of an oversight or review process was not noted to ensure that grant funds are disbursed within the period of availability and that expenditures are not made from expired grant funds.

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.

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 that have a direct and material effect on the programs could result in the loss of federal funds to the School Corporation.

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

# SCHOOL CITY OF WHITING

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## BOARD OF SCHOOL TRUSTEES

Kathy Murzyn, President  
Michael J. Toth, Vice President  
Shawn M. Turpin, Secretary  
Jeremiah J. Moynihan, Trustee  
Anthony Borgo, Trustee

## CORRECTIVE ACTION PLAN

### **FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING**

Contact Person Responsible for Corrective Action: Kim Pusateri, Director of Finance/Treasurer  
Contact Phone Number: 219-659-0656 ext. 224


#### Description of Corrective Action Plan:

The corporation treasurer keeps an excel spreadsheet as a backup with all monthly receipts and disbursements listed. The treasurer uses this spreadsheet when balancing each month end reconciliation. The excel spreadsheet will be reviewed by the Superintendent as another step in the internal controls improvements for the school corporation.

#### Anticipated Completion Date:

The correction action plan was implemented effective the September 30, 2015 month end reconciliation.

  
(Signature)

  
(Title)

  
(Date)



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## CORRECTIVE ACTION PLAN

### **FINDING 2014-002 - ACTIVITIES ALLOWED, ALLOWABLE COSTS/COSTS PRINCIPLES, AND PERIOD OF AVAILABILITY**

Contact Person Responsible for Corrective Action: Kim Pusateri, Director of Finance/Treasurer  
Contact Phone Number: 219-659-0656 ext. 224

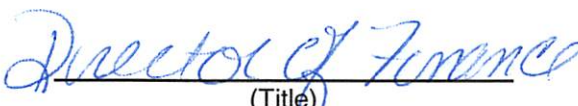
#### Description of Corrective Action Plan:

The payroll clerk will submit the detailed payroll register report to the corporation treasurer for review each pay period.

#### Anticipated Completion Date:

The corrective action plan was implemented beginning the October 2, 2015 payroll.

  
(Signature)

  
(Title)

  
(Date)

SCHOOL CITY OF WHITING  
AUDIT RESULTS AND COMMENTS

***PUBLIC WORKS PROJECT***

The School Corporation contracted with a management company to conduct and oversee the bidding process for construction and improvements to the athletic complex. The total contract awarded in March 2013 for this project was \$1,183,000. The bid documentation was not retained by the School Corporation; it was retained by the management company. We could not determine if the lowest most responsive bidder was awarded since all bids were not provided for audit.

For the awarded bid, the required General Form 96 (Bid for Construction), bid bond or certified check, payment bond, and performance bond were not provided for audit.

Indiana Code 36-1-12-4(b)(6) states:

"The board shall require the bidder to submit a financial statement, a statement of experience, a proposed plan or plans for performing the public work, and the equipment that the bidder has available for the performance of the public work. The statement shall be submitted on forms prescribed by the state board of accounts."

Indiana Code 36-1-12-4.5 states in part:

"(a) The political subdivision or agency:

- (1) shall require a bond or a certified check to be filed with each bid by a bidder in the amount determined and specified by the board in the notice of the letting if the cost of the public work is estimated to be more than two hundred thousand dollars (\$200,000); and . . .

(b) The amount may not be more than 10% of the contract price. The bond or certified check shall be made payable to the political subdivision.

(c) All checks of unsuccessful bidders shall be returned to them by the board upon selection of successful bidders. Checks of successful bidders shall be held until delivery of the performance bond, as provided in section 14(e) of this chapter."

SCHOOL CITY OF WHITING  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 36-1-12-13.1 states in part:

"(a) Except as provided in subsection (e), the appropriate political subdivision or agency:

- (1) shall require the contractor to execute a payment bond to the appropriate political subdivision or agency, approved by and for the benefit of the political subdivision or agency, in an amount equal to the contract price if the cost of the public work is estimated to be more than two hundred thousand dollars (\$200,000); and . . .

(b) The payment bond shall be deposited with the board . . . "

Indiana Code 36-1-12-14(e) states in part: "Except as provided by subsections (i) and (h), the contractor shall furnish the board with a performance bond equal to the contract price . . . "

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

***EDUCATIONAL FEES***

The School Corporation collected educational fees as part of the students' textbook rental fees and remitted these educational fees to the School Corporation Treasurer to record in the General fund. Written guidance from the School Corporation's Attorney was not provided that determined whether or not the fees violate the Indiana Constitution.

Indiana Code 20-26-4-1 concerning duties of the School Corporation Treasurer, states in part: "The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safeguarding and accounting for the funds . . . " Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis for receipting into the appropriate school corporation fund. The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

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<p><b>SCHOOL CITY OF WHITING</b> <b>OFFICIAL RESPONSE</b> <b>AUDIT PERIOD: July, 2012 – June, 2014</b></p>
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### **I. Public Works Project**

The management company (Energy Systems Group) used for the project used their own bid forms as opposed to the State Board of Account Prescribed Bid Form 96. Energy Systems Group also did not issue a performance award on this project. As for the Bid Bond their corporate office handles all the pre-qualification requirements for their subcontractors. Back in 2013, ESG did not require a bid bond only a copy of their financial statements. In future projects we will be sure that we are in compliance.

### **II. Educational Fees**

We will have written guidance concerning educational fees being charged as part of the students' textbook rental fees from the School Corporation Attorney.

SCHOOL CITY OF WHITING  
EXIT CONFERENCE

The contents of this report were discussed on October 26, 2015, with Kim Pusateri, Director of Finance; Dr. Sandra Martinez, Superintendent of Schools; Kathleen Murzyn, President of the School Board; and Cynthia Scroggins, Assistant Superintendent of Schools.