

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

GARY PUBLIC LIBRARY

LAKE COUNTY, INDIANA

January 1, 2012 to December 31, 2015



**FILED**  
04/18/2017



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Diana Morrow	01-01-12 to 12-31-16
Treasurer/Controller	Fred McMillon	01-01-12 to 12-31-16
President of the Board	Anthony Walker	01-01-12 to 06-25-12
	Nancy Valentine	06-26-12 to 08-30-13
	Sadie Sheffield	08-31-13 to 09-24-13
	Mary Ann Canty-Reedus	09-25-13 to 05-25-15
	Odis Richardson	05-26-15 to 06-27-16
	Robert Buggs	06-28-16 to 06-30-17



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE GARY PUBLIC LIBRARY, LAKE COUNTY, INDIANA

This report is supplemental to our examination report of the Gary Public Library (Library), for the period from January 1, 2012 to December 31, 2015. It has been provided as a separate report so that the reader may easily identify any Examination Results and Comments that pertain to the Library. It should be read in conjunction with our Financial Statements Examination Report of the Library, which provides our opinion on the Library's financial statements. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

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 Examination 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 Official Response to the Examination Results and Comments, incorporated within this report, was not verified for accuracy.

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

January 23, 2017

GARY PUBLIC LIBRARY  
EXAMINATION RESULTS AND COMMENTS

**COLLECTIONS AND DEPOSITS**

Each branch of the Library collected fines, fees for video rentals, copies, etc., and deposited the collections. Each branch also prepared a daily list of the types of fees collected. This list, along with duplicate copies of receipts, and a copy of the deposit ticket was remitted to the Controller for receipt and posting to the ledger.

In 2012, a monthly report of collections was prepared by one of the branches that included collections for the period from March 17 through March 24 totaling \$119; however, neither a receipt nor a deposit was located for these collections. It was unclear if these collections were included in prior or subsequent receipts and deposits.

The branches did not deposit funds timely. In December 2015, each of the four branches had a least one deposit over seven days after the date of collection.

The Library did not ensure that the duplicate receipts for video rentals and fines were accounted for properly. In 2012, branches indicated on duplicate copies of receipts that the receipts were voided; however, the original receipts were not retained for examination. In 2015, six sequentially numbered receipts were missing.

Indiana Code 5-13-6-1(c) states in part:

"Except as provided in subsections . . . (g), all local officers, . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the several local boards of finance that have jurisdiction of the funds. . . ."

Indiana Code 5-13-6-1(g) states in part:

"The following are not required to deposit funds on the business day following receipt if the funds on hand do not exceed five hundred dollars (\$500): . . .

- (2) A local officer of a political subdivision required to deposit funds under subsection (c)  
. . .

However, the funds on hand must be deposited not later than the business day following the day that the funds exceed five hundred dollars (\$500)."

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the unit. The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 1)

**DUPLICATE AND MISSING INVOICES**

The Library paid certain vendors multiple times for the same invoice. One vendor was overpaid \$27,267 and another was overpaid \$735. The overpayments were resolved either by credits on subsequent purchases or refunds.

Accounts payable vouchers and invoices totaling \$12,406 could not be located for examination from 2014 and 2015.

GARY PUBLIC LIBRARY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

Indiana Code 36-12-3-16(c) states:

"Each payment of expenses lawfully incurred for library purposes must be supported by a fully itemized invoice or other documentation. The library director shall certify to the library board before payment that each claim for payment is true and correct. The certification must be on a form prescribed by the state board of accounts."

***ACCOUNTS PAYABLE VOUCHERS OR REGISTERS NOT SIGNED BY BOARD***

The Board was not signing individual accounts payable vouchers or an accounts payable voucher register to indicate approval of the payment. Lists of accounts payables were provided to the Board at a Board meeting. The total amount of the accounts payable vouchers presented was noted in the minutes of the meeting along with the notation that the accounts payables had been approved for payment.

Indiana Code 5-11-10-2 states in part:

"(a) Claims against a political subdivision of the state must be . . . allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer.

(b) The state board of accounts shall prescribe a form which will permit claims from two (2) or more claimants to be listed on a single document and, when such list is signed by members of the governing body showing the claims and amounts allowed each claimant and the total claimed and allowed as listed on such document, it shall not be necessary for the members to sign each claim. . . .

(e) Where under any law it is provided that each claim be allowed over the signatures of members of a governing body, or a claim docket or accounts payable voucher register be prepared listing claims to be considered for allowance, the form and procedure prescribed in this section shall be in lieu of the provisions of the other law. . . ."

***CONTROLS OVER CHECKS AND INFORMATION SYSTEM SOFTWARE***

The Library used computer software to issue checks, process claims for payment, and post transactions to the records. The following errors related to internal controls were noted:

1. Computer software required users to input invoice numbers, but the control was overridden by the former Accounts Payable Specialist.
2. Check stock was completely blank and maintained by the Accounts Payable Specialist, who wrote the vendor checks and electronically signed them.
3. Per the Treasurer/Controller, the software was programmed to number checks sequentially, but checks were issued out of sequence and check stock was used to print one check twice with the same check number.
4. Voided checks that were not mailed were not retained with check stubs.

GARY PUBLIC LIBRARY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

5. Check registers were run prior to the checks being printed. The check registers showed the check number, vendor and amount. The check registers were reviewed and approved by the Director and Treasurer/Controller. After the checks were printed, no one independent of the Accounts Payable Specialist compared the check register to the checks to ensure they were in agreement, or that the checks were drawn against the correct bank accounts.

The State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

## **PAYROLL RECORDS AND LEAVE POLICIES**

### *Payroll Reports*

The Library did not maintain the prescribed Employee's Earnings Record - General Form 99B (Earnings Record). In lieu of the Earnings Record the Library maintained a "Detail Payroll Register with Totals" (Payroll Register), which was prepared from the Library's payroll computer software. The Payroll Registers provided information by employee and overall totals for the pay period, and year to date.

The Payroll Registers provided for examination were either incomplete or inaccurate. The year-end Payroll Registers excluded the wages and withholdings of employees who left employment during the year.

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 1)

### *Employee Service Records*

The Library did not maintain the prescribed Employee Service Record - General Form 99A or an approved alternate form. The record of employee leave benefits (vacation, sick, etc.) earned, used, and remaining balances were maintained on computer spreadsheets. The record of hours worked were not recorded as part of the computer spreadsheets.

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



GARY PUBLIC LIBRARY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly. Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 1)

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 1)

*Leave Policies and Union Contract*

Vacation leave accruals were posted on the first day of the year for the entire year, instead of being accrued monthly as required by the approved vacation policy and Union Contract. Sick leave was accrued monthly, but as personal leave earned.

Employees used leave time in excess of the leave time earned and accumulated. The Library adjusted the balances at year end for any leave balance exceeded. If all leave balances had been exceeded, the following year leave balances or accruals were adjusted. In one case, vacation leave was transferred to cover a negative sick leave balance when a personal leave balance was available. Thus, the employee did not lose the vacation time that they did not use by the end of the year.

The Board policy on vacation leave was unclear as to the payment of vacation leave for the subsequent year to employees whose service with the Library was terminated.

The Union Contract stated: "This Agreement, except for wages, shall become effective January 1, 2007 and shall remain in effect through December 31, 2009." There were not any extensions to the contract beyond 2009 approved by the Board.

The Library vacation policy stated:

"Employees begin to accrue vacation on a monthly basis from the first day of employment; however, new full-time employees may not take vacation leave until the probationary period has been completed. . . .

A. Employees will be entitled to take their vacation on a calendar year basis upon completion of the probationary period. . . .

B. The exception is that employees hired between January 1 and May 31 will be allowed one-half of their annual vacation during the calendar year in which they are hired. . . .

E. Vacations are non-cumulative and must be used during the calendar year. When your employment terminates between January 1 and May 31, you are only entitled to one half of your allowed vacation and if more has been taken your final check will be adjusted to reflect the difference. Vacation time will be paid in the event of an indefinite layoff, termination, retirement, or death of an employee."

GARY PUBLIC LIBRARY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

The Library sick leave policy stated in part:

"A. Sick leave shall accrue to eligible full-time employees as the rate of 7.5 hours for each month of employment. It shall be cumulative . . . .

B. Six of the employee's sick leave days may be used annually for personal days. . . . "

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 1)

***SALARIES, WAGES, AND OTHER PAY***

*Severance Pay*

On March 27, 2012, the Board approved severance pay for 25 employees who were terminated in order for the library to reduce costs. The Board considered three options of severance; however, the details of each of the options were not addressed in the minutes of Board meetings. The severance pay was not addressed in a resolution and the Library did not provide written documentation as to what the three severance options included.

With the exception of one employee, all employees who received severance pay were paid their accumulated vacation and sick leave balances based upon their current hourly wages. Employees were also paid for vacation leave for the subsequent year.

Without an approved resolution addressing severance pay, it could not be determined if the severance pay was calculated in accordance with Board approved guidelines.

Unless specifically authorized by law, severance pay, or other payments to employees upon separation from employment, must be supported by the written opinion of the attorney for the unit stating that the payments are in accordance with all laws, including IC 35-44.1-1-3. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 1)

*Out-of-Class Pay*

Members of management, including the Interim Director and Controller, received out-of-class compensation, even though they were specifically excluded from receiving such per the Union Contract. The Board did not have an approved policy addressing out-of-class pay.

The Union Contract addressed out-of-class pay as follows: "Temporary assignment to a step and/or grade for which an employee is not hired . . . . Employees temporarily assigned to a higher classification for at least seven and one-half hours (7.5) shall receive out-of-class compensation immediately."

In 2013, the Board adopted a salary schedule and implementation plan which stated: "All acting and interim managing and supervisory positions will be treated as a full hire for the purpose of paying salaries and wages. Subsequently, these positions cannot receive out-of-class pay."

GARY PUBLIC LIBRARY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

The following compares the out-of-class compensation paid to excluded parties to the total out-of-class pay:

Years	Out-of-Class Paid to Excluded Positions	Number of Staff Paid	Range of Out-of-Class Payments to Excluded Parties	
			Low	High
2012	\$ 1,367	6	\$ 11	\$ 515
2013	1,089	3	77	915
2014	992	4	52	441
2015	477	4	10	227

The Union Contract dated January 1, 2007, stated:

"The Library recognizes the Union as the sole and exclusive representation for all employees who work more than eighteen and three quarters (18.75) hours on a regular basis, with the exclusion of the Director, Assistant Director, Controller, Main Library Administrator, Collection Development Coordinator, all Department Managers . . ."

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 1)

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 law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 1)

*Salary Schedule*

On June 26, 2013, the Board approved a salary schedule which has been in effect since. The salary schedule provided a range of salaries for full-time positions and hourly wages for part-time positions. When employees were paid, the salaries were converted to hourly wage rates based upon 1,950 hours per year. In 2014 and 2015, 16 and 13 employees, respectively, were paid more than the salary established by the Board using the calculated hourly rate multiplied by their hours worked.

Additionally, in 2014 and 2015, 5 and 13 employees, respectively, received overtime pay. We could not determine if these employees were entitled to receive overtime pay.

The salary schedule approved by the Board included salary reductions for most staff; however, per Board meeting minutes, reductions were to be limited to 15 percent. The salary schedule did not include this limit in the range of salaries by position; thus, at least two employee's pay did not fall within the ranges addressed by the schedule.

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 law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 1)

GARY PUBLIC LIBRARY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 1)

*Bonuses Paid in 2014*

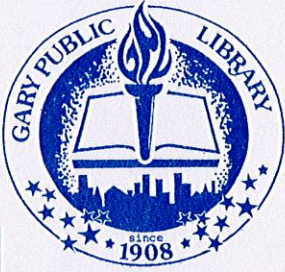
On December 16, 2014, the Board approved \$9,955 to be distributed as bonuses to employees. The Board did not include an amount allocated to individual employees. At the discretion of management, each employee was given a bonus \$250 for a total of \$9,000. This additional compensation was not included in a resolution.

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 law. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 1)

**CAPITAL ASSETS**

The Library did not properly maintain a complete inventory of capital assets owned. The Board did not adopt a capitalization policy to address dollar thresholds for the various categories of assets maintained by the Library. The Library neither maintained a record of purchases and disposals of equipment, books, compact discs (CDs), or digital video discs (DVDs), nor inventoried those items.

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 1)



# GARY PUBLIC LIBRARY

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DIANA MORROW  
DIRECTOR

Mr. Paul D. Joyce, CPA  
State Examiner  
Indiana State Board of Accounts  
302 West Washington Street  
Room E418  
Indianapolis, IN 46204

Mr. Joyce:

This is in response to the audit of the Gary Public Library (may be referenced as the "Library", going forward) for the periods January 1, 2012 – December 31, 2015. The Library has responded per issue raised, providing the audit topic as a heading for each response.

In general, the Gary Public Library is pleased with the performance of its fiscal team and considers this audit an achievement over many of the obstacles that have previously plagued our records and fiscal policies. We believe that our current records were presented in a fair and honest fashion and your review has substantiated this claim. Through this review we have ascertained areas needed for improvement and shall make every effort to correct and strengthen weaknesses in our recordkeeping, policies and procedures.

Below, are the responses to audit issues raised during the recent review:

## **Collections and Deposits:**

Because of the elapsed time from the date of the 2012 incident, it was virtually implausible to recollect the specifics to this deposit. However, in review of the records, it is believed that those funds were deposited on subsequent dates as part of other deposits. The Gary Public Library, as part of its internal controls updates, began providing training to staff handling cash, so that homogenous procedures are followed by all employees.

In prior years, the Library made deposits twice per week. In an effort to increase our frequency of bank deposits, we required branch personnel to have deposits prepared on a daily weekday basis. The Gary Public Library staff tried to adhere to this as much as possible; yet, did fail from time to time. Consequently, deposits are recorded by the date of the deposit's inception, not by the date it was posted by the bank. This causes a discrepancy in the presentation of timeliness of deposits. To offset deposit errors, the Library is instituting an electronic payment system, which diverts payments through a payment

gateway, directly to our bank. This new process takes the bulk of cash handling matters from staff. The deposits are ACH credits and reports and documentation are managed by Finance Department personnel, which aids in timeliness and correctness of cash activity. Activity involving cash will still be monitored per the updated training guidelines.

**Duplicate and Missing Invoices:**

The Library's software has a built-in safeguard to alert staff of duplicate invoices, which helps avoid duplicate payments. Through an internal investigation, we determined that the software was working properly (as designed) and that an accounts payable specialist was purposely overriding the software's notifications. That staff member is no longer a part of the Library system. Upon receipt of this document, the Library enhanced its check processing procedures to include a final corporeal review of payment documentation for adheres to State statues, prior to writing physical checks.

**Payroll Records and Leave Policies:**

The Board of Trustees of the Gary Public Library (may be referred to as the "Board", in subsequent passages) acknowledges that its policies may not reflect current conditions and are in need of reviews and updates. The Board is currently working on changes to the language and meaning, which is to reflect actual desires and ethics that they require the Library Director and staff to observe.

**Employee Service Records:**

The Library has modified its form of the Employee Service Record to include hours worked. The reason a spreadsheet was chosen as opposed to physical sheets is that errors are minimized and totals are more accurate. Plus, it aids in the processing time of payroll. The Library has also included compensated time onto pay stubs, as another check and balance for these procedures.

**Leave Policies:**

As stated above, the Board of Trustees is currently working on updating policies to provide clear and concise language that can be carried out by Library management. Missing policies or clauses will be addressed, as well.

Upon substantial completion of policy updates, the Board will begin constructive negotiations with the union to reestablish its agreement with them.

**Salaries, Wages and Other Pay:**

The Library, through its Board, will review and update its policies to address compensated time issues; relevance to employees by category; and basis of pay by categories.

The Board will review and make substantial changes to its Salary Schedule to reflect amount paid for each grade, job type and years of service for all staff annually. Discrepancies such as the number of annual pay periods, number of hours worked and related matters shall be addressed.

The Library Director was tasked with providing an amount and number of covered employees that were subject to the 2014 bonuses. A memo was written, but was not included in the written minutes. However, per audio minutes, the Board President clearly references the memo as the basis for approving bonuses. To avoid future issues, the Library has been directed by the Board to issue resolutions for any binding changes to payments to employees.

**Official's Bond:**

The Official's Bond is a self-renewing item that, by allowable statute, is renewed with commercial insurances. In January 2017, the Library increased that bond to \$15,000.00.

**Capital Assets:**

As of January 2017, the Library is still in the process of closing several branches, as well as opening up its Main branch. These changes, as well as changes to the amount of staff have caused the deficiency in this area. The Library Board will continue to update policies, including a Capitalization Policy, which will allow the Library guidance on specific capital assets to monitor. Also, the closing of branches has generated a backlog of materials cataloging changes that show updates for discarded items. Until the Library has finished this undertaking, the ability to accurately account for our materials inventory is hampered. We hope to finalize all of these matters during 2017.

If you have any questions or require further information, please direct them to the attention of the Library Director at (219)886-2484.

Sincerely;



Freddy Louis McMillon,  
Controller – Gary Public Library

GARY PUBLIC LIBRARY  
EXIT CONFERENCE

The contents of this report were discussed on January 23, 2017, with Fred McMillon, Treasurer/Controller; Diana Morrow, Director; Robert Buggs, President of the Board; and Mary Ann Canty-Reedus, Board member.