

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

FINANCIAL STATEMENT EXAMINATION REPORT

OF

GARY PUBLIC LIBRARY

LAKE COUNTY, INDIANA

January 1, 2008 to December 31, 2011



FILED
12/04/2012

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Roma Ivey (Interim)	01-29-08 to 11-02-08
	Sherri Ervin	11-03-08 to 11-30-11
	Otis D. Alexander	12-01-11 to 05-01-12
	Diana Morrow (Acting)	05-01-12 to 06-25-12
	Diana Morrow (Interim)	06-26-12 to 12-31-12
Treasurer/Controller	Freddy McMillon	01-01-08 to 05-31-13
President of the Board	Andrew Ledbetter	01-01-08 to 05-31-08
	Cynthia D. Watts	06-01-08 to 05-31-09
	Donna Coleman	06-01-09 to 05-31-10
	W. Anthony Walker	06-01-10 to 06-25-12
	Nancy Valentine	06-26-12 to 05-31-13



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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the financial statements of the Gary Public Library (Library), for the period of January 1, 2008 to December 31, 2011. The Library's management is responsible for the financial statements. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note 1, the Library prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis noted above is a different basis than that used in the prior year.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Library for the years ended December 31, 2008, 2009, 2010, and 2011, on the basis of accounting described in Note 1.

The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statements. They have not been subjected to the examination procedures applied to the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Library's management, Library Board, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 3, 2012

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FINANCIAL STATEMENTS

The financial statements and accompanying notes were approved by management of the Library. The financial statements and notes are presented as intended by the Library.

GARY PUBLIC LIBRARY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Years Ended December 31, 2008 and 2009

Fund	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
General Operating Fund	\$ 2,469,497	\$ 9,278,126	\$ 8,859,177	\$ 2,888,446
Petty Cash - General Fund	525	-	-	525
General Fund Trust Indiana Investment Account	-	3,539,295	-	3,539,295
Library Gift/Trust Fund	26,277	698	16	26,959
Library Capital Projects	732,001	10,412	-	742,413
Library Improvement Reserve	1,499,568	199,648	-	1,699,216
Library Payroll Account	(508)	1,704,434	1,710,639	(6,713)
Totals	<u>\$ 4,727,360</u>	<u>\$ 14,732,613</u>	<u>\$ 10,569,832</u>	<u>\$ 8,890,141</u>

Fund	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
General Operating Fund	\$ 2,888,446	\$ 4,652,071	\$ 5,935,745	\$ 1,604,772
Petty Cash - General Fund	525	-	-	525
General Fund Trust Indiana Investment Account	3,539,295	15,946	-	3,555,241
Library Gift/Trust Fund	26,959	736	1,481	26,214
Library Capital Projects	742,413	811	254,005	489,219
Library Improvement Reserve	1,699,216	2,038	363,431	1,337,823
Library Payroll Account	(6,713)	1,664,348	1,664,879	(7,244)
Totals	<u>\$ 8,890,141</u>	<u>\$ 6,335,950</u>	<u>\$ 8,219,541</u>	<u>\$ 7,006,550</u>

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

GARY PUBLIC LIBRARY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS

For The Years Ended December 31, 2010 and 2011

Fund	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
General Operating Fund	\$ 1,604,772	\$ 4,759,183	\$ 5,501,187	\$ 862,768
Petty Cash - General Fund	525	-	-	525
General Fund Trust Indiana Investment Account	3,555,241	10,587	-	3,565,828
Library Gift/Trust Fund	26,214	3,399	-	29,613
Library Capital Projects	489,219	2,180	-	491,399
Library Improvement Reserve	1,337,823	5,941	-	1,343,764
Library Rainy Day Fund	-	647,313	-	647,313
Library Payroll Account	(7,244)	1,428,038	1,426,683	(5,889)
Totals	<u>\$ 7,006,550</u>	<u>\$ 6,856,641</u>	<u>\$ 6,927,870</u>	<u>\$ 6,935,321</u>

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11
General Operating Fund	\$ 862,768	\$ 4,913,382	\$ 3,883,020	\$ 1,893,130
Petty Cash - General Fund	525	-	50	475
General Fund Trust Indiana Investment Account	3,565,828	6,000	-	3,571,828
Library Gift/Trust Fund	29,613	4,461	1,768	32,306
Library Capital Projects	491,399	29,712	1,571	519,540
Library Improvement Reserve	1,343,764	2,942	111,715	1,234,991
Library Rainy Day Fund	647,313	3,991	-	651,304
Library Payroll Account	(5,889)	1,240,688	1,244,703	(9,904)
Totals	<u>\$ 6,935,321</u>	<u>\$ 6,201,176</u>	<u>\$ 5,242,827</u>	<u>\$ 7,893,670</u>

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

GARY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Library was established under the laws of the State of Indiana. The Library operates under an appointed governing board and provides culture services.

The accompanying financial statements present the financial information for the Library.

B. Basis of Accounting

The financial statements are reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

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

C. Cash and Investments

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

D. Receipts

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

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Library.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

GARY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

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

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The Library may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

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

GARY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 2. Budgets

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

Note 3. Property Taxes

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

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the Library to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The Library may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Library to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the Library by recording as a disbursement any replacement items purchased.

GARY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the Library authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

Note 7. Subsequent Event

Indiana Code 6-1.1-20.6 and House Enrolled Act 1001 have, and will continue to, significantly reduce the amount of taxes that the Library is able to collect. Due to significant decreases in tax revenue, estimated to be between \$2.6 and \$3.0 million from 2010 to 2012, the Library was forced to drastically cut their budget. On March 28, 2011, the Library Board authorized permanent closure of the Main Library and the Tolleston Branch effective January 1, 2012.

The reduction in tax revenue in addition to the surplus staff created by the closure of the Main Library and the Tolleston Branch necessitated a system-wide reorganization of the Library. A reorganization plan was approved by the Library Board on March 13, 2012 and included the elimination of 26 staff positions and a 10 percent, across the board, pay cut for all remaining employees, effective April 13, 2012.

On October 24, 2011, the Library Board approved repurposing the space at the Main Library and establishing the South Shore Museum and Cultural Center of the Gary Public Library (Museum) therein. The approved 2012 budget did not include costs to operate the Museum as it was prepared under the assumption that the Main Library building would be closed.

GARY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Library Board chose the option of closing the Main Library to save approximately \$2 million dollars and to meet their budget constraints. Without a new revenue source, the additional costs to operate the Museum will cause the Library to exceed their annual tax collections and eventually drain their cash reserves. At the end of 2011, the Library had a surplus or reserve cash balance of \$5,977,664. The operating budget for 2012, estimated at \$3.2 million, will require the use of at least \$500,000 of the reserves based on anticipated tax collections of \$2.3 to \$2.7 million. In addition, the contracts awarded for the architect and the contractors for interior and exterior enhancements of the Main Library to create the Museum will require over \$3.5 million of the reserves. In addition, the payment of these contracts will require additional appropriations to the 2012 budget.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Library's 2009 and 2010 Annual Reports can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

For additional financial information, the Library's 2011 Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statements contained in this report and the financial information presented in the Annual Reports of the Library which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the examination. This is a common occurrence in any financial statement examination. The financial information presented in this report is examined information, and the accuracy of such information can be determined by reading the opinion given in the Independent Accountant's Report.

The supplementary information presented was approved by management of the Library. It is presented as intended by the Library.

GARY PUBLIC LIBRARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2008

	General Operating Fund	Petty Cash - General Fund	General Fund Trust Indiana Investment Account	Library Gift/Trust Fund	Library Capital Projects	Library Improvement Reserve	Library Payroll Account	Totals
Cash and investments - beginning	\$ 2,469,497	\$ 525	\$ -	\$ 26,277	\$ 732,001	\$ 1,499,568	\$ (508)	\$ 4,727,360
Receipts:								
Taxes	8,743,097	-	-	-	-	-	-	8,743,097
Intergovernmental	288,960	-	-	-	-	-	-	288,960
Fines and forfeits	50,397	-	-	-	-	-	-	50,397
Other receipts	195,672	-	3,539,295	698	10,412	199,648	1,704,434	5,650,159
Total receipts	9,278,126	-	3,539,295	698	10,412	199,648	1,704,434	14,732,613
Disbursements:								
Personal services	1,737,642	-	-	-	-	-	1,710,639	3,448,281
Supplies	127,781	-	-	-	-	-	-	127,781
Other services and charges	972,640	-	-	-	-	-	-	972,640
Capital outlay	450,364	-	-	-	-	-	-	450,364
Other disbursements	5,570,750	-	-	16	-	-	-	5,570,766
Total disbursements	8,859,177	-	-	16	-	-	1,710,639	10,569,832
Excess (deficiency) of receipts over disbursements	418,949	-	3,539,295	682	10,412	199,648	(6,205)	4,162,781
Cash and investments - ending	\$ 2,888,446	\$ 525	\$ 3,539,295	\$ 26,959	\$ 742,413	\$ 1,699,216	\$ (6,713)	\$ 8,890,141

GARY PUBLIC LIBRARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2009

	General Operating Fund	Petty Cash - General Fund	General Fund Trust Indiana Investment Account	Library Gift/Trust Fund	Library Capital Projects	Library Improvement Reserve	Library Payroll Account	Totals
Cash and investments - beginning	\$ 2,888,446	\$ 525	\$ 3,539,295	\$ 26,959	\$ 742,413	\$ 1,699,216	\$ (6,713)	\$ 8,890,141
Receipts:								
Taxes	3,367,830	-	-	-	-	-	-	3,367,830
Intergovernmental	517,237	-	-	-	-	-	-	517,237
Fines and forfeits	81,442	-	-	-	-	-	-	81,442
Other receipts	<u>685,562</u>	-	<u>15,946</u>	<u>736</u>	<u>811</u>	<u>2,038</u>	<u>1,664,348</u>	<u>2,369,441</u>
Total receipts	<u>4,652,071</u>	-	<u>15,946</u>	<u>736</u>	<u>811</u>	<u>2,038</u>	<u>1,664,348</u>	<u>6,335,950</u>
Disbursements:								
Personal services	1,273,272	-	-	-	-	-	1,664,879	2,938,151
Supplies	128,919	-	-	-	-	-	-	128,919
Other services and charges	1,873,236	-	-	-	-	-	-	1,873,236
Capital outlay	470,437	-	-	-	254,005	-	-	724,442
Other disbursements	<u>2,189,881</u>	-	-	<u>1,481</u>	-	<u>363,431</u>	-	<u>2,554,793</u>
Total disbursements	<u>5,935,745</u>	-	-	<u>1,481</u>	<u>254,005</u>	<u>363,431</u>	<u>1,664,879</u>	<u>8,219,541</u>
Excess (deficiency) of receipts over disbursements	<u>(1,283,674)</u>	-	<u>15,946</u>	<u>(745)</u>	<u>(253,194)</u>	<u>(361,393)</u>	<u>(531)</u>	<u>(1,883,591)</u>
Cash and investments - ending	<u>\$ 1,604,772</u>	<u>\$ 525</u>	<u>\$ 3,555,241</u>	<u>\$ 26,214</u>	<u>\$ 489,219</u>	<u>\$ 1,337,823</u>	<u>\$ (7,244)</u>	<u>\$ 7,006,550</u>

GARY PUBLIC LIBRARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

	General Operating Fund	Petty Cash - General Fund	General Fund Trust Indiana Investment Account	Library Gift/Trust Fund	Library Capital Projects	Library Improvement Reserve	Library Rainy Day Fund	Library Payroll Account	Totals
Cash and investments - beginning	\$ 1,604,772	\$ 525	\$ 3,555,241	\$ 26,214	\$ 489,219	\$ 1,337,823	\$ -	\$ (7,244)	\$ 7,006,550
Receipts:									
Taxes	4,287,172	-	-	2,883	-	-	-	-	4,290,055
Intergovernmental	238,498	-	-	-	-	-	-	-	238,498
Fines and forfeits	67,939	-	-	-	-	-	-	-	67,939
Other receipts	165,574	-	10,587	516	2,180	5,941	647,313	1,428,038	2,260,149
Total receipts	4,759,183	-	10,587	3,399	2,180	5,941	647,313	1,428,038	6,856,641
Disbursements:									
Personal services	1,724,994	-	-	-	-	-	-	1,426,683	3,151,677
Supplies	143,061	-	-	-	-	-	-	-	143,061
Other services and charges	853,218	-	-	-	-	-	-	-	853,218
Capital outlay	518,273	-	-	-	-	-	-	-	518,273
Other disbursements	2,261,641	-	-	-	-	-	-	-	2,261,641
Total disbursements	5,501,187	-	-	-	-	-	-	1,426,683	6,927,870
Excess (deficiency) of receipts over disbursements	(742,004)	-	10,587	3,399	2,180	5,941	647,313	1,355	(71,229)
Cash and investments - ending	\$ 862,768	\$ 525	\$ 3,565,828	\$ 29,613	\$ 491,399	\$ 1,343,764	\$ 647,313	\$ (5,889)	\$ 6,935,321

GARY PUBLIC LIBRARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	General Operating Fund	Petty Cash - General Fund	General Fund Trust Indiana Investment Account	Library Gift/Trust Fund	Library Capital Projects	Library Improvement Reserve	Library Rainy Day Fund	Library Payroll Account	Totals
Cash and investments - beginning	\$ 862,768	\$ 525	\$ 3,565,828	\$ 29,613	\$ 491,399	\$ 1,343,764	\$ 647,313	\$ (5,889)	\$ 6,935,321
Receipts:									
Taxes	4,365,439	-	-	-	28,666	-	-	-	4,394,105
Intergovernmental	208,095	-	-	3,578	-	-	-	-	211,673
Charges for services	39,352	-	-	-	-	-	-	-	39,352
Fines and forfeits	29,731	-	-	-	-	-	-	-	29,731
Other receipts	270,765	-	6,000	883	1,046	2,942	3,991	1,240,688	1,526,315
Total receipts	4,913,382	-	6,000	4,461	29,712	2,942	3,991	1,240,688	6,201,176
Disbursements:									
Personal services	2,382,904	-	-	-	-	-	-	1,244,703	3,627,607
Supplies	37,801	-	-	253	-	-	-	-	38,054
Other services and charges	876,597	-	-	-	-	-	-	-	876,597
Capital outlay	268,121	-	-	-	-	-	-	-	268,121
Other disbursements	317,597	50	-	1,515	1,571	111,715	-	-	432,448
Total disbursements	3,883,020	50	-	1,768	1,571	111,715	-	1,244,703	5,242,827
Excess (deficiency) of receipts over disbursements	1,030,362	(50)	6,000	2,693	28,141	(108,773)	3,991	(4,015)	958,349
Cash and investments - ending	\$ 1,893,130	\$ 475	\$ 3,571,828	\$ 32,306	\$ 519,540	\$ 1,234,991	\$ 651,304	\$ (9,904)	\$ 7,893,670

GARY PUBLIC LIBRARY
OTHER REPORT

The report presented herein was prepared in addition to another official report prepared for a special investigation of the Gary Public Library for the period December 5, 2006 to February 28, 2009.

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS

PENALTIES AND INTEREST PAID

Penalties and interest totaling \$1,323.13 were paid to the Internal Revenue Service and the Indiana Department of Revenue in 2007, 2008, 2009, and 2011. The penalties and interest charges were due to late filing and/or late payment of federal and state taxes.

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 Libraries, Chapter 4)

UNALLOWABLE FUEL PURCHASES

The Director was issued a fuel credit card for the purchase of gasoline for her personal vehicle instead of being required to file mileage reimbursement claims for actual business related miles driven. Ms. Sherri Ervin opted not to use the vehicle owned by the Library for the Director. Subsequently, it was sold in September 2009. Throughout the duration of her contract, Ms. Ervin purchased \$5,062.57 in fuel for her personal vehicle using the Library's credit account with no documentation supporting the business use.

Library board members and library employees may be reimbursed for actual miles traveled in their own motor vehicle on official business of the library at a reasonable rate per mile as fixed by the library board. The mileage rate should be fixed by the library board and entered into the board minutes as a permanent record. Reimbursement for mileage should not include travel to and from the board member's or employee's home and the library in which he or she works. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 8)

LACK OF SUPPORTING DOCUMENTATION FOR CREDIT CARD PAYMENTS

Fuel and other expenses charged to the Library's corporate credit cards were paid without supporting documentation, such as receipts, invoices, or other records. Receipts were not presented for \$377.03 in fuel charged to the Director's fuel credit card during her three-year term. The Library also issued American Express credit cards to the Director for travel expenses and to the Administrative Assistant to pay for board member travel expenses. Some original credit card statements and supporting documentation from October 2010 through December 2011 was not presented for examination.

The October payment to American Express for \$379.40 was not supported by an original credit card statement, a copy of the statement, or by detailed receipts. The November payment for \$1,382.15 was supported by a copy of the statement printed from the Library's online account. No detailed receipts or other documentation was presented for examination. The December statement was presented for \$574.84; however, no receipts to support the business nature of the charges were attached. The total undocumented American Express credit card charges for 2010 were \$2,336.39.

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

For 2011, only two original American Express credit card statements and two copies of the credit card statements generated online were presented for examination. The total charged to the American Express credit cards in 2011 was \$10,389.30, of which only \$669.98 was supported by receipts presented to document the business nature of the charges. The total undocumented American Express credit card charges for 2011 were \$9,719.32.

The total of all undocumented credit card charges, including the fuel cards and the American Express cards, for the audit period was \$12,432.74. Due to the lack of supporting information, the validity and accountability for this money disbursed could not be established.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed: . . .

- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.

(Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10 and IC 36-12-3-16, should contain adequate detailed documentation. All claims, invoices, receipts, accounts payable vouchers, regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim, may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

ADVANCE PAYMENTS

Dates of transactions indicate that some payments were made to companies or individuals prior to the receipt of goods or services. For example, several deposits were made for events, including deposits for the venue, the speaker, the videographer, and the caterer. In addition, the Department Managers responsible for certain events were also paid in advance for purchases they might need to make, instead of filing for reimbursement after the purchases or using the corporate credit card. Receipts and any remaining cash were submitted after the event.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

ERRORS ON CLAIMS

The following deficiencies were noted regarding payment of claims during the examination period:

1. Claims were not prepared for all disbursements. Payment was made based on the Purchase Order or Requisition, neither of which includes the certification that the bill is true and correct and that the materials were received.
2. General Form 101, Mileage Claim, was not always used to document reimbursement of mileage expenses.
3. Reimbursements for meals while traveling were made in excess of the approved policy which allows reimbursement for up to \$50 for dinner. In addition, there were instances when two meals were purchased and reimbursed without a detailed explanation of the business purpose or name of the additional person.
4. Some payments to governmental agencies were made by electronic funds transfer without a claim form or evidence of board approval.

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: . . .

- (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."

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10 and IC 36-12-3-16, should contain adequate detailed documentation. All claims, invoices, receipts, accounts payable vouchers, regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim, may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

A library that pays a claim by electronic funds transfer shall comply with all other requirements for the payment of claims by the library. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 3)

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

CONDITION OF RECORDS AND PRESCRIBED FORMS

Cash basis financial records presented for examination were incomplete and not reflective of the activity of the funds. The records presented did not provide sufficient information to verify reported receipts and disbursements on the cash basis. The Library purchased accrual based accounting software in 2006 which, when converted from the old software to the new software, did not reconcile with the previous software. The January 1, 2008 reported General Operating Fund cash balance was \$171,918 less than the December 31, 2007 balance in the prior examination report.

The reports generated from the Accufund software are not conducive to the preparation of accurate cash basis reports. For example, the "Cash Receipts Ledger" for the General Operating Fund reported receipts of \$4,798,505 in 2011; the Library Annual Report, which was verified with actual depository activity, reported \$4,913,382; a difference of \$114,877. The "Cash Disbursements Ledger" for the General Operating Fund reported disbursements of \$2,264,448 in 2011; the Library Annual Report, which was also verified with actual depository activity, reported \$3,883,020; a difference of \$1,618,572. Electronic fund transfers to governmental agencies accounted for \$434,919 of this difference.

These "Ledgers" were not prescribed or approved alternate forms. They did not include all of the information required on the prescribed Library Form No. 1 - Library Financial and Appropriation Record. The records were essentially a list of official receipts and checks issued in date order. There was no type or appropriation detail necessary for preparation of the Library Annual Report and the "Ledgers" did not include all activity as noted above.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

EMPLOYEE COMPENSATION

We noted several deficiencies and inconsistencies in the accounting for employee compensation as follows:

Current Salary Schedule

A current approved salary schedule was not presented for examination. The salary schedule available was more than 10 years old. There was a salary schedule proposed by the Interim Director in 2008; however, it was never approved by the Library Board of Trustees (Board). Employees were paid based on their salary when they were hired adjusted by any pay increases approved by the Board. We were unable to verify that employees were paid the correct amounts.

Indiana Code 36-12-2-24(b) provides that:

"The library board shall employ and discharge librarians and other persons that are necessary in the administration of the affairs of the library. The board shall:

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

1. Fix and pay their compensation;
2. Classify them and adopt schedules of salaries; and
3. Determine their number and prescribe their duties; all with the advice and recommendations of the library director."

Salary Overpayments

Due to the bi-weekly payroll schedule, there were 27 pay dates in 2009. According to the most recent salary schedule and Payroll Action Forms used to set or change salaries, full-time employee's salaries are stated in annual amounts. The annual salary should be divided by the number of pay periods and paid bi-weekly. No adjustment was made in the bi-weekly salary amounts to account for the additional pay date in 2009. Consequently, full-time salaried employees who worked the entire year were overpaid by the amount of one bi-weekly gross pay.

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 Libraries, Chapter 4)

Inaccurate Retroactive Compensation

On February 17, 2009, the Library Board approved raises for Library staff. The official approved minutes stated ". . . a 1.00 percent raise for 2008 and 0.50 percent for 2009 for a total of 1.50 percent cumulatively effective as of January 1, 2009." The retroactive pay was disbursed on two pay dates – February 27, 2009 and March 13, 2009; however, the calculation of the pay was not in accordance with the amount approved by the Board.

On February 27, 2009, employees received 1.00 percent of their 2008 yearly wages in retroactive pay for the period January 1, 2008 to December 31, 2008. The official approved board minutes stated that the raises were cumulative and effective January 1, 2009. Consequently, all employees who received this pay adjustment were overpaid by 1.00 percent of their 2008 annual wages. This overpayment totaled \$21,538.80.

On March 13, 2009, employees received retroactive pay in the amount of 0.50 percent of their wages for the period January 1, 2009 to February 7, 2009. The retroactive pay did not include the period from February 8, 2009 to February 21, 2009 and was not calculated at the cumulative rate of 1.50 percent. Consequently, employees were underpaid 1.11 percent of their 2009 wages for the period January 1, 2009 to February 21, 2009. This underpayment totaled \$4,644.81.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

Overtime Compensation

During the years 2008, 2009, and 2010 "exempt" employees were paid overtime. The overtime compensation section (4.10) of the Library Personnel and Procedures Manual states in part:

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

B. EXEMPT EMPLOYEES

1. Exempt employees are those employees who hold positions that are administrative, professional or executive as defined by the FLSA, are paid on a salaried basis, and are 'by law' exempt from overtime.
2. Exempt employees who work more than forty (40) hours in a week may be permitted, with administrative approval, to use the extra hours to take time off at another date on an hour-for-hour basis. This compensatory time off, whenever possible, should be used within an exempt employee be permitted to accumulate more than forty (40) hours of compensatory time.
3. Compensatory time off hours not used during the year in which they were earned may not be carried over to the next year.
4. Exempt employees may not receive payment in lieu of using compensatory time off hours and may not cash out compensatory time off hours at the time of retirement or resignation.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

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 Libraries, Chapter 4)

Unauthorized Additional Pay and Wage Increase

One employee received \$5,500 in retroactive pay and two employees received a total of \$4,426 in bonus compensation in 2011. No evidence of approval of these additional payments by the Board of Trustees was presented for examination. In addition, one of these employees also received a \$7,566 annual salary increase in 2011. Again, no evidence of Board approval was presented for examination.

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 Libraries, Chapter 4)

Indiana Code 36-12-2-24(b) provides that:

"The library board shall employ and discharge librarians and other persons that are necessary in the administration of the affairs of the library. The board shall:

1. Fix and pay their compensation;
2. Classify them and adopt schedules of salaries; and
3. Determine their number and prescribe their duties; all with the advice and recommendations of the library director."

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

Employee Service Record

The prescribed form for recording time worked and leave earned and used, General Form 99A – Employee Service Record, was not in use at the Library. The Library has produced an alternate form and an excel spreadsheet to replace this form. These are not approved by the State Board of Accounts nor are they an exact replica of the prescribed form.

This form (Employee's Service Record - General Form 99A) must be kept by each office or department for each employee in order to properly prepare Payroll Schedule and Voucher, General Form No. 99. It records the hours or days worked, sick leave, vacation and days lost. It may also be used to comply with the requirements of IC 5-11-9-4 regarding recording hours worked each day by an employee.99B (Rev. 1993) Employee's Earnings Record. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 3)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

ACCRUAL AND PAYMENT OF VACATION LEAVE

We noted the following deficiencies and inconsistencies in the accounting for employee vacation leave.

Ambiguous Vacation Policy

The administration and payment of vacation time upon separation from employment does not comply with the vacation leave policy presented for examination. Employees are credited with their annual vacation days on January 1 of each year. Several employees who left the Library's employ during 2010 and 2011 were paid for 2011 and 2012 vacation days, respectively, not yet credited to them.

The approved vacation policy, based upon a Union contract states:

"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 (90 days) 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 the annual vacation during the calendar year of 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 Administration's understanding of the policy is that vacation days are earned in the current year for the next year. However, new employees are able to take paid vacation days in the year they are hired which would not have been earned in a previous year. In addition, if an employee leaves the employ of the library before May 31, they are only entitled to one half of their annual vacation. However, based on the Administration's understanding of the policy, the entire annual vacation would have been earned in the previous year and therefore, would be due the employee.

Each governmental unit should adopt written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing board would be considered as written policy. The policy should conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

Inconsistent Payment of Unused Vacation

Roma Ivey, the Chief Operations Manager for many years and Interim Director for the period January 1, 2007 to November 1, 2008, was paid for unused prior year vacation days 2 times during the examination period. On February 1, 2008, Ms. Ivey received additional compensation of \$7,361.53 for 29 unused 2007 vacation days. At her retirement on October 25, 2010, Ms. Ivey received additional compensation of \$10,658.96, for 22 unused vacation days from 2009 and 30 unused vacation days from 2010, the current year. This amount was in addition to \$4,612.05 for 22.5 vacation days for 2011, after her retirement date. Both additional payments of unused vacation were approved by the Library Board.

On November 22, 2010, the date that Ms. Ivey's final payment noted above was approved, the Library Board denied the request of Ms. Sherri Ervin, the Director, for payment of 12 unused vacation days from 2009. On November 15, 2011, at the end of Ms. Ervin's contract, the Library Board again denied her request for 22 and 15 unused vacation days from 2009 and 2010, respectively. She was paid for 25 unused vacation days in 2011; however, according to her attendance and leave records, she only had 12 unused vacation days remaining at the end of her contract. She was not paid for any accrued vacation days for 2012.

On May 6, 2011, an Executive Assistant resigned and was given additional compensation for 30 unused 2011 vacation days and accumulated unused sick days. Her additional compensation also included \$1,488.35 for 10 days of accrued vacation days for 2012.

The Introduction and Purpose statement for the Board Policies Section 1.1 states:

"This Personnel Policy contains policies for the employees of Gary Public Library ("Library"). All employees that are charged with the responsibility of administering policy must be familiar with its contents. The Policy is a guide to be used by the Director and other managerial employees to ensure uniform and nondiscriminatory application of the conditions of employment. It is essential that these policies be administered in a systematic, fair and impartial manner."

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

The vacation leave section (5.2E) of the Library Personnel and Procedures Manual states:

"Vacations are non-cumulative and must be used during the calendar year. When your employment terminates between January 1 and May 31, you are 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."

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

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 Libraries, Chapter 4)

DEPOSITS

Receipts were routinely deposited later than the next business day. Deposits were made approximately once per week; however, nine of the deposits during 2011 were made between 10 and 20 days after the dates of the receipts. The Library system's branches prepare daily deposits but they are held until picked up and deposited by the Controller.

The Library's policy for depositing and reporting collections states:

"Collections from the Main Library will be collected by the Business Office on Wednesdays and Fridays. Collections from branches should be deposited daily but will be transferred to the Business Office at least twice each week on Wednesdays and Fridays and on the last business day of each month."

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

". . . 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. Public funds deposited under this subsection shall be deposited in the same form in which they were received."

RECEIPT ISSUANCE

Receipts were not issued for all collections. In some instances, the deposits of branch collections were in excess of the duplicate official receipts submitted to the Business Office.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

TUITION REIMBURSEMENT POLICY

The Gary Public Library adopted a Tuition Reimbursement Policy effective September 19, 2007; however, the Library did not comply with all of the provisions of the policy. A payment for tuition reimbursement was made in January 2009 for tuition paid for the Spring Semester of 2007 which was before the policy was effective. In addition, the policy requires the employee to submit a Tuition Reimbursement Approval Form to be pre-approved by the employee's manager and the Library Director. The course of study and each class must be approved prior to starting a class because the courses of study must be directly connected with the current work being performed or that is expected to be performed while in the employ of the Gary Public Library. All three of the tuition reimbursements made during the examination period were approved after the classes were completed. One of the payments was made based on the Director's approval only, without submission of the Tuition Reimbursement Approval Form.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

FEE RESOLUTION

The Library has a resolution concerning fees for video rental. However, not all branches of the Library System complied with the policy; some allowed employees to borrow videos without paying the rental fee. Prenumbered video rental receipts were completed for employees for which no fee was collected.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

OLD OUTSTANDING CHECKS

Our review of the bank reconcilements as of December 31, 2011, included checks outstanding in excess of two years. These checks totaled \$38,144.29 and were dated back to December 31, 2004.

Indiana Code 5-11-10.5-2 states in part:

"All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states in part:

"Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the board of finance of the political subdivision or the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-10.5-5(a) states:

"Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks."

CAPITAL PROJECTS FUND SOURCES

All taxes levied for the Capital Projects Fund received in 2009 and 2010, including Property, License Excise, Financial Institutions, and Commercial Vehicle Excise, were receipted into the General Fund. The total Capital Projects Fund taxes receipted into the General Fund was \$5,785.23 and \$131,041.89 in 2009 and 2010, respectively.

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 Libraries, Chapter 4)

GIFT FUND SOURCES AND USES

Some receipts were incorrectly recorded in the Gift Fund. The Library receives a PILOT distribution in lieu of taxes based on an agreement between the City of Gary and the Housing Authority of the City of Gary. The calculations of the distributions are based on certified annual tax rates as verified by the Lake County Auditor. PILOT distributions of \$2,883.04, \$3,578.47, and \$5,380.80 were receipted into the Gift Fund in the years 2010, 2011, and 2012, respectively.

In addition, penalties and interest of \$431.16 paid to the Internal Revenue Service, noted in a previous comment, were paid from the Gift Fund in 2011.

Indiana Code 36-12-3-11(a) states in part:

"A library board shall establish funds to keep money and securities of the public library as follows:

- (1) All money collected from tax levies, interest on investments, fees, fines, rentals, and other revenues:
 - (A) shall be deposited into the library operating fund, except as otherwise provided in this section; and
 - (B) must be budgeted and expended in the manner required by law . . .
- (5) Money or securities accepted and received by the library board as a grant, a gift, a donation, an endowment, a bequest, or a trust may be:
 - (A) set aside in a separate fund or funds and shall be expended, without appropriation, in accordance with the conditions and purposes specified by the donor . . ."

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

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 Libraries, Chapter 4)

OFFICIAL BONDS

The Treasurer's official bonds were not always filed in the Office of the County Recorder. The last bond on file for the Treasurer of the Library is for the period July 5, 2007 to July 5, 2008. Coverage was continued each year; however, the continuation certificates and/or new official bonds were not filed as required.

Indiana Code 36-12-2-22(g) requires the Treasurer's bond to be deposited in the office of the County Recorder. Other library employee bonds shall also be filed in the office of the County Recorder. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 1)

GARY PUBLIC LIBRARY
EXIT CONFERENCE

The contents of this report were discussed on July 3, 2012, with Freddy McMillon, Treasurer/Controller; Diana Morrow, Interim Director; and Trent A. McCain, Attorney for the Board of Trustees. The Official Response has been made a part of this report and may be found on pages 32 through 37.



GARY PUBLIC LIBRARY

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September 28, 2012

DIANA MORROW
INTERIM DIRECTOR

Mr. Bruce Hartman, CPA
State Examiner
Indiana State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204

Mr. Hartman:

This is in response to the audit of the Gary Public Library for the years 2008 – 2011. The Library has responded per issue raised, providing the audit topic as a heading for each response.

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:

Penalties and Interest:

The Gary Public Library had several employees receiving long term disability payments from a third party entity. This third party entity – Anthem Life, would notify the Library of its payments to those former employees under the GPL plan. The Library would make payment based upon receipt of the notifications utilizing the dates Anthem made payment, which the IRS deemed as late. The Library has begun reporting the tax payments based on the date notification was received from Anthem and posting them based on the date notification was received. As of March 2012, the Library has not received any IRS notifications.

Unallowable Fuel Purchase:

Fuel charge cards are primarily used for GPL vehicles; staff utilizing personal vehicles for travel is usually reimbursed for mileage at the current federal rate. The Library Director had discretion over his/her use of credit cards. The BOT will update the Credit Card Policy restricting all staff use of all credit cards in regards to fuel purchases; thus, enforcing the Library's Travel Policy that requires staff to

request reimbursements when using personal vehicles for Library business in accordance to the Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 8. In addition, the BOT shall require all staff to adhere to the Library's Travel Policy which sets the reimbursable mileage rate per the IRS.

Lack of Supporting Documentation for Credit Card Payments:

The BOT will require all staff to adhere to the Credit Card Policy. The Library has created a new form, Receipt of Attachments, which shall be completed and signed by the accounts payable specialist and attached to the claim. A copy of this form and electronic copies will be sent to the controller. The Director/BOT/ Employees will have to submit receipts for reimbursement for expenses with specific detailed information. Payments which do not have proper itemization showing the business nature of the claim will be the personal obligation of the responsible official, employee or other person for whom the claim is made, in accordance with the Accounting and Uniform Compliance Manual for Libraries, Chapter 4.

Advance Payments:

The Library's Credit Card policy restricts the use of credit cards for non-travel expenses. This limitation required the Library to compensate employees for purchases made and/or to cut a check to an employee to make purchases on the Library's behalf. When the latter was done, a ST-105 tax exemption form was given to the employee, as well.

The interim Library Director has asked the BOT to amend the Credit Card Policy to allow for other purchases that are processed according to the Library's Purchasing Policy to be paid via credit card. This policy change will be implemented by the BOT. Upon implementation of the credit card policy change, checks will not be issued to staff to make Library purchases.

Errors on Claims:

The controller will monitor staff to assure that State approved forms are created and attached to Library expenditures. Controller will be responsible for developing a control system to ensure that staff is in compliance with the Accounting and Uniform Compliance Manual for Libraries, Chapter 4.

Condition of Records and Prescribed Forms:

The Library paid a substantial amount for the accrual software that it uses to maintain its accounting records. Unfortunately, the software is not convertible to a cash-basis format and the cost to purchase and implement cash-basis software was not allocated during the current fiscal budget. The controller will recommend allocating funds for the upcoming fiscal year to purchase and install cash-basis software for

the 2013 fiscal year. However, MS Excel spreadsheets are used to track the accrual –to- cash conversion. These spreadsheets will be made less convoluted and available to auditors in the future. The BOT will make every effort to procure cash-basis software, if deemed affordable, which will therefore alleviate the need for conversion spreadsheets. If there is a re-occurrence of errors after the purchase of the aforementioned software then the controller or employees may be held personally responsible for the amount needed to balance the fund.

Employee Compensation:

Current Salary Schedule:

The interim Library Director shall make a recommendation for a new salary schedule to be submitted for review and board adoption; this schedule will be delineated in bi-weekly payments. Upon adoption, this shall remediate this issue. The BOT will be reviewing all current policies and make the necessary amendments to insure that administration is following policies.

Salary Overpayments:

The Library's payroll was due on Friday, January 1, 2010, which was a holiday. It was determined by the director to pay staff prior to the holiday, rather than wait three days for the first business (work) day of 2010 – Monday, January 4, 2010. This 27th payment should have been the first payment in 2010. The Library will change its salary schedule to reflect bi-weekly pay status and prevent this from happening in the future and will be in compliance with the state and federal reporting requirements. The Library will adhere to the Accounting and Uniform Compliance Manual for Libraries, Chapter 4.

Inaccurate Retroactive Compensation:

The Board of Trustees approved two raises, 1.0% for 2008, retroactively from January 1, 2008; and 0.5% for 2009, retroactive from January 1, 2009. A resolution to amend the Library's records to include the original intent of the BOT was heard and voted on at its September 2012 meeting to address this issue. The BOT will be reviewing all current policies to insure that the Library is in compliance with them and will amend them when needed so that no actions will be taken that are not in accordance with our policies in the future.

Overtime Compensation:

Per the Library's Personnel Policies Manual, 'Exempt' Employees are not eligible to receive overtime payment, but rather compensatory time as compensation. The BOT will be reviewing all current policies to insure that the Library is in compliance with them and will review overtime compensation - Section 4.10 of the Library Personnel Policies Manual for possible amendments so that no actions will be taken that are not in accordance with our policies in the future. The GPL Interim Director and the Controller will be responsible for presenting to the BOT internal controls to make sure that there is no deviation from the policy.

Unauthorized Additional Pay and Wage Increase :

A salary schedule is being created for adoption by the board which will allow the interim Library Director to make recommendations for adjustments within the schedule. These will be reported in the executive session and scheduled for approval in the general session by the BOT.

Employee Service Record:

The Library used an MS Excel spreadsheet to track accrued time for its employees; these forms were preliminarily approved by the SBOA subject to the audit. Upon completion of the audit, the auditor deemed those reports unusable. The Library has decided to maintain those records via manual forms that will track each type of accrued time for each employee. A copy of the new form shall be sent to the SBOA for further approval subject to audit.

Accrual and Payment of Vacation Leave:

Ambiguous Vacation Policy:

The BOT will be following its Personnel Policies Manual but will also review all current policies to determine if amendments are needed so that there is no more discrepancy in how the vacation policy is applied. If necessary, a clear more concise policy shall be adopted in compliance with the Accounting and Uniform Compliance Manual for Libraries, Chapter 4.

Inconsistent Payment of Unused Vacation:

The BOT will be following its Personnel Policies Manual but will also be reviewing all current policies to determine if amendments are needed to make policy interpretations more concise by Library staff and in compliance with the Accounting and Uniform Compliance Manual for Libraries, Chapter 4.

Deposits:

The interim Library Director and controller are implementing a new method of forwarding deposits to the bank which will increase the deposits according to statute. The interim Library Director will develop internal controls that will require the controller to deposit funds in accordance to I.C. code 5-13-6-1 (c).

Receipt Issuance:

The controller has developed internal controls to assure compliance with the Accounting and Uniform Compliance Manual for Libraries, Chapter 4. Copies of the procedures shall be redistributed to all

branches and managers shall be required to discuss and these procedures with staff. Failure to enforce the procedures will require branch managers and/or staff to reimburse the Library system.

Tuition Reimbursement:

The BOT are aware of the current policy and will insure compliance with it. As stated above all policies are being reviewed to see if amendments are needed.

Fee Resolution:

The board does not have a stated policy on employee rental but will be creating one. The BOT will be adopting a new resolution making it clear that employees must pay rentals and will create new fee schedules. The interim Library Director shall require all staff to review and acknowledge the new resolution and enforce the fee schedule per the resolution. Failure to enforce the Fee Resolution will require branch managers to reimburse the Library system.

Old Outstanding Checks:

These items were withheld in lieu of audit; as the Library did not have satisfactory records in the past. Once the audit for 2008 – 2011 was complete, the controller was instructed to deposit these items back to the corresponding account (General Checking and Payroll Checking). The interim Library Director will insure the BOT that the controller will be responsible for coming into compliance with IC 5-11-10.5-2 & 3

Capital Projects Fund Sources:

Because the Library receives one check paying multiple funds, tax dollars are deposited into the general account and then an inter-fund transfer is made to the appropriate fund. This allows the check to clear on one account. Per the audit, the Library will immediately make a transfer from the general account to the fund that receives the tax dollars on the day of the check deposit. All other funds will be directly deposited to the correct account.

Gift Fund Sources and Uses:

The BOT will establish funds to keep money and security of the public library as follows: (1) All money collected from tax levies, interest on investments, fees, fines, rentals, and other revenues; (A) shall be deposited into the library operating fund, except as otherwise provided in this section and (B) must be budgeted and expended in the manner required by law. (5) Money or securities accepted and received by the library board as a grant, a gift, a donation an endowment, a bequest or a trust may be (a) set aside in a separate fund or funds and shall be expended, without appropriation in accordance with the conditions and purposes specified by the donor. The controller will be responsible for adhering to the above procedure in accordance with the Accounting and Uniform Compliance Manual for Libraries, Chapter 4.

Official Bonds:

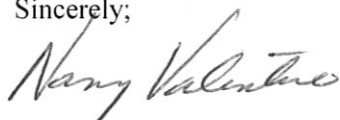
The Library has registered the Treasurer's Bond with the Lake County Recorder's Office since 2009. The controller will adhere to IC 36-12-2-22(g) and the Accounting and Uniform Compliance Manual for Libraries, Chapter 1.

Subsequent Event:

The BOT is reviewing its budget, reserves, and re-analyzing the plans for the main branch.

If you have any questions or require further information, please direct them to the attention of the interim Library Director at (219)886-2484 extension 320 and/or the controller at extension 357.

Sincerely;

A handwritten signature in cursive script that reads "Nancy Valentine".

Nancy Valentine,
Gary Public Library – Board President