

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

GARY COMMUNITY SCHOOL CORPORATION

LAKE COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED
11/13/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Michael Washington Mary Comer	07-01-14 to 04-15-15 04-16-15 to 06-30-18
Superintendent of Schools	Dr. Cheryl L. Pruitt	07-01-14 to 06-30-18
Emergency Manager	Dr. Peggy Hinckley	08-01-17 to 06-30-18
President of the School Board	Rosie G. Washington Antuwan Clemmons Rosie G. Washington	01-01-14 to 12-31-14 01-01-15 to 12-31-16 01-01-17 to 12-31-17



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

This report is supplemental to our audit report of the Gary Community School Corporation (School Corporation), for the period from July 1, 2014 to June 30, 2016. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

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

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

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

Tammy R. White, CPA
Deputy State Examiner

September 28, 2017

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2016-001

Subject: Cash and Investment Balances

Audit Findings: Material Weakness, Scope Limitation/Modified Opinion

Repeat Finding

This is a partial repeat of Finding 2014-001 from the immediate prior audit year.

Condition

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

1. The School Corporation had not separated incompatible activities related to Cash and Investment balances. Depository reconcilements of the vendor and payroll bank accounts were performed by the Treasurer; however, policies or procedures for an independent review of the reconcilements were not established.
2. The operating account bank reconcilements for the period of July 2014 to April 2015 were not performed until after the appointment of the current Treasurer and the opening of new bank accounts in May 2015.
3. The payroll bank account was not reconciled in the prior audit period or between July 2014 and the opening of the new bank account in May 2015 of the current audit period. The cash balance from the closed account was deposited into the new bank account. An outstanding check list from the new payroll account had been maintained; however, the prior payroll account's balance that was transferred to the new account was not properly reconciled. A detailed outstanding check list was not prepared; therefore, the total depository balance was not reconciled to the record balance.
4. An outstanding check list for the operating account had not been prepared because the account had not been reconciled during prior audit periods. Outstanding checks reported in the bank reconcilements provided for audit were for that month only and did not include outstanding checks from prior months. An outstanding check list generated from the financial accounting system for the periods ended June 30, 2015, and June 30, 2016, included checks which had cleared the bank after July 2012, but had not been removed from the list. This overstated the outstanding check amounts and rendered the list generated from the financial accounting system incorrect.
5. The reconcilements contained adjustments that presented net activity for payroll withholdings. These adjustments presented the difference between activity from the prior month and activity from the current month. Instead, the current month's unpaid amounts should have been presented as an outstanding item on the reconcilement.

Additional procedures were performed in an attempt to verify the cash and investment balance as of June 30, 2016. Due to the items noted above, the reconcilements presented for audit did not reconcile to the School Corporation's records. This impacted the Independent Auditor's Report, and resulted in a qualified opinion for cash and investment balances on the financial statement.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Context

The lack of controls and inaccurate reconcilements were systemic problems, which occurred throughout the audit period.

Criteria

The Indiana 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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; . . .

- Accurate and timely recording of transactions. . . ."

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

Cause

Management of the School Corporation had not established a proper system of internal controls.

Effect

The failure to provide accurate and complete reconcilements of the bank account balances to the record balances, prevented the determination of whether or not the Cash and Investment balance (financial position) of the School Corporation was fairly presented for the period July 1, 2014 to June 30, 2016.

Recommendation

We recommended that the School Corporation establish a system of internal controls to ensure that depository reconcilements are accurately performed on a timely basis.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2016-002

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a partial repeat of Findings 2014-001 and 2014-002 from the immediate prior audit year.

Condition

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting.

Receipts

One individual received collections, issued and recorded receipts, prepared the deposits, took the deposits to the bank, and reconciled the deposits to the bank statements. A proper system of oversight or review was not established.

Disbursements

As a result of the dismissal of the interim Chief Financial Officer (CFO) and the appointment of the Supervisor of Accounting as Treasurer in 2015, segregation of duties from having the CFO review and approve disbursements no longer existed. The Treasurer, who helped prepare Accounts Payable Voucher's (APV), generated checks, generated APV check registers, recorded disbursements, and also reviewed and approved disbursements.

The State of Indiana appointed a financial consultant in 2015. The financial consultant reviewed and approved all disbursements (payroll and vendor) to ensure adequate cash flow; however, written documentation of the review process was not provided.

Payroll

1. A process was not established to ensure a review of the bi-weekly payroll claim before payment.
2. A process was not in place to ensure employees were paid the correct rate of pay. A School Board approved salary schedule or a current collective bargaining agreement was not provided for audit. Additional audit time was spent performing other audit procedures to ascertain if payroll disbursements were fairly stated in the financial statement.

Financial Transactions Recording and Reporting

1. One individual prepared the Form 9 financial reports required to be submitted to the Indiana Department of Education (IDOE) every six months. These reports were the basis for the financial statement. This same individual was extensively involved with the disbursement and the cash reconciliation processes.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2. In April 2015, the School Corporation issued a \$5,000,000 Tax Anticipation Warrant for the General fund. The repayments of the \$5,000,000 principal were to be recorded in the General fund and the \$68,768 of interest expense in the Debt Service fund. However, the entire \$5,068,768 repayment was recorded in the Debt Service fund. This resulted in a \$5,000,000 understatement of the General fund disbursements and overstatement of its cash and investment balance, and a \$5,000,000 overstatement of the Debt Service fund disbursements and understatement of its cash and investment balance.
3. The School Corporation issued 2015 Judgement bonds. They received \$1,964,581 in proceeds to reimburse the School Transportation fund for \$1,515,173 in previous expenditures and to pay additional court ordered judgements. The proceeds were received and recorded into the Debt Service fund. The School Corporation failed to transfer any funds from the Debt Service fund to the School Transportation fund. Additionally, court ordered judgements totaling \$354,579 were paid directly from the Debt Service fund rather than the General fund or a separate judgment bond fund.
4. The School Corporation failed to properly record \$65,949 in repayments made for Common School Loans related to Roosevelt High School. The Indiana State Board of Education intervened due to low performance and awarded operation of the school to Edison Learning Center. Under the intervention requirements, the School Corporation was responsible for payment of the common school loan on behalf of Roosevelt through deductions from state distribution funding. The payments were withheld from the Basic Grant received from the state, but the amounts were not recorded in the School Corporation's records.
5. Due to the School Corporation's financial condition and failure to make pension payments, the state began withholding payments for the benefit of the Indiana Public Retirement System (INPRS) from the amounts due to the School Corporation for monthly Basic Grant funding. The School Corporation remitted benefit reports to the INPRS to allocate the amounts withheld for member retirement benefits. The School Corporation did not properly record amounts withheld of \$454,896 and \$218,546, for the 2014-2015 and 2015-2016 school years, respectively.
6. In the prior audit period, the School Corporation did not pay its Third Party Service Provider (Provider) for child nutrition services, even though it had received child nutrition grant reimbursements with which to make the payments. In response, the IDOE began retaining the amounts due to the School Corporation for child nutrition grant reimbursements. The IDOE directly paid the Provider for services to the School Corporation from the retained grant reimbursements. Any excess between the grant reimbursements and Provider payments was held in reserve by the IDOE for the School Corporation.

These transactions were not recorded by the School Corporation. This resulted in the understatement of School Lunch fund receipts and disbursements by \$7,438,354 and \$5,938,854, respectively, for the audit period. It also resulted in the understatement of the fund's ending cash and investment balance by \$1,499,500 as of June 30, 2016.

7. The School Corporation combined the Debt Service fund and the DUAB \$15M fund for reporting purposes. The DUAB \$15M fund was used to account for loan proceeds received to pay critical vendors and cash flow to pay payroll until state distributions were received. The two funds should not have been combined for reporting purposes, as they had two separate purposes.

Audit adjustments were proposed, approved by the School Corporation, and made to the financial statement.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Context

The lack of controls and incomplete and inaccurate recording and reporting of transactions were systemic problems, which occurred throughout the audit period.

Criteria

The Indiana 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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; . . .

- Accurate and timely recording of transactions. . . ."

Each member of the school board in accepting the responsibility of administering the financial affairs of a public school system must recognize not only his responsibilities toward the educational needs of the student population of the unit but also the board's relationship with and responsibilities toward the taxpayers of the local unit and of the State. Among other items, faithful performance of duty requires adequate budgeting, accurate accounting and informative reporting of all financial transactions and the establishment of sound business practices for effective and efficient operation of all schools. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 2)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, 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 statute. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Cause

Management of the School Corporation had not established a proper system of internal controls.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish and properly implement controls enabled material misstatements or irregularities to remain undetected. The financial statement contained the errors identified in the *Condition*.

Recommendation

We recommended that the School Corporation establish a system of internal controls to ensure that financial transactions are properly recorded and that reporting is accurate.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-003

Subject: Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat of Finding 2014-003 from the immediate prior audit year.

Condition

The School Corporation did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

The School Corporation failed to properly document review of the federal grant information prepared and submitted in the Indiana Gateway for Government Units financial reporting system, which is the source for the SEFA. One employee prepared the grant information for the federal awards and it was informally reviewed by the Treasurer before it was submitted. The review performed by the Treasurer was not effective in mitigating the errors made when the grant information was entered.

The following errors resulted in the understatement of the SEFA by \$3,961,875 and \$3,721,775 for the 2014-2015 and 2015-2016 fiscal years, respectively:

1. The School Breakfast Program was originally omitted. This resulted in an understatement of federal expenditures of \$1,447,265 and \$1,321,750 for each fiscal year, respectively.
2. The National School Lunch Program federal expenditures were understated by \$2,063,040 and \$2,025,680 for each fiscal year, respectively.
3. The Summer Food Service Program for Children was originally omitted. This resulted in an understatement of federal expenditures of \$30,447 and \$64,947 for each fiscal year, respectively.
4. The Fresh Fruit and Vegetable Program was originally omitted. This resulted in an understatement of federal expenditures of \$94,586 and \$201,840 for each fiscal year, respectively.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

5. The Title I Grants to Local Educational Agencies, School Improvement Grant (CFDA number 84.010) was improperly identified as the School Improvement Grants (CFDA number 84.377). Additionally, the School Improvement Grants and the Adult Education - Basic Grants to States grants were identified by incorrect program names.
6. The Special Education Grants to States federal expenditures were overstated by \$211,168 and understated by \$5,432 for each fiscal year, respectively.
7. The Improving Teacher Quality State Grants federal expenditures were understated by \$264,788 in the 2014-2015 fiscal year.
8. The Army Junior Reserve Officers' Training Corps (JROTC) grant was originally omitted. This resulted in an understatement of federal expenditures of \$94,018 and \$22,684 for each fiscal year, respectively.
9. The Medical Assistance Program grant was originally omitted. This resulted in an understatement of federal expenditures of \$178,899 and \$79,442 for each fiscal year, respectively.

Audit adjustments were proposed, approved by the School Corporation, and made to the SEFA.

Context

The lack of controls and incomplete and incorrect reporting of federal programs and expenditures were systemic problems, which occurred throughout the audit period.

Criteria

The Indiana 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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; . . .

- Accurate and timely recording of transactions. . . ."

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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

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

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

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Cause

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

Effect

The failure to establish and properly implement internal controls enabled material misstatements to go undetected. The SEFA contained the errors identified in the *Condition*.

Recommendation

We recommended that the School Corporation's management establish controls to ensure accurate reporting of the SEFA.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-004

Subject: Child Nutrition Cluster - Activities Allowed or Unallowed
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch
Program, Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2015, 2016
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Activities Allowed or Unallowed
Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed compliance requirement. The review process over the payment of vendor claims was not effective.

A majority of the vendor disbursements were related to the Food Service Management Company (Management Company). Although the claims for payment showed evidence of a review, the invoices submitted for payment lacked sufficient detail of an effective review.

The Management Company provided detailed documentation to support the invoices paid by the School Corporation.

Context

The lack of controls was a systemic problem throughout the audit period. The Management Company accounted for approximately 77 percent of the total grant fund disbursements.

Criteria

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

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

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

The School Corporation's management had not developed an effective system of internal controls to ensure compliance with the Activities Allowed or Unallowed compliance requirement.

Effect

The failure to establish an effective internal control system could have enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the Activities Allowed or Unallowed compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-005

Subject: Child Nutrition Cluster - Allowable Costs/Cost Principles
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2015, 2016
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Allowable Costs/Cost Principles
Audit Findings: Material Weakness, Scope Limitation/Modified Opinion

Repeat Finding

This is a partial repeat of Finding 2014-015 from the immediate prior year.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

An effective internal control system was not in place at the School Corporation related to the grant agreements and the Allowable Costs/Cost Principles compliance requirement.

The following disbursements recorded in the School Lunch fund, which accounted for the Child Nutrition Cluster programs, did not comply with the Allowable Costs/Cost Principles compliance requirement:

1. The School Corporation paid \$4,270 from the School Lunch fund for insurance costs related to five employees whose wages were paid from the General and School Transportation funds.
2. The School Corporation also paid \$691 from the School Lunch fund for retirement costs in excess of the costs associated with employees of the Child Nutrition programs.

The School Corporation did not provide supporting documentation for compensation paid to food service employees from the School Lunch fund. Timesheets were not presented for audit for cashiers, cooks, and other food service personnel tested. Timesheets were presented for the breakfast/lunch employees. However, amounts paid to the breakfast/lunch employees were not always supported by the timesheets. As a result, the School Corporation paid wages totaling \$13,283 without proper supporting documentation.

The School Corporation requested reimbursement of \$597,916 from the Indiana Department of Education (IDOE) for indirect costs related to maintenance and custodial wages and benefits. The School Corporation calculated a percentage to be applied to the gross wages in order to account for benefits. The amounts were determined by a financial consultant and the claim for reimbursement was signed by School Corporation staff to document review. However, the School Corporation did not have supporting documentation for the claim for reimbursement. The supporting documentation received from the financial consultant for the calculation was dated August 2017 and included August 2017 benefit information to support the calculation. The reimbursement was received by the School Corporation in March 2016.

Context

The lack of controls and the noncompliance over payroll and benefits were systemic problems during the first year of the audit period, until food service employees were outsourced to a Food Service Management Company. The lack of controls and failure to provide adequate supporting documentation over indirect costs were systemic problems throughout the audit period.

Criteria

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

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

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

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

- "1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
 - b. Be allocable to Federal awards under the provisions of this Circular. . . ."

OMB Circular A-87, Attachment B, section 8h(4) states in part:

"Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award, . . ."

2 CFR 200.403 states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items. . . .
- (g) Be adequately documented. . . ."

2 CFR 200.430(i) states in part:

"*Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS) . . ."

Cause

The School Corporation's management had not developed an effective internal control structure that would have ensured that supporting documentation was maintained related to payroll and indirect costs charged to the programs.

Effect

The failure to retain supporting documentation prevented the determination of the School Corporation's compliance with the Allowable Costs/Cost Principles compliance requirement.

Questioned Costs

Questioned costs which totaled \$1,564,250 consisted of \$616,160 in known questioned costs as detailed in the *Condition* and \$948,090 in projected likely questioned costs.

Recommendation

We recommended that the School Corporation's management establish effective controls to ensure supporting documentation is maintained to ensure compliance with the Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-006

Subject: School Breakfast Program, National School Lunch Program - Cash Management
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2015, 2016
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Cash Management
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a partial repeat of Finding 2014-016 from the immediate prior audit year.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation had not established an effective internal control system related to the grant agreements and the Cash Management compliance requirement.

The School Corporation failed to comply with the Cash Management requirements that they limit their net cash resources in the School Lunch fund to the three months average expenditures of the food service program. The School Corporation maintained excessive net cash resources in nine of the twenty-four months of the audit period.

The School Corporation received grant reimbursements for its food service program in the prior audit period, but withheld payment to certain vendors due to cash flow needs of the School Corporation. This contributed to excessive net cash resources for two months between July and November 2014.

Beginning in December 2014, Indiana Department of Education (IDOE) retained the requested reimbursements due to the School Corporation and held the amounts in trust. The IDOE began paying the School Corporation's Food Service Management Company directly from the amounts in trust, on behalf of the School Corporation, as well as payments to the School Corporation for its related food service expenses. The net remaining funds from the reimbursement requests less disbursements were retained by the IDOE in a trust account. These funds held in trust contributed to the School Corporation's excessive net cash resources in seven of the remaining nineteen months of the audit period.

Context

The lack of controls and noncompliance were systemic problems. The net cash resources in the School Lunch fund exceeded the three months average expenditures for nine of the twenty-four months of the audit period.

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

7 CFR 210.14(b) states: "*Net cash resources.* The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a)."

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

7 CFR 220.7(e) states in part:

"Each school food authority approved to participate in the program shall . . . with respect to participating schools under its jurisdiction: . . .

- (iv) Limit its net cash resources to an amount that does not exceed three months average expenditure for its nonprofit school food service or such other amount as may be approved by the State agency . . ."

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the Cash Management compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Cash Management compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-007

Subject: Child Nutrition Cluster - Reporting, Special Tests and Provisions - School Food Accounts
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2015, 2016
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Reporting, Special Tests and Provisions - School Food Accounts
Audit Findings: Material Weaknesses, Modified Opinion

Repeat Finding

This is a partial repeat of Finding 2014-016 from the immediate prior audit year.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation had not established an effective internal control system related to the grant agreements and the Reporting and Special Tests and Provisions - School Food Accounts compliance requirements.

Special Tests and Provisions - School Food Accounts (School Breakfast Program and National School Lunch Program)

The School Corporation failed to properly design and implement internal controls to ensure that all activity related to the Child Nutrition Cluster was recorded in the School Corporation's records. Due to the lack of internal controls, the School Corporation failed to properly record all receipts and disbursements of the Child Nutrition Cluster in the School Corporation's accounting records.

Beginning in December 2014, the Indiana Department of Education (IDOE) retained the requested reimbursements due to the School Corporation and held the amounts in trust. The IDOE began paying the Food Service Management Company (Management Company) directly from the amounts in trust, on behalf of the School Corporation, as well as payments to the School Corporation for its related food service expenses.

Between February 2015 and June 2016, the IDOE processed and retained \$7,438,354 of reimbursement requests that were not receipted or recorded in the School Corporation's School Lunch fund. Furthermore, the IDOE processed and remitted \$4,100,224 of payments to the Management Company that were not recorded in the School Corporation's School Lunch fund.

The IDOE reimbursed the School Corporation \$1,838,631 for amounts that the School Corporation paid for the Child Nutrition Cluster program; these were recorded in the School Corporation's records. As of June 30, 2016, \$1,499,499 was held by the IDOE for the School Corporation and was not recorded in the School Corporation's records. This consisted of amounts of requested reimbursements in excess of program costs paid.

Reporting

Since the School Corporation failed to properly record all receipts and disbursements, the activity reported in the School Lunch Annual Financial Report (AFR) was not supported by the School Corporation's records. Additionally, the Management Company completed the AFR based on their financial records rather than the School Corporation's records. The information reported in the AFR, while it was accurate for payments that the Management Company received from the IDOE, it did not include the activity and cash balances in the School Corporation's records and the amounts retained by the IDOE.

Context

This was a systemic problem as none of the eleven reimbursement claims, or ten payments to the Management Company, processed by the IDOE were recorded in the School Corporation's records. In addition, both of the required AFRs were inaccurate.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

7 CFR 210.14(a) states:

"Nonprofit school food service. School food authorities shall maintain a nonprofit school food service. Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, *except that*, such revenues shall not be used to purchase land or buildings, unless otherwise approved by FNS, or to construct buildings. Expenditures of nonprofit school food service revenues shall be in accordance with the financial management system established by the State agency under §210.19(a) of this part. School food authorities may use facilities, equipment, and personnel supported with nonprofit school food revenues to support a nonprofit nutrition program for the elderly, including a program funded under the Older Americans Act of 1965 (42 U.S.C. 3001 *et seq.*)"

7 CFR 220.7(e)(1) states in part:

"(i) Maintain a nonprofit school food service;

(ii) In accordance with the financial management system established under § 220.13(i) of this part, use all revenues received by such food service only for the operation or improvement of that food service *Except that*, facilities, equipment, and personnel support with funds provided to a school food authority under this part may be used to support a nonprofit nutrition program for the elderly, including a program funded under the Older Americans Act of 1965 (42 U.S.C. 3001 *et seq.*); . . ."

7 CFR 3016.20(b) states in part:

". . . The financial management systems of other grantees and subgrantees must meet the following standards:

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

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. . . ."

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the Reporting and Special Tests and Provisions - School Food Accounts compliance requirements.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirements could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Reporting and Special Tests and Provisions - School Food Accounts compliance requirements.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-008

Subject: Title I Grants to Local Educational Agencies, Improving Teacher Quality State Grants, School Improvement Grants - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Level of Effort

Federal Agency: Department of Education

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

CFDA Numbers: 84.010, 84.367, 84.377

Federal Award Numbers and Years (or Other Identifying Numbers): 14-4690, 15-4690, 16-4690; 12-4690, 13-4690, FY 2014, FY 2015

Pass-Through Entity: Indiana Department of Education

Compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Matching, Level of Effort, Earmarking

Audit Findings: Material Weakness, Scope Limitation/Modified Opinion

Repeat Finding

This is a partial repeat of Finding 2014-004 from the immediate prior audit year.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation had not established an effective internal control system related to the grant agreements and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Matching, Level of Effort, Earmarking Level of Effort - Supplement Not Supplant compliance requirements.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

The following vendor disbursements charged to the Title I Grants to Local Educational Agencies (Title I), Improving Teacher Quality State Grants (Teacher Quality), and School Improvement Grants (SIG) grant funds were paid without adequate supporting documentation to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements. These disbursements were considered questioned costs.

Title I:

1. The School Corporation paid \$84,000 to vendors for social media outreach that were not necessary and reasonable costs for the performance and administration of the grant.
2. The School Corporation paid \$57,440 for a computerized student records system subscription for the School Corporation as a whole.
3. The School Corporation paid \$17,396 for advertisements for the School Corporation as a whole.
4. The School Corporation paid \$22,776 for after school and summer school trips without detailed supporting invoices from the transportation services company.
5. The School Corporation paid \$18,428 for field trips, which could have been allowed if prior authorization was granted by the IDOE, without supporting documentation to demonstrate authorization. In addition, \$3,151 of that amount was paid for an activity that was unallowed.
6. The School Corporation paid \$69,896 for a copier lease payment and \$5,129 for toner without documentation to demonstrate that the disbursements supported Title I activities.
7. The School Corporation paid \$955 for art class supplies, \$3,392 for an ID card printer, \$3,684 for 10,000 imprinted pens and pencils, \$945 for logos on materials, and \$20,938 for a bulk purchase of materials without documentation to demonstrate that they were necessary and reasonable costs for the performance and administration of the grant.
8. The School Corporation paid a consultant \$4,725 without a proper contract provided for audit. In addition, a \$600 stipend was paid without supporting documentation to demonstrate that it was for an allowable activity.

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FEDERAL FINDINGS
(Continued)

9. The School Corporation paid \$1,000 for the improvement of instruction for art; \$132 for physical education equipment; \$550 of professional development for social media; \$1,045 for teacher awards; \$750 for bumper stickers; \$163 for balloons; and \$1,150 of airfare to China without documentation to demonstrate that they were allowable activities or that they were necessary and reasonable costs for the performance and administration of the grant.
10. The School Corporation paid \$137,372 in salaries without supporting documentation of personnel activity reports (such as time records, supplemental pay agreements, time and effort logs, or Semi-Annual Certifications). This limited our scope of testing. Additionally, time records which were provided did not support \$16,685 of salaries paid by Title I.

Teacher Quality:

1. Four employees attended a conference in Las Vegas. One employee traveled a day earlier than the others and on a different airline which cost \$585 more. There was no documentation to justify the additional travel costs.
2. Several claims which totaled \$15,023 were paid for a subfinder system to obtain substitute teachers for the School Corporation. This system was for the benefit of the entire School Corporation. There was no documentation that the cost was necessary and reasonable for the performance and administration of the Teacher Quality grant.
3. A \$90,000 transfer to pay a contract was recorded as a disbursement from the Teacher Quality grant. The contract indicated that \$66,896 was to be paid out of the Teacher Quality grant. There was no documentation that the remaining \$23,104 was an allowable activity or an allowable cost of the grant.
4. The School Corporation paid \$556 for toner for the Human Resources Department; \$1,369 for messenger online communications for the School Corporation as a whole; and \$245 for logoed name badges without documentation to demonstrate that they were allowable activities or that they were necessary and reasonable costs for the performance and administration of the grant.
5. The School Corporation paid \$106,404 in salaries without supporting documentation of personnel activity reports (such as time records, supplemental pay agreements, time and effort logs, or Semi-Annual Certifications). This limited the scope of testing. Additionally, time records which were provided did not support \$54,346 of salaries paid by the Teacher Quality grant.

SIG:

1. The School Corporation used a travel company to plan and purchase airline tickets, hotel accommodations, and ground transportation for travel costs paid by the grant. The travel company provided an invoice, but there were no details. No supporting documentation or details as to what companies were used for the lodging and transportation costs or how the costs charged were determined. Additionally, the payments lacked supporting documentation to validate that each employee for whom travel costs were paid had actually traveled. Therefore, it could not be determined if the \$102,885 of travel costs were allowable for the grant.

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FEDERAL FINDINGS
(Continued)

2. Employees were paid per diem for a conference in Las Vegas. However, no documentation for attendance at the conference was attached to the claims for payment. The flight and hotel purchases were paid by a travel company. No flight records or hotel receipts were attached which would have supported the employees' attendance and eligibility for the per diem. Therefore, it could not be determined if the \$4,050 of per diem costs were allowable for the grant.
3. The amounts paid for school bus transportation did not agree with the prices approved in the contract in some instances. No detailed invoice was attached for some field trip expenses which should have included the date, time, and location of the trip. Therefore, it could not be determined if \$28,336 of transportation costs were allowable for the grant.
4. The School Corporation entered into a professional services contract. The documentation provided with the contract did not specify that the SIG grant would pay for any portion of the contract. The grant budget did not note amounts to be paid for this contract. It could not be determined how the amounts paid from this grant were determined; and therefore, it could not be determined if \$48,898 of professional services were allowable for the grant.
5. The School Corporation paid \$2,959 for school uniforms. It could not be determined if this was allowable for the SIG grant. Additionally, a signed contract with the vendor was not provided for audit.
6. The School Corporation paid \$10,667 for professional development. Supporting documentation and an approved contract were not presented; therefore, it could not be determined if it was allowable for the grant.
7. The School Corporation paid \$75,123 in salaries without supporting documentation of personnel activity reports (such as time records, supplemental pay agreements, time and effort logs, or Semi-Annual Certifications). This limited the scope of testing. Additionally, time records which were provided did not support \$25,149 SIG grant.

Matching, Level of Effort, Earmarking - Level of Effort - Supplement Not Supplant

Disbursements charged to Title I grant funds were not made in compliance with the Level of Effort - Supplement Not Supplant requirements. These disbursements included copier lease payments and related copier supplies of \$75,024, and classroom material and office supplies of \$20,938 which totaled \$95,962. Title I grant funds were used in lieu of (supplanted) other appropriate nonfederal funds. These questioned costs were also included in the questioned costs listed above under Title I Activities Allowed or Unallowed and Allowable Costs/Cost Principles.

Context

The lack of personnel activity reports (such as time records, supplemental pay agreements, time and effort logs, or Semi-Annual Certifications) and the payments without adequate supporting documentation were systemic problems.

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FEDERAL FINDINGS
(Continued)

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

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

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

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

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
- b. The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.
- c. Market prices for comparable goods or services.
- d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government . . ."

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FEDERAL FINDINGS
(Continued)

2 CFR 200.403 states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items. . . .
- (g) Be adequately documented. . . ."

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

". . . (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award . . .

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after the fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and . . ."

2 CFR 200.430(i) states in part:

"*Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS) . . .

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FEDERAL FINDINGS
(Continued)

- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

2 CFR 200.207(a) states in part: "The Federal awarding agency or pass-through entity may impose additional specific award conditions as needed . . ."

The Indiana Department of Education Title I Fiscal Handbook 2015-2016, Basic Title I, Part A and D states in part:

"Title I funded staff paid solely from Title I funds complete a Semi-Annual Certification twice a year. Employees who work on multiple activities must maintain a time and effort log at least once a month.

If a school-wide program consolidates funds in a single account, an employee paid with funds from the single account is not required to file a semi-annual certification. If a school-wide program does not consolidate funds, employees working solely on a single Federal program must complete semi-annual certifications.

If a school-wide program does not consolidate funds, employees working on multiple programs must maintain a time and effort log at least once a month. . . ."

The Indiana Department of Education Title I Fiscal Handbook 2015-2016, Basic Title I, Part A and D states in part:

". . . The intent of Title I [including Basic, Part D, 1003(a) and 1003(g)] is to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education.

Title I provides funds to improve achievement of the lowest-achieving students - those who are failing, or most at-risk of failing, to meet State academic content standards - enrolled in high-poverty schools.

All activities supported with Title I funding must support that intent - funds are meant to be used for staff and programs aimed at helping students achieve. Thus, ALL expenditures must be focused on raising achievement."

Elementary & Secondary Education Act (ESEA) Section 1114(a)(2) states in part:

". . . (B) SUPPLEMENTAL FUNDS- A school participating in a schoolwide program shall use funds available to carry out this section only to supplement the amount of funds that would, in the absence of funds under this part, be made available from non-Federal sources for the school, including funds needed to provide services that are required by law for children with disabilities and children with limited English proficiency."

Cause

The School Corporation had not developed or implemented a system of internal controls that would have ensured that adequate supporting documentation, including personnel activity reports (such as time records, supplemental pay agreements, time and effort logs, or Semi-Annual Certifications) for payroll, was maintained to ensure compliance with the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Matching, Level of Effort, Earmarking compliance requirements.

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FEDERAL FINDINGS
(Continued)

Effect

The failure to retain supporting documentation prevented the determination of the School Corporation's compliance with the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Matching, Level of Effort, Earmarking compliance requirements.

Questioned Costs

Questioned costs which totaled \$5,182,428 consisted of known questioned costs of \$559,829 and projected likely questioned costs of \$4,622,599 for the Title I grants.

Questioned costs which totaled \$305,329 consisted of known questioned costs of \$241,929 and projected likely questioned costs of \$63,400 for the Teacher Quality grants.

Questioned costs which totaled \$1,569,342 consisted of known questioned costs of \$298,067 and projected likely questioned costs of \$1,271,275 for the SIG grants.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Activities Allowed or Unallowed; Allowable Costs/Cost Principles, and Matching, Level of Effort, Earmarking compliance requirements.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-009

Subject: Title I Grants to Local Educational Agencies, Improving Teacher Quality
State Grants, School Improvement Grants - Cash Management, Reporting

Federal Agency: Department of Education

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

CFDA Numbers: 84.010, 84.367, 84.377

Federal Award Numbers and Years (or Other Identifying Numbers): 14-4690, 15-4690, 16-4690,
12-4690, 13-4690, FY 2014,
FY 2015

Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Cash Management, Reporting
Audit Findings: Significant Deficiency, Other Matters

Repeat Finding

This is a partial repeat of Finding 2014-006 from the immediate prior audit year.

Condition

The School Corporation had not established an effective internal control system related to the grant agreements and the Cash Management and Reporting compliance requirements.

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FEDERAL FINDINGS
(Continued)

The School Corporation had not established controls to ensure that requests for reimbursement (reports) were supported by adequate documentation. The School Corporation did not maintain supporting detailed documentation to verify the amounts requested on the reports. The documentation used to prepare the reports and that was provided for audit, was maintained at a summary level. Although the reports were reviewed and approved by an official other than the preparer, the documentation did not provide the reviewer with sufficient detail to effectively review and verify the reports submitted by the School Corporation.

Although requested for audit, the School Corporation was unable to provide the detail necessary to support the amounts requested for most of the reports tested. Alternate records and procedures were used to compute and materially verify the amounts submitted for reimbursement. Although the amounts were not considered material to the grant, there was one instance in each of the Improving Teacher Quality State Grants and the School Improvement Grants grants where the School Corporation requested reimbursements in excess of the amounts expended. The School Corporation corrected these by reducing future reports.

Context

The lack of controls and failure to maintain adequate supporting documentation were systemic problems throughout the audit period for all reports tested.

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 80.20 states in part:

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

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. . . ."

Cause

The School Corporation had not developed a system of internal controls that would have ensured compliance with the Cash Management and Reporting compliance requirements.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Cash Management and Reporting compliance requirements.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-010

Subject: Title I Grants to Local Educational Agencies - Eligibility

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): 14-4690, 15-4690, 16-4690

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Eligibility

Audit Finding: Significant Deficiency

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Eligibility compliance requirement.

The grant application was prepared and submitted by the Executive Director of The Office of Innovations and Improvement. Evidence of a review or approval over the eligibility summary prepared in the grant application for the 2015-2016 school year was not retained or presented for audit.

Context

This was an isolated instance for the 2015-2016 school year.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

The School Corporation had not developed a system of internal controls to ensure compliance with the Eligibility compliance requirement.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the Eligibility compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2016-011

Subject: Title I Grants to Local Educational Agencies, Improving
Teacher Quality State Grants - Level of Effort, Reporting
Federal Agency: Department of Education
Federal Programs: Title I Grants to Local Educational Agencies,
Improving Teacher Quality State Grants
CFDA Numbers: 84.010, 84.367
Federal Award Numbers and Years (or Other Identifying Numbers): 14-4690, 15-4690, 16-4690,
12-4690, 13-4690
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Matching, Level of Effort, Earmarking; Reporting
Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a partial repeat of Finding 2014-006 from the immediate prior audit year.

Condition

The School Corporation had not established an effective internal control system related to the grant agreements and the Level of Effort - Maintenance of Effort requirements of the Matching, Level of Effort, Earmarking compliance requirement and the Reporting compliance requirement.

*Level of Effort - Maintenance of Effort; Reporting - Special Reporting
(Title I Grants to Local Educational Agencies only)*

The prior audit finding noted that the Form 9 for the period July 1, 2013 to December 31, 2013, submitted by the School Corporation was inaccurate. The School Corporation did not record the adjustment to their computerized accounting system, and the Form 9 reports, until an effective date of December 31, 2014, which was in the next fiscal year. Since the adjustment occurred in a different fiscal year, the issue was carried forward to the current audit period. The error correction resulted in the Indiana Department of Education (IDOE) receiving Form 9 information for the period ending December 31, 2014, which did not reflect the actual financial activity of the period being reported.

Due to the financial condition of the School Corporation, a \$15,000,000 loan approved by the Distressed Unit Appeal Board was received by the School Corporation. This loan was to be used for payments to critical vendors. The financial activity was recorded in a separate fund in the accounting system and the Form 9 reports. Many of these disbursements historically would have been paid from the General fund of the School Corporation. Although the recording of the activity in a separate fund was necessary to document the loan activity, many disbursements normally captured and used by the IDOE for the MOE calculation and Special Reporting purposes were not included.

Context

The noncompliance was a systemic issue throughout the audit period.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 80.20 states in part:

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

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

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

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

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

34 CFR 299.5(a) states:

"*General.* An LEA receiving funds under an applicable program listed in paragraph (b) of this section may receive its full allocation of funds only if the SEA finds that either the combined fiscal effort per student or the aggregate expenditures of State and local funds with respect to the provision of free public education in the LEA for the preceding fiscal year was not less than 90 percent of the combined fiscal effort per student or the aggregate expenditures for the second preceding fiscal year."

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

The School Corporation had not developed a system of internal controls that would have ensured compliance with the Matching, Level of Effort, Earmarking and Reporting compliance requirements.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could have resulted in the loss of federal funds to the School Corporation

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Matching, Level of Effort, Earmarking and Reporting compliance requirements.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-012

Subject: Title I Grants to Local Educational Agencies, Improving Teacher Quality State Grants, School Improvement Grants - Period of Availability, Reporting

Federal Agency: Department of Education

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

CFDA Numbers: 84.010, 84.377, 84.367

Federal Award Numbers and Years (or Other Identifying Numbers): 14-4690, 15-4690, 12-4690, 13-4690; FY 2015

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Period of Availability, Reporting

Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a partial repeat of Findings 2014-006 and 2014-008 from the immediate prior audit year.

Condition

The School Corporation had not established an effective internal control system related to the grant agreements and the Period of Availability and Reporting compliance requirements.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Period of Availability

The School Corporation failed to comply with the Period of Availability compliance requirement that all obligations for expenditures made from program funds were incurred and expended within the period of availability. The obligation and payment of the claims did not occur within the period of availability for transactions charged and recorded in the computerized accounting system subsequent to the period of availability.

For the Title I Grants to Local Educational Agencies (Title I), the underlying obligation for \$115,612 of disbursements tested did not occur within the period of availability.

For the Improving Teacher Quality State Grants (Teacher Quality), the underlying obligation for \$52,511 of disbursements tested did not occur within the period of availability. Adjustments of \$26,332 tested occurred after the period of availability.

For the School Improvement Grants (SIG), the underlying obligation for \$396,193 of disbursements recorded after the period of availability did not occur within the period of availability.

Reporting (Title I only)

The Title I Annual Expenditure Reports included disbursements which did not occur within the period of availability. The reports also included items disbursed after the due date of the report, causing the activity reported to be inaccurate for the period of the grant.

Context

The School Corporation's failure to comply with the Period of Availability compliance requirement was a systemic problem. For Title I, 100 percent of the payments tested which were recorded after the period of availability were not obligated within the period of availability. For Teacher Quality, 78 percent of payments initially tested were not obligated within the period of availability; testing was expanded to include all transactions charged subsequent to the period of availability. For School Improvement Grants, 99 percent of payments recorded after the period of availability were not obligated within the period of availability.

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

34 CFR 80.23 states:

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

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

2 CFR 200.207(a) states in part: "The Federal awarding agency or pass-through entity may impose additional specific award conditions as needed . . ."

Title I Fiscal Handbook 2014-2015, Basic Title I, Part A and D, ARRA, School Improvement - 1003(a) and 1003(g) states in part:

- "OBLIGATION OF FUNDS

An **obligation** is an actual cost owed due to purchase orders issued, contracts signed, or services rendered for which a district is required to make payment. Obligations are not anticipated or estimated costs. . . . Funds must be expended by September 30 to comply with the 15 percent limitation on carryover funds. . . ."

34 CFR 76.722 states: "A State may require a subgrantee to submit reports in a manner and format that assists the State in complying with the requirements under 34 CFR 76.720 and in carrying out other responsibilities under the program."

Cause

The School Corporation had not developed a system of internal controls that would have ensured compliance with the grant agreement and the Period of Availability and Reporting compliance requirements.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

Questioned costs which totaled \$1,900,813 consisted of known questioned costs of \$115,612 and projected likely questioned costs of \$1,785,201 related to Title I.

Questioned costs which totaled \$126,793 consisted of known questioned costs of \$78,843 and projected likely questioned costs of \$47,950 related to Teacher Quality.

The total known questioned costs identified for the SIG was \$396,193.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

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

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-013

Subject: School Improvement Grants - Procurement
Federal Agency: Department of Education
Federal Program: School Improvement Grants
CFDA Number: 84.377
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation had not established an effective internal control system related to the grant agreements and the Procurement requirements of the Procurement and Suspension and Debarment compliance requirement.

When the School Corporation obtained proposals, quotes or bids for a purchase of goods or services, notes were entered in the requisition area of the computerized accounting software system. Requisitions were required by the School Corporation in order to create a purchase order for a purchase. A list of proposals or quotes, when received, were not noted in the notes to the requisition in four instances tested.

Three travel service claims tested did not contain any notation of proposals or quotes in the computerized notes to the requisition. One claim for school uniform purchases did not have a requisition as it did not have a purchase order. It could not be determined if proposals had been received since it was not noted in computerized accounting software system. The School Corporation did not provide proposals or quotes for these supplies and services purchased.

Context

Isolated instances of noncompliance occurred during the audit period.

Criteria

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

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

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

34 CFR section 80.36 states in part:

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

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

The Administrative Procedure of Board Policy 618 states in part:

"Purchases \$1,000 - \$24,999 - Staff may purchase supplies and services per the following procedure and order

- School warehouse
- Board approved bid awards
- Two quotes Gary based business and one quote from open market
- 10% Local vendor preference will be applied

Notes: If not purchased in the Gary Based Business Directory, then it shall be noted in the 'Notes' section of the requisition.

The Board of School Trustees will ratify purchases made in the above category.

FORMAL QUOTATIONS

LARGE PURCHASES

- Purchases \$25,000 - \$74,999 - The originator of a purchase must notify the purchasing agent. The purchasing agent and the user department must develop written specifications and solicit three (3) quotes. A copy of the written specifications must be mailed or faxed not less than seven (7) days before the time fixed for receiving quotes. The following procedure must be followed:
 - Staff must develop written specification and solicit 3 quotes from suppliers known to deal in the line or class of supplies/services.
 - Two quotes Gary based business one quote from open market
 - 5% Local vendor preference will be applied
 - Purchase orders under this section shall not be released without board approval."

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

The School Corporation had not developed or implemented a system of internal controls that would have ensured compliance with the grant agreement and the Procurement requirements of the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-014

Subject: Title I Grants to Local Educational Agencies, Improving Teacher Quality State Grants, School Improvement Grants - Special Tests and Provisions - Schoolwide Programs

Federal Agency: Department of Education

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

CFDA Numbers: 84.010, 84.367, 84.377

Federal Award Numbers and Years (or Other Identifying Numbers): 14-4690, 15-4690, 16-4690, 12-4690, 13-4690, FY 2014, FY 2015

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Special Tests and Provisions - Schoolwide Programs

Audit Findings: Material Weakness, Scope Limitation/Modified opinion

Condition

The School Corporation had not established an effective internal control system related to the grant agreements and the Special Tests and Provisions - Schoolwide Programs compliance requirement.

All of the Kindergarten through 12th grade schools within the School Corporation qualified to operate a schoolwide program. The School Corporation did not maintain required documentation to verify compliance with the requirements for operating a schoolwide program as follows:

1. The School Corporation was unable to provide a Schoolwide Plan for one of the schools tested.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2. Five of the six schools that were tested were unable to provide documentation to show that an annual evaluation was performed.
3. Two of the schools tested had incomplete School Improvement Plans. Of the five required components for schoolwide plans, these schools addressed only two or three of the components.

Context

The lack of controls and adequate supporting documentation and required plans were systemic problems throughout the audit period.

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 200.26 states in part:

"(a) *Comprehensive needs assessment.*

- (1) A school operating a schoolwide program must conduct a comprehensive needs assessment of the entire school that—
 - (i) Is based on academic achievement information about all students in the school, including all groups under § 200.13(b)(7) and migratory children as defined in section 1309(2) of the ESEA, relative to the State's academic standards under § 200.1 to—
 - (A) Help the school understand the subjects and skills for which teaching and learning need to be improved; and
 - (B) Identify the specific academic needs of students and groups of students who are not yet achieving the State's academic standards; and
 - (ii) Assesses the needs of the school relative to each of the components of the schoolwide program under § 200.28.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (2) The comprehensive needs assessment must be developed with the participation of individuals who will carry out the schoolwide program plan.
- (3) The school must document how it conducted the needs assessment, the results it obtained, and the conclusions it drew from those results.

(b) *Comprehensive plan.* Using data from the comprehensive needs assessment under paragraph (a) of this section, a school that wishes to operate a schoolwide program must develop a comprehensive plan, in accordance with § 200.27, that describes how the school will improve academic achievement throughout the school, but particularly for those students furthest away from demonstrating proficiency, so that all students demonstrate at least proficiency on the State's academic standards.

(c) *Evaluation.* A school operating a schoolwide program must—

- (1) Annually evaluate the implementation of, and results achieved by, the schoolwide program, using data from the State's annual assessments and other indicators of academic achievement; . . ."

34 CFR 200.28 states in part:

"A schoolwide program must include the following components:

- (a) *Schoolwide reform strategies.* The schoolwide program must incorporate reform strategies in the overall instructional program. . . .
- (b) *Instruction by highly qualified teachers.* A schoolwide program must ensure instruction by highly qualified teachers and provide ongoing professional development. . . .
- (c) *Parental involvement.* (1) A schoolwide program must involve parents in the planning, review, and improvement of the schoolwide program plan. . . .
- (d) *Additional support.* A schoolwide program school must include activities to ensure that students who experience difficulty attaining the proficient or advanced levels of academic achievement standards required by § 200.1 will be provided with effective, timely additional support, including measures to—
 - (1) Ensure that those students' difficulties are identified on a timely basis; and
 - (2) Provide sufficient information on which to base effective assistance to those students.
- (e) *Transition.* A schoolwide program in an elementary school must include plans for assisting preschool students in the successful transition from early childhood programs, such as Head Start, Even Start, Early Reading First, or a preschool program under IDEA or a State-run preschool program, to the schoolwide program."

Cause

The School Corporation had not established a system of internal control that would have ensured that the required plans and supporting documentation were complete and maintained for audit to ensure compliance with the Special Tests and Provisions - Schoolwide Programs compliance requirement.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to provide complete plans and adequate supporting documentation prevented the determination of the School Corporation's compliance with the Special Tests and Provisions - Schoolwide Programs compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure that adequate documentation is maintained to ensure compliance with the Special Tests and Provisions - Schoolwide Programs compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-015

Subject: Title I Grants to Local Educational Agencies - Special Tests and Provisions - Annual Report Card, High School Graduation Rate
Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers and Years (or Other Identifying Numbers): 14-4690, 15-4690, 16-4690
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Annual Report Card, High School Graduation Rate
Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat of Finding 2014-009 from the immediate prior audit year.

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

The School Corporation reported 19 students as missing without the documentation required for classifying a student as missing. Four additional students were removed from the cohort without the proper supporting documentation; reasons for removal included being enrolled less than one year, removal by a parent, and removal for transfer.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Context

We tested 88 of the 250 students listed on the 2015 and 2016 Graduation Cohort Status Report as mobile. Of the 88 students tested, 23 students did not have the required supporting documentation to substantiate removing them from the cohort for mobility reasons.

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 200.19(b) states in part:

"*High schools*—

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

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

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

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

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

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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

(2) *Transitional graduation rate.*

(i) Prior to the deadline in paragraph (b)(4)(ii)(A) of this section, a State must calculate graduation rate as defined in paragraph (b)(1) of this section or use, on a transitional basis—

(A) A graduation rate that measures the percentage of students from the beginning of high school who graduate with a regular high school diploma in the standard number or years; or . . .

(ii) For a transitional graduation rate calculated under paragraph (b)(2)(i) of this section—

(A) 'Regular high school diploma' has the same meaning as in paragraph (b)(1)(iv) of this section;

(B) 'Standard number of years' means four years unless a high school begins after ninth grade, in which case the standard number of years is the number of grades in the school; and

(C) A dropout may not be counted as a transfer. . . ."

Cause

The School Corporation had not developed a system of internal controls that would have ensured compliance with the Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2016-016

Subject: Title I Grants to Local Educational Agencies - Special Tests and Provisions - Comparability
Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers and Years (or Other Identifying Numbers): 14-4690, 15-4690, 16-4690
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Comparability
Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a partial repeat of Finding 2014-010 from the immediate prior audit year.

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Special Tests and Provisions - Comparability compliance requirement.

The School Corporation did not have a review or oversight process to ensure that the comparability report was accurately prepared. One person prepared and submitted the Comparability report. There was no segregation of duties, such as an oversight, review, or approval process.

The School Corporation did not have a policy to ensure equivalence among schools in teachers, administrators, and other staff; or a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies. Policies available through the School Corporation's website did not include a policy which would have covered the Comparability compliance requirement.

Context

This was a systemic problem. The School Corporation failed to comply throughout the audit period.

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

20 US Code § 6321(c)(2)(A) states:

"A local educational agency shall be considered to have met the requirements of paragraph (1) if such agency has filed with the State educational agency a written assurance that such agency has established and implemented—

- (i) a local educational agency-wide salary schedule;
- (ii) a policy to ensure equivalence among schools in teachers, administrators, and other staff; and
- (iii) a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies."

20 US Code § 6321(c)(3) states:

"Each local educational agency assisted under this part shall—

- (A) develop procedures for compliance with this subsection; and
- (B) maintain records that are updated biennially documenting such agency's compliance with this subsection."

Cause

The School Corporation had not developed a system of internal controls that would have ensured compliance with the Special Tests and Provisions - Comparability compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2016-017

Subject: Special Education Cluster (IDEA) - Allowable Costs/Cost Principles

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14214-019-PN01, 14215-019-PN01,
14216-017-PN01, 45714-019-PN01,
45715-019-PN01, 45716-017-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a partial repeat of Finding 2014-005 from the immediate prior audit year.

Condition

The School Corporation had not established an effective internal control system related to the grant agreements and the Allowable Costs/Cost Principles compliance requirement.

The following disbursements charged to the Special Education Cluster (IDEA) grant funds did not comply with the Allowable Costs/Cost Principles compliance requirement:

1. The School Corporation paid \$35,929 for Medicaid claim processing fees that were not necessary and reasonable costs for the performance and administration of the grant.
2. The Director of Accountability's salary was paid 70 percent from the Special Education grant fund and 30 percent from Title I grant fund, based upon a predetermined allocation. However, the documentation of personnel expenses was not maintained to support the amounts recorded in each grant fund. Based upon the documentation of personnel expenses, \$13,286 of payroll and related costs for the Director of Accountability was over-allocated to the Special Education_Grants to States 14216-017-PN01.
3. The Administrative Assistant to the Executive Director of Special Education was paid a stipend for additional duties regarding Parent Outreach. The stipend was in addition to any normal and overtime biweekly pay. The supplemental pay sheets provided to support the payment of the stipend did not adequately document the duties that were performed beyond the normal duties. The supplemental pay sheets did not consistently document the hours worked beyond the employee's normal work hours and were consistently approved before the employee had worked all of the hours documented. Furthermore, the supplemental pay stipend and overtime rate, totaling \$26,677 were not approved by the School Board.
4. An employee was paid \$50 per diem for a conference that took place April 12 through April 16, 2016. The hotel documentation indicated that the employee only stayed through April 15, 2016. Supporting documentation was not provided to support the \$50 payment for April 16, 2016.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The Director of Special Education was paid \$50 per diem to attend a conference. The Director was also reimbursed \$9 for hotel restaurant charges. Since the Director was already provided a per diem for the day, the reimbursement of the hotel restaurant charges should not have occurred.

Context

The lack of controls and the noncompliance were systemic problems throughout the audit period.

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

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

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

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

OMB Circular A-87, Attachment B, section 8h(4) states in part:

"Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award, . . ."

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.403 states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items. . . .
- (g) Be adequately documented. . . ."

2 CFR 200.430(i) states in part:

"*Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS) . . ."

Cause

The School Corporation had not established a proper and effective internal control structure that would have ensured compliance with the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

Questioned costs which totaled \$219,314 consisted of known questioned costs of \$75,951 as detailed in the *Condition* and projected likely questioned costs of \$143,363.

Recommendation

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

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-018

Subject: Special Education Cluster (IDEA) - Cash Management, Reporting

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14214-019-PN01, 14215-019-PN01,
14216-017-PN01, 45714-019-PN01,
45715-019-PN01, 45716-017-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Reporting

Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a partial repeat of Findings 2014-005 and 2014-006 from the immediate prior audit year.

Condition

The School Corporation had not established an effective internal control system related to the grant agreements and the Cash Management and Reporting compliance requirements.

The Special Education Administrative Assistant prepared and submitted the reimbursement requests (reports of grant disbursements). The supporting documentation used to prepare the reimbursement requests was not retained. In a comparison of the amounts requested for reimbursement to the disbursements recorded in the School Corporation's ledger, the requested amounts either exceeded or were less than actual disbursements in most instances. There were also two instances when the same expenditures were included on multiple reimbursement requests and were reimbursed twice.

Context

This was a systemic problem throughout the audit period. Of the 40 reimbursement requests tested, 39 of the requests did not agree with the detail ledgers. Of the 39 deviations, 20 requests exceeded actual disbursements and 19 requests were less than actual disbursements.

Criteria

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

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

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

31 CFR 205.12(b)(5) states: "Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out funds for Federal assistance program purposes."

34 CFR 74.22 states in part:

". . . (e)(1) When the reimbursement method is used, the Secretary makes payment within 30 days after receipt of the billing, unless the billing is improper. . . ."

(f) . . . Thereafter, the Secretary reimburses the recipient for its actual cash disbursements. . . ."

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

34 CFR 76.730 states:

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

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

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

Cause

The School Corporation had not developed an effective system of internal controls that would have ensured compliance with the grant agreement and the Cash Management and Reporting compliance requirements.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Cash Management and Reporting requirements.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-019

Subject: Special Education Cluster (IDEA) - Level of Effort

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14214-019-PN01, 14215-019-PN01,
14216-017-PN01, 45714-019-PN01,
45715-019-PN01, 45716-017-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Matching, Level of Effort, Earmarking

Audit Findings: Material Weakness, Scope Limitation/Modified Opinion

Repeat Finding

This is a partial repeat of Finding 2014-013 from the immediate prior audit year.

Condition

The School Corporation had not established an internal control system related to the grant agreements and the Level of Effort - Maintenance of Effort requirements of the Matching, Level of Effort, Earmarking compliance requirement.

One individual prepared the maintenance of effort report without a proper system of oversight or review.

Amounts reported for maintenance of effort were not supported by the School Corporation's records. For the school year ended June 30, 2015, the amounts reported did not agree with the spreadsheet provided as supporting documentation. For the school year ended June 30, 2016, supporting documentation for the amounts reported was not provided. In addition, the School Corporation's calculations included an amount for payroll fringe benefits based upon 25 percent of the gross payroll expenditures instead of the actual costs expended for both school years in the audit period.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Since the amounts reported could not be verified, testing of the level of effort - maintenance of effort requirements for the school years ended June 30, 2015 and 2016, could not be performed.

Context

This was a systemic problem throughout the audit period. Controls were not properly designed to ensure compliance with the Level of Effort - Maintenance of Effort requirements of the Matching, Level of Effort, Earmarking compliance requirement. In addition, the amounts reported for maintenance of effort were not supported by the School Corporation's records.

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 74.53(b) states in part:

"Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Secretary. . . ."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

34 CFR 76.730 states:

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

(a) The amount of funds under the grant or subgrant;

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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

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

Cause

The School Corporation had not established a proper internal control structure that would have ensured that documentation was maintained and available for audit related to the Level of Effort - Maintenance of Effort requirements of the Matching, Level of Effort, Earmarking compliance requirement.

Effect

The failure to retain and provide appropriate supporting documentation prevented the determination of the School Corporation's compliance with the Matching, Level of Effort, Earmarking compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure that documentation is maintained and available for audit related to the Matching, Level of Effort, Earmarking compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-020

Subject: Special Education Cluster (IDEA) - Reporting

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14214-019-PN01, 14215-019-PN01,
14216-017-PN01, 45714-019-PN01,
45715-019-PN01, 45716-017-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Scope Limitation/Modified Opinion

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Repeat Finding

This is a partial repeat of Findings 2014-005 and 2014-006 from the immediate prior audit year.

Condition

The School Corporation had not established an effective internal control system related to the grant agreements and the Reporting compliance requirement.

The December 1 Child Count, Data Collection, and the Final Expenditure reports were prepared by one individual without a proper system of oversight or review.

December 1 Child Count and Data Collection Reports

Supporting documentation was not retained for the December 1 Child Count or Data Collection reports. Because of this, the accuracy of the reports that were submitted during the audit period could not be verified.

Final Expenditure Report

The Final Expenditure Reports submitted were based on financial records which commingled grant and non-grant activity. Because of this, the accuracy of the Final Expenditure Reports submitted during the audit period could not be verified.

Context

This was a systemic problem. A proper system of oversight or review was not established. Adequate supporting documentation was not maintained to support the reports submitted during the audit period.

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

34 CFR 74.53(b) states in part:

"Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Secretary. . . ."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

34 CFR 76.730 states:

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

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

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

Cause

The School Corporation had not established a proper internal control structure that would have ensured that documentation was maintained and available for audit related to the Reporting compliance requirement.

Effect

The failure to retain and provide appropriate supporting documentation, and to properly account for grant activity, prevented the determination of the School Corporation's compliance with the Reporting compliance requirement.

Questioned Costs

There were no questioned costs identified.

GARY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls to ensure that documentation is maintained and available for audit related to the Reporting compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



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CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: Regarding cash and investment balances held in the payroll account, the supervisor of accounting has begun making improvements as suggested by the State Board of Accounts. The payroll bank account was not reconciled in the prior audit period or between July 2014 and April 2015 of the current audit period. In good faith, the supervisor of accounting opened a new payroll account in May 2015. The supervisor of accounting began completing bank reconcilements and maintaining an outstanding checklist.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)



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FINDING 2016-002

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)



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FINDING 2016-003

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure the accuracy of the Schedule of Expenditures of Federal Awards.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)



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FINDING 2016-004

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the activities allowed compliance requirement.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)



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FINDING 2016-005

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding. In addition, as noted in the auditors' findings, the School Corporation entered into an agreement with Sodexo beginning with the 15-16 school year. Sodexo is responsible for all employees of the food service program, including the hiring of new employees. Therefore, partial corrective action has occurred with respect to the provision of payroll documentation and accuracy of costs charged to the Child Nutrition programs.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the allowable costs/cost principles compliance requirement.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)



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FINDING 2016-006

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the cash management compliance requirement.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)



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FINDING 2016-007

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the reporting and special tests and provisions compliance requirements.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)



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FINDING 2016-008

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Time-effort logs and semi annual certification oversight will be established. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the activities allowed, allowable costs, and level of effort compliance requirements.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)



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OFFICE OF THE EMERGENCY MANAGER
Dr. Peggy Hinckley, Emergency Manager
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FINDING 2016-009

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the cash management and reporting compliance requirements.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)



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FINDING 2016-010

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the eligibility compliance requirement.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)



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FINDING 2016-011

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement, specifically reporting and the matching, level of effort, and earmarking compliance requirements.

Anticipated Completion Date: - January 2018

Peggy Hinckley
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Emergency Manager
(Title)

9/25/17
(Date)



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FINDING 2016-012

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the period of availability and reporting compliance requirements.

Anticipated Completion Date: - January 2018

Peggy Hinckley
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Emergency Manager
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9/25/17



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(Date)

FINDING 2016-013

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Anticipated Completion Date: - January 2018

Peggy Hinckley
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(Title)

9/25/17
(Date)



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FINDING 2016-014

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the special tests and provisions compliance requirement.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)



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FINDING 2016-015

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the special tests and provisions compliance requirement.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
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9/25/17
(Date)



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FINDING 2016-016

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the special tests and provisions compliance requirement.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
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9/25/17
(Date)



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FINDING 2016-017

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the allowable costs/cost principles compliance requirement.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)



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FINDING 2016-018

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the cash management and reporting compliance requirements.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)



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FINDING 2016-019

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the level of effort compliance requirement.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)



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FINDING 2016-020

Contact Person Responsible for Corrective Action: Emergency Management Team
Contact Phone Number: 219-881-5401

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Senate Bill 567 passed and signed by Governor Holcomb in April 2017.

Gary Community Schools Revitalization: To set Gary Community Schools on a path towards success and economic recovery, Senate Bill 567 designated Gary Community School Corporation as a distressed political subdivision. The bill calls for an emergency management team, who will help to stabilize the corporation. The emergency management team is charged with creating a plan of action where local officials, school board members, an emergency manager, and the state's Distressed Unit Appeals Board (DUAB) will work together to create a recovery plan and policies for more efficient and effective business and HR practices, which will include developing controls to ensure adherence to federal grant compliance requirements. Personnel will be required to follow implemented internal control procedures related to the grant agreement and the reporting compliance requirement.

Anticipated Completion Date: - January 2018

Peggy Hinckley
(Signature)

Emergency Manager
(Title)

9/25/17
(Date)

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

FINANCIAL CONCERNS

A similar comment also appeared in prior Report B45357, entitled *FINANCIAL CONCERNS*.

Overdrawn Cash Balances

The financial statement presented in the Financial Statement and Federal Single Audit Report included the following funds with overdrawn cash balances at June 30, 2015 and 2016:

Fund	Amount Overdrawn As of June 30,	
	2015	2016
General	\$ 21,899	\$ 2,866,881
Debt Service	1,573,413	2,914,972
School Transportation	7,857,776	7,934,427
Extra-Curricular Activities	5,283	5,283
Imp. Sp. Education	8,860	8,860
Sp. Ed. Improv	4,909,553	5,080,423 *
Sp. Ed. Preschool	129,060	137,228 *
Adult Ed. Vouchers	4,597	4,597
Adult Ed. Remediation	4,710	4,710
Title III - English Proficiency Migrant	571	571
Technology	263,708	267,027
ARRA Title I - Grants to LEAs	2,212	2,212
Garnishments	1,025	1,025
Credit Union	670	460
Retirees Life Insurance	46,485	28,223

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

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*The Sp. Ed. Improv and Sp. Ed. Preschool grant funds previously commingled grant and non-grant activity; only funding for the grant activity was receipted into the funds. In the 2015-2016 fiscal year, new sub funds were created to record only new grant award activity, which had to be spent prior to receiving reimbursement. The overdrawn balances for these two funds in the table above included the sub-funds awaiting reimbursement as of June 30, 2016. The Sp. Ed. Improv and Sp. Ed. Preschool funds overdrawn cash balance as of June 30, 2016, were \$238,033 and \$18,149, respectively.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Each member of the school board in accepting the responsibility of administering the financial affairs of a public school system must recognize not only his responsibilities toward the educational needs of the student population of the unit but also the board's relationship with and responsibilities toward the taxpayers of the local unit and of the State. Among other items, faithful performance of duty requires adequate budgeting, accurate accounting and informative reporting of all financial transactions and the establishment of sound business practices for effective and efficient operation of all schools. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporation, Chapter 2)

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Untimely Payment of Claims

Liabilities were incurred in excess of available cash, which required School Corporation staff to make judgments regarding which vendors to pay from the available cash, after the payment of payroll. A list of accounts payable was provided by the School Corporation as of July 25, 2017. The School Corporation had outstanding accounts payable of \$16,971,524. Some of the significant amounts owed are detailed below:

1. Pensions - Remittances to the Indiana Public Retirement System (INPRS) for Teachers and Public Employees Retirement funds for employer provided pension payments were not remitted timely. The School Corporation failed to remit the pension contributions on a biweekly payroll basis.

Due to the history of late remittances, the INPRS intercepted portions of the School Corporation's basic state and federal grant distributions before they were electronically transferred from the Auditor of State to the School Corporation. Between May 2014 and June 2016, a total of \$7,844,469 had been diverted to the INPRS from the Auditor of State.

2. Gas and Electric services - No payments were made in the period July 2014 to March 11, 2015. The Utility Service provider obtained a judgment against the School Corporation of \$5,200,263. The resulting Payment and Settlement agreement required the School Corporation to make monthly payments on the judgment, as well as paying current utility costs. The outstanding liability on the judgment as of June 30, 2016, was \$3,033,363. The amount owed as of July 25, 2017, was \$1,032,963.
3. Phone service - No payments were made in the period November 2013 to March 24, 2017. Amounts owed for phone services as of July 25, 2017, was \$407,548.
4. Sanitary Services - Payments made in November and December 2014 were for 2013 services. No payments were made in 2015. In January and February 2016, payments were made for 2014 and 2015 services. The School Corporation did not make additional payments for services received until June 27, 2017. Amounts owed for sanitary services as of July 25, 2017, was \$548,615.
5. Unemployment taxes - The School Corporation had not paid the taxes for the period of October 2013 to January 2017. In April 2017, the School Corporation entered into a payment agreement for the liability incurred for the unpaid taxes. The agreement required monthly payments on the liability through October 2019, as well as timely payment of current taxes. The amount owed as of July 25, 2017, was \$525,277. This amount does not include interest which is accruing on the outstanding liability.
6. Federal withholding taxes - The School Corporation did not pay federal taxes for a portion of the 3rd and 4th quarters of 2013, as noted in prior Report B45357. According to an IRS notice dated March 20, 2015, regarding a payment agreement, penalties and interest will continue to accrue until the amount due is paid in full. The payment agreement stated the amount owed as of March 16, 2017, was \$7,128,444 and that the amount did not include all accrued penalties and interest. The agreement required monthly payments of \$10,000 beginning May 2015. As of July 25, 2017, the School Corporation had paid monthly installments totaling \$270,000 on the liability.

GARY COMMUNITY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

7. Other significant amounts owed as of July 25, 2017, were \$3,564,161 for health insurance, \$797,773 for service employees' benefits, and \$430,316 for transportation services.

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 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 unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporation, Chapter 1)

Each member of the school board in accepting the responsibility of administering the financial affairs of a public school system must recognize not only his responsibilities toward the educational needs of the student population of the unit but also the board's relationship with and responsibilities toward the taxpayers of the local unit and of the State. Among other items, faithful performance of duty requires adequate budgeting, accurate accounting and informative reporting of all financial transactions and the establishment of sound business practices for effective and efficient operation of all schools. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporation, Chapter 2)

Appropriations

The following funds recorded expenditures in excess of the 2014, 2015, and 2016 calendar year budget appropriations:

Funds	Disbursements in Excess of Appropriations		
	2014	2015	2016
Debt Service	\$ 106,817	\$ 1,906,297	\$ 115,601
School Transportation	395,538	7,009,269	-

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

Each member of the school board in accepting the responsibility of administering the financial affairs of a public school system must recognize not only his responsibilities toward the educational needs of the student population of the unit but also the board's relationship with and responsibilities toward the taxpayers of the local unit and of the State. Among other items, faithful performance of duty requires adequate budgeting, accurate accounting and informative reporting of all financial transactions and the establishment of sound business practices for effective and efficient operation of all schools. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporation, Chapter 2)

Travel Policy and Credit Card Claims

1. Travel Reimbursement Claims:
 - a. An employee was reimbursed from the travel appropriation for a bus wash, which should have been paid out of vehicle maintenance.
 - b. Due to the ambiguity of the School Corporation's travel policy, all travel outside of the City limits is treated as nonlocal travel. Additionally, the per diem policy did not address how to treat per diem if meals are included in conference fees or other travel related costs.

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

2. Credit Card Claims:

a. Twelve purchases of meals totaling \$568 were purchased for School Board members, the Superintendent of Schools, or the attorney. These purchases lacked itemized receipts and/or an explanation of the business purpose to validate that the purchase was in accordance with school board policy or the travel status of the individuals.

School Board policy 112 (Board Member Expenses/Corporation Credit Card & Travel) states in part: "The Board also recognizes the need for individual board members to meet with their constituents at dining establishments to discuss school-related business. To that end, the Board will approve such meal expenditures."

b. Seven purchases of automobile fuel totaling \$257 occurred with the credit card assigned to the Superintendent of Schools. The Superintendent of Schools' contract stated: "In light of the unique nature of the professional duties of the Superintendent of Schools, the Corporation shall pay the Superintendent \$1,000 per month as compensation for her business use of an automobile. The automobile shall be owned, maintained, and insured for business use by the Superintendent at her expense."

c. Fuel was purchased with the credit card assigned to a School Board member. It was stated in the School Board Policy and Administrative Procedures Manual that, "Credit cards may be used for any purpose covered by the Travel Policy." The travel policy addressed mileage reimbursement at a rate that was approved by the School Board, but it did not address fuel purchases.

d. Six charges for lodging which totaled \$3,176 was paid with the credit card assigned to a School Board member for the lodging of School Board members. However, hotel receipts were not presented and the business purpose of the travel was not documented to validate the reason for overnight stays.

e. Complete credit card statements were only provided for one claim; therefore, we were unable to determine if late fees and/or interest was charged to the School Corporation. The remaining claims only contained partial statements with the transaction activity by card, but were missing the summary page documenting the due date, total charges and payments received.

Every effort should be made by the unit to avoid unreasonable or excessive costs. Unreasonable or excessive costs may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Each unit must adopt a written travel policy in conformity with applicable laws. Reimbursement for lodging and meals must be based upon actual receipts for amounts paid unless otherwise authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

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

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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

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

The SBOA will not take exception to the use of credit cards by a unit provided the following criteria are observed:

1. The governing body must authorize credit card use through an ordinance /resolution, which has been approved in a meeting and documented in the minutes.
2. Issuance and use must be handled by an official or employee designated by the governing body.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.
5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
6. Credit cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment cannot be made on the basis of a statement or a credit card slip only. Procedures for payments must 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 may be the personal obligation of the responsible officer or employee.
8. If authorized, an annual fee may be paid.

For additional suggestions regarding the use of credits, please see this Best Practices document. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

GARY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

OTHER SUPPLEMENTARY INFORMATION

Capital Assets

The School Corporation had not properly maintained a complete inventory of capital assets owned. The capital asset listing maintained in the financial accounting software used by the School Corporation had not been updated since September 12, 2012, the latest date noted in the capital asset listing. No amounts were reported in the required component of the annual report for 2015-2016 required by the State Examiner.

Schedule of Payables and Receivables

The School Corporation failed to accurately report amounts related to accounts payable and accounts receivable. The School Corporation reported amounts due related to open purchase orders. The amounts failed to include amounts owed to vendors who are not paid via purchase order (utility payments, taxes, benefits, etc.). The accounts receivable amount reported included the balance of the 2016 basic grant from the State which materially overstated the receivable amount as of June 30, 2016.

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 Indiana Public School Corporations, Chapter 1)

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

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

CONTRACT DISCLOSURE COMPLIANCE

A similar comment also appeared in prior Report B45357, entitled *CONTRACT DISCLOSURE COMPLIANCE*.

Indiana Statute required the posting of various contracts and agreements on the School Corporation website. The following agreements were not posted on the School Corporation website:

1. The collective bargaining agreement with the Teachers approved by the School Board on October 2, 2014, effective for the period of January 1, 2015 to June 30, 2015.
2. The collective bargaining agreement with the Teachers approved by the School Board on March 22, 2016, effective for the period of July 1, 2016 to June 30, 2017.
3. The two year contract with the Superintendent of Schools approved by the School Board on November 25, 2014, for the period of July 1, 2015 to June 30, 2017.
4. The contracts for Principals and other certificated employees.

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

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

Indiana Code 20-26-5-4.7 states:

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

- (1) superintendent of a school corporation; or
- (2) certificated employee (as defined in IC 20-29-2-4) that is represented by an exclusive representative (as defined in IC 20-29-2-9) under IC 20-29.

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

COMPENSATION AND BENEFITS

A similar comment also appeared in prior Report B45357, entitled *COMPENSATION AND BENEFITS*.

School Board Approval for Salaries and Wages

The School Board did not provide a formal Resolution or School Board minutes documenting the approval of the rate of pay or per diem that the School Board members were to receive for each meeting that they attended.

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

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

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 Indiana Public School Corporations, Chapter 1)

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The board of school trustees may fix and pay compensation of noninstructional employees, classify such persons or services and adopt schedules of salaries or compensation, IC 20-26-5-4(8). Such salary or compensation schedules may be made a part of the board minutes without entering into written contracts. (Accounting and Uniform Compliance Guidelines for Indiana Public School Corporations, Chapter 9)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Individual Contracts

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

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

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

- (1) be in writing;
- (2) be signed by both parties; and
- (3) contain the:
 - (A) beginning date of the school term as determined annually by the school corporation;
 - (B) number of days in the school term as determined annually by the school corporation;
 - (C) total salary to be paid to the teacher during the school year;
 - (D) number of salary payments to be made to the teacher during the school year; and
 - (E) number of hours per day the teacher is expected to work, as discussed pursuant to IC 20-29-6-7. . ."

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

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

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

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

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

- (1) a teacher to serve in the absence of a teacher who has been granted a leave of absence by the school corporation for:
 - (A) engaging in defense service or in service auxiliary to defense service;
 - (B) professional study or advancement;
 - (C) exchange teaching;
 - (D) extended disability to which a licensed physician has attested; or
 - (E) serving in the general assembly; or
- (2) a new teacher for a position:
 - (A) that is funded by a grant outside the school funding formula for which funding is available only for a specified period or purpose; or
 - (B) vacated by a teacher who is under a regular contract and who temporarily accepts a teacher position that is funded by a grant outside the school funding formula for which funding is available only for a specified period or purpose."

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

GARY COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on September 28, 2017, with Mary Comer, Treasurer; Dr. Peggy Hinckley, Emergency Manager; Rosie G. Washington, President of the School Board; Robert Buggs, School Board member; Norman Bailey, School Board member; Carlos Toliver, School Board member; Nellie Moore, School Board member; Sen. Earline Rogers, Fiscal Management Board Member; Chancellor Thomas Keon, Fiscal Management Board Member; Michael Washington, former Treasurer; and Sheleita Miller, MGT team member.