

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCHOOL CITY OF HAMMOND

LAKE COUNTY, INDIANA

July 1, 2017 to June 30, 2019



FILED
01/23/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Theophilus Boone, Jr. Alesia Y. Pritchett	07-01-17 to 03-31-19 04-01-19 to 06-30-20
Superintendent of Schools	Dr. Walter J. Watkins Scott E. Miller	07-01-17 to 04-15-19 04-16-19 to 06-30-20
President of the School Board	Deborah M. White Anna Mamala	07-01-17 to 11-01-19 11-02-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the School City of Hammond (School Corporation), for the period from July 1, 2017 to June 30, 2019. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement Audit Report of the School Corporation, which provides our opinion on the School Corporation's financial statement. This report may be found at www.in.gov/sboa/.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The 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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

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

December 18, 2019

SCHOOL CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment appeared in prior Reports B43745, B46553, and B50004, entitled *OVERDRAWN CASH BALANCES*.

Condition and Context

The financial statement presented for audit included the following funds with overdrawn cash balances at June 30, 2018 and 2019:

Fund	Amount Overdrawn as of June 30,	
	2018	2019
General	\$ 4,328,056	\$ -
Operations	-	770,542
Curricular Materials Rental	5,138,165	4,783,739

Funds with overdrawn cash balances as a result of grant expenditures awaiting reimbursement were not included in the list above.

Criteria

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)

CERTIFICATION AND APPROVAL OF DISBURSMENTS

Condition and Context

Disbursements for the payments of debt, transfers, and repayments of tax anticipation warrants and temporary transfers were not properly supported by an accounts payable voucher (APV) as required by law. Additional audit procedures were performed to substantiate the amounts. Disbursements totaling \$44,420,560 for debt, \$1,798,539 for transfers, \$40,007,949 for the repayments of tax anticipation warrants, and \$3,000,000 for the repayment of temporary transfers were not certified by the fiscal officer or approved by the governing board either on an APV or register of APVs.

Criteria

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

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

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;

SCHOOL CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
 - (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
 - (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . .
- (e) The certification provided for in subsection (c)(4) must be on a form prescribed by the state board of accounts."

CURRICULAR MATERIALS RENTAL CHARGES AND EDUCATIONAL FEES

The same comment appeared in prior Reports B46553 and B50004, entitled *CURRICULAR MATERIALS RENTAL CHARGES AND EDUCATIONAL FEES*.

Condition and Context

Curricular materials rental charges and other educational fees for all grades were not adopted by the School Board on an annual basis. They were adopted for the 2009-2010 school year, but only for grades K-8. These charges and fees were still in effect for the 2017-2018 school year. It could not be readily determined when the curricular material rental charges and educational fees for the High School had been adopted by the School Board.

On August 7, 2018, the School Board approved curricular materials rental rates for Elementary and Middle school grades, as well as High School science and math classes for the 2018-2019 school year. It could not be readily determined when the curricular materials rental charges and educational fees for the other high school classes had been adopted by the School Board.

With the various textbook adoptions that have occurred since the 2009-2010 school year, the fees charged by the School Corporation may not have directly corresponded with the textbooks in use at the schools. We were unable to verify that the calculation of curricular materials rental complied with Indiana Code 20-26-12-2 for all of the High School rental charges and fees.

Educational fees established by the School Board are to be reviewed by an attorney and his or her opinion should be retained on whether or not the educational fees would violate the Indiana Constitution and the right for a student to be provided schooling without having to pay tuition. The written opinion of an attorney was not presented for audit.

Criteria

Indiana Code 20-26-12-2 states in part:

"(a) A governing body may purchase from a publisher any curricular material selected by the proper local officials. The governing body may rent the curricular materials to students enrolled in any public or nonpublic school . . . The annual rental rate may not exceed twenty-five percent (25%) of the retail price of the curricular materials.

(b) Notwithstanding subsection (a), the governing body may not assess a rental fee of more than twenty-five percent (25%) of the retail price of curricular materials that have been:

SCHOOL CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

- (1) extended for usage by students under section 24(e) of this chapter; and
- (2) paid for through rental fees previously collected. . . ."

Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

IC 20-26-4-1 concerning duties of the School Corporation Treasurer, provides in part: "The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safeguarding and accounting for the funds." Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis for receipting into the appropriate school corporation fund.

We have developed an audit opinion that we will not take exception to the school board approving rental rates and education fees for the following items:

- 1. Items meeting the definition of "Curricular Materials" stated in IC 20-18-2-2.7.
- 2. Items meeting the definition of "Consumable Curricular Materials" as set by the Indiana Department of Education.
- 3. Items that the school corporation attorney has provided a written opinion that the educational fee does not violate the Indiana Constitutional provisions.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

COLLECTION OF DELINQUENT FEES

Condition and Context

The School Corporation sends invoices to parents twice every school year to inform them of the amounts that are owed for curricular material rental charges as well as informing them about applying for textbook rental assistance. No further action is taken to collect the unpaid fees. The School Corporation is not in compliance with School Board Policy 6152 - Student Fees and Charges, which states in part:

"The School City will take any action authorized by law to collect unpaid fees from the parent/guardian. Action to collect unpaid fees may include, but is not limited to, assessment of late fees and subject to collections by collection agencies with appropriate fees charged for such collection, as well as filing with Small Claims Court."

Criteria

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

SCHOOL CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 20-33-5-11 states:

"(a) A school corporation may not:

- (1) withhold curricular materials and supplies;
- (2) require any special services from a child; or
- (3) deny the child any benefit or privilege; because the parent fails to pay required fees.

(b) Notwithstanding subsection (a), a school corporation may take any action authorized by law to collect unpaid fees from parents who are determined to be ineligible for assistance, including recovery of reasonable attorney's fees and court costs in addition to a judgment award against those parents.

(c) A school corporation may designate a full-time employee of the school corporation to represent the school corporation in a small claims court action under subsection (b) if the claim does not exceed one thousand five hundred dollars (\$1,500). The employee designated under this subsection is not required to be an attorney."

PREPAID SCHOOL MEAL ACCOUNTS

Condition and Context

Monthly reconciliations of the students' individual meal account balances to the Prepaid Food fund were not performed. The Prepaid Food fund had a cash balance of \$133,750 as of June 30, 2019. The students' individual meal account balances on June 30, 2019, were \$13,064, which produced a variance of \$120,686 in unreconciled funds.

Criteria

When a student puts money into their individual meal account, it should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while money is in the student's individual account, the balance should not be included in Fund 800 School Lunch. A school should set up a clearing account with the fund number of 8400 Prepaid School Lunch Accounts which is included in Chapter 4 of the State Board of Accounts Uniform Compliance Guidelines for Indiana Public School Corporations. When a student brings in a deposit the receipt should be recorded to Fund 8400 using receipt account 1630 Special Functions. After the student has charged meals, you should disburse the amount charged from Fund 8400 using expenditure account 31900 Other Food Services and receipt this into Fund 800 using the Food Services receipt accounts 1611-1623 at the time established in a written school policy to ensure accurate monthly reporting. At this point the receipts are considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis it is required that the balance of Fund 8400 be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, February 2019)

SCHOOL CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

POSTING ERRORS

Condition and Context

The School Corporation received license excise tax distributions in December 2018, which were supposed to be posted to the funds based on the County's distribution report. However, a majority of the license excise tax money received was posted to the General fund instead of the respective funds for which the tax was intended for. Therefore, the fiscal year 2018-2019 General fund receipts were overstated by \$381,088 and the Operating Referendum Tax Levy, Capital Projects, School Transportation, and School Bus Replacement funds were understated by \$168,538, \$101,161, \$108,554, and \$2,835, respectively.

The error was not timely determined prior to the School Corporation's conversion to the new school chart of accounts on January 1, 2019, when the Capital Projects, School Transportation, and School Bus Replacement funds were transferred to the Operations fund and the General fund was transferred to the Education fund.

In addition, \$667,013 of principal and interest payments for the 2017 general obligation bond were posted to the Construction fund instead of a debt service fund. In September 2019, the School Corporation corrected \$412,338 of the 2019 posting error; however, the remaining \$254,675 for the 2018 posting errors was not corrected.

Criteria

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

School City of Hammond

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Scott E. Miller, Superintendent

January 21, 2020

State Board of Accounts
302 West Washington Street
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Indianapolis, IN 46204-2765

OFFICIAL RESPONSE

The district is under new administration and procedures are being modified to ensure nonrepeat findings. In fiscal year 2018, the General Fund ended with a negative balance due to repayment of an interfund loan, however the calendar year ended in the black. The Operations Fund was a new fund in January 2019. It relies upon transfers from the Education Fund to fund expenditures. The procedure to complete the monthly transfers was adopted at the September 17, 2019 school board meeting. The appropriate transfer from the Education Fund to the Operations Fund if completed prior to June 30, 2019 would have left both funds in the positive. The Education Fund and Operations Fund ended in the black for 2019 calendar year.

The payback of debts that require wire transfers such as tax anticipation warrants and bond amortization schedules have been prior approved by the board. However, to comply with this newly required change noted in the audit, we will submit wire transfers for retroactive board approval.

The Textbook Rental Fund deficit arose primarily from disbursements exceeding receipts and years of low collection from parents. The Business Department will create a new local Textbook Rentals Fund commencing July 1, 2020 for the upcoming fiscal year (FY). The local fund number will be 0901, which will be cross walked to the State Board Accounts (SBOA) Fund Number 900, Curricular Materials Rental. The 2020 State Curricular Materials Rental Reimbursement, 2020 Debt Service Fund Unreimbursed Textbook collection, and FY 2020-2021 textbook rental receipts will be deposited in the new Fund 0901. All textbook purchases commencing for FY 2020-21 will be expensed to Fund 0901. This procedure will allow the district to track the expenses against the revenues received going forward. We will only spend up to the allowable receipts for each year.

The district will commit to paying \$1 million dollars a year from the Operating Referendum Tax Levy Fund or Education Fund per calendar year (CY) commencing CY2020 through CY2024. The selection of the fund will be at the discretion of the Board of School Trustees. This action will help to eliminate the current deficit.

Board of School Trustees

Carlotta Blake-King
Manny Candelaria Jr.
Anna Mamala
Lisa Miller
John Czulno

School City of Hammond

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Scott E. Miller, Superintendent

In addition, the Superintendent will recommend to the Board of School Trustees that we re-establish relationships with collection agencies for the collection of delinquent textbook rental fees. The revenues collected will be deposited in the existing Fund 900 to help pay off the deficit.

The Food Service Department has a new process and understanding of the processing of the 8400 Funds. The Prepaid Lunch Fund (0841) has been reset as of January 1, 2020. The Prepaid Summary Report as of January 1, 2020 is \$14,345.58. An adjustment claim will be processed to the financial ledger to reconcile this fund.

Alesia Y. Pritchett, CPA
Executive Director of Business Services

Board of School Trustees

Carlotta Blake-King
Manny Candelaria Jr.
Anna Mamala
Lisa Miller
John Czulno

SCHOOL CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on December 18, 2019, with Alesia Y. Pritchett, Treasurer; Scott E. Miller, Superintendent of Schools; Anna Mamala, President of the School Board; Carlotta Blake-King, Vice President of the School Board; John Czulno, School Board member; Dawn Greene, Assistant Superintendent of Operations; Theresa Mayerik, Assistant Superintendent of Academic Services; Monica Conrad, School Board Attorney; and Courtney A. Litchfield, Associate Attorney.