

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCHOOL CITY OF EAST CHICAGO

LAKE COUNTY, INDIANA

July 1, 2017 to June 30, 2019



FILED
03/12/2020

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|--|--|
| Treasurer | Lela Simmons | 07-01-17 to 06-30-20 |
| Superintendent of Schools | Dr. Paige McNulty Tamara Pol Dee-Etta Wright | 07-01-17 to 08-14-19 08-15-19 to 09-17-19 09-18-19 to 06-30-20 |
| President of the School Board | Stacy Winfield Vanessa Hernandez-Orange | 07-01-17 to 12-31-17 01-01-18 to 12-31-20 |



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TO: THE OFFICIALS OF THE SCHOOL CITY OF EAST CHICAGO, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the School City of East Chicago (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 opinions 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

February 27, 2020

SCHOOL CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - FINANCIAL TRANSACTIONS

Condition and Context

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

The School Corporation had not separated incompatible activities related to cash and investments, receipts, and payroll disbursements. A segregation of duties for each of these areas had not been designed or implemented to prevent, or detect and correct, errors.

Cash and Investments (Bank Reconciliations)

The School Corporation had not properly designed or implemented internal controls over cash and investments, including bank reconciliations, to ensure the accuracy and completeness of the ledgers.

The reconciliation of the bank and ledger activity was prepared by the Treasurer without a documented oversight or review process to ensure that bank reconciliations were prepared and that reconciling items were corrected in a timely manner.

The January through November 2018 monthly bank reconciliations were not prepared until March 2019. The December 2018 through July 2019 reconciliations were not prepared until January 2020 when requested for audit.

Since June 30, 2018, the monthly bank reconciliations of the School Corporation accounts did not agree to the record balance, resulting in monthly variances. At June 30, 2018, the adjusted bank balance was \$92,969 greater than the record balance. At June 30, 2019, the adjusted bank balance was \$47,341 less than the record balance. The financial statement was not adjusted due to these variances.

The School Corporation maintained a bank account that was used to process medical claims when the School Corporation was self-insured. The monthly reconciliations for the Medical Insurance Account accumulated numerous transactions and corrections, some dating back to 2010, which were not timely posted to the financial records. The numerous transactions and corrections resulted in the following items not posted timely: a \$280 negative adjustment for bank errors, \$2,617 understatement of receipts, \$411,099 overstatement of disbursements due to corrections to payments, and a \$391,549 understatement of disbursements for medical claims not recorded in the records.

The net effect of the numerous transactions and corrections resulted in a negative adjustment of \$22,447 as of June 30, 2019. The financial statement was not adjusted for these posting errors.

Receipts

The School Corporation had not properly designed or implemented internal controls over receipts to ensure the accuracy and completeness of the ledgers.

Due to the change in personnel, for several months of the audit period, the Treasurer performed all aspects of the receipting process. The Treasurer issued the receipts, recorded the receipts to the financial system, prepared the bank deposits, took collections to the bank, and performed the bank reconciliations. The School Corporation had not designed or implemented adequate segregation of duties, such as an oversight, review, or approval process.

SCHOOL CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

In late 2018, the Business Supervisor received collections, prepared the bank deposits, took the deposit to the bank, and recorded the receipts to the financial system. The School Corporation had not designed or implemented adequate segregation of duties, such as an oversight, review, or approval process, to ensure the collections agreed to the amount that was deposited and posted. Furthermore, the collections were deposited prior to the issuance of receipts.

Receipts and Disbursements - Transfers Between Funds

The School Corporation had not properly implemented internal controls over recording transactions for transfers between funds to ensure the accuracy of the ledgers.

The Treasurer recorded the transfers between funds to the financial system without a documented system of an oversight or review.

Payroll Disbursements

The School Corporation had not properly designed or implemented internal controls over recording transactions for payroll disbursements to ensure the accuracy and classification of the payroll disbursements.

A process was not in place to ensure that employees were paid the correct rate of pay. A School Board approved salary schedule for non-certified personnel was not provided for audit. The Payroll Supervisor computed the non-certified personnel rates of pay based on an old salary schedule and School Board approved increases over the years without a documented review or oversight process. Additional audit time was spent performing other procedures to ascertain if payroll disbursements were fairly stated in the financial statement.

Furthermore, a process was not established to ensure that all certified teacher contracts were electronically signed by teachers ensuring, the accuracy of the contract rate.

In addition, an adequate review or oversight process had not been designed or implemented to ensure the proper classification of the payroll disbursements to the correct non-grant fund and account.

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. . . .

SCHOOL CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- 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."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (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)

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)

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 |
| Exempt Pension Debt | \$ - | \$ 28,245 |
| Curricular Materials Rental | 226,798 | 333,782 |
| Adv Family | - | 623 |
| State - Adult 18-19 | - | 3,483 |
| High Ability 17-18 | - | 1,016 |
| Title I - NCLB 17-18 | - | 510 |
| Adult Educ 17-18 | - | 1,757 |
| Adult Educ 18-19 | - | 4,774 |
| Carl Perkins SY 19-20 Grant | - | 785 |

SCHOOL CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

The Exempt Debt and Exempt Pension Debt received temporary loans from the General fund which were not repaid by December 31, 2018, or June 30, 2019. Without the temporary loans, the Exempt Debt and Exempt Pension Debt funds would have had overdrawn cash balances of \$76,147 and \$61,000, respectively.

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

The cause for overdrawn cash balance in the Curricular Materials Rental fund is due to increased disbursements during both of the fiscal years for book adoptions. The School Corporation expects the fund to have a positive cash and investment balance by June 30, 2020.

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 DISBURSEMENTS

Condition and Context

Disbursements totaling \$15,669,092 for the payments of payroll deductions posted to the Withholdings fund were not included in the register of Accounts Payable Vouchers (APV) in order to be approved by the School Board as required by law. The School Corporation created an APV for those disbursements; however, the Withholdings fund disbursements were excluded from the register of APVs provided to the School Board for approval.

Disbursements for the payments of transfers and temporary transfers between funds were not properly supported by an APV as required by law. Disbursements totaling \$2,925,193 were not certified by the fiscal officer either on an APV or register of APVs. Disbursements totaling \$3,506,467 were approved by the School Board via a Resolution; however, were not included in the register of APVs in order to be approved by the School board.

Additionally, four debt payments totaling \$1,330,217 made in December 2017 and January 2018 were not submitted to the School Board for approval.

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;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;

SCHOOL CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- (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. . . ."

COMPENSATION AND BENEFITS

Condition and Context

A current School Board approved salary schedule for non-certified personnel was not provided for audit. The Payroll Supervisor computed the non-certified personnel rates of pay based on an old salary schedule and School Board approved increases over the years. Additional audit time was spent performing other procedures to ascertain if the salaries and wages paid to non-certified personnel were in compliance with School Board approved rates.

Additionally, for both fiscal years 2017-2018 and 2018-2019, School Board approved teacher contracts were provided electronically and teachers were expected to electronically sign the contracts. However, the School Corporation failed to ensure that all teachers electronically signed the contracts. A list of all teacher contracts and the teacher approved date indicated that for 2017-2018 and 2018-2019, 34 percent and 86 percent of teacher contracts, respectively, were not signed by the teachers.

Furthermore, approval of the time records from an appropriate official or department head was not provided for 13 of the employees tested.

Criteria

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)

The board of school trustees may fix and pay the 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 Manual for Indiana Public School Corporations, Chapter 9)

SUPPORTING DOCUMENTATION

The same comment appeared in prior Reports B48451 and B50777.

Condition and Context

The School Board adopted Policy #6423 governing the use of credit cards, which stated in part:

"Procedures for payment of expenses charged to credit cards must be according to Board policy for the payment of claims, Policy #6470." Policy #6470, states in part: "Each bill or obligation of this Board must be itemized fully and verified before a warrant can be drawn for its payment."

SCHOOL CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

We reviewed \$20,164 of credit card charges and payments for 2017-2018 and 2018-2019. Purchases of \$9,331 made with the School Corporation's credit cards were not supported by itemized receipts and the payments were based solely upon credit card statements. This included two credit card claims for \$2,408 total that were not presented for audit and one credit card claim without a bank statement or any documentation attached for \$787. Some of the undocumented charges include restaurant meals, gas stations, flower shop, hotels, local stores, and cab service.

Two of the credit card claims tested had late fees and interest charges of \$69.

Due to the lack of detailed itemized receipts, we could not determine if the expenses were related to the functions and purposes of the School Corporation. Also, without detailed receipts we could not determine if the travel policy was followed for those credit card charges related to travel. These undocumented expenses may become the personal obligation of the responsible officials or employee.

Criteria

Public funds may not be used to pay for personal items or expenses which do not relate to the functions and purposes of the unit. Any personal expenses 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 Corporations, Chapter 1)

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

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.

SCHOOL CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

8. If authorized, an annual fee may be paid.

(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)

TEMPORARY TRANSFER OF FUNDS

Condition and Context

In January 2018, the School Board approved Temporary Loan Transfer Resolutions 2018-1 and 2018-2, which authorized the temporary transfer of funds from the General fund to the Exempt Debt fund of \$488,428 and to the Exempt Pension Debt fund of \$32,755. The temporary transfers were to be repaid by December 31, 2018.

The School Corporation failed to repay the temporary transfers to the General fund by December 31, 2018. There was not an extension approved by the School Board in accordance with Indiana Code 36-1-8-4. As of February 5, 2020, the temporary transfers are still outstanding.

Criteria

Indiana Code 36-1-8-4 states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.

SCHOOL CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

(B) A brief description of the grounds for the emergency.

(C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.

- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

TRAINING ON AND CERTIFICATION OF INTERNAL CONTROL STANDARDS

Condition and Context

The School Corporation failed to provide documentation that it had provided training to newly hired personnel over the internal control standards adopted.

The internal control certifications from the 2016 training of required personnel were provided; however, no certifications were maintained after November 2016.

The School Corporation incorrectly certified on the Indiana Gateway for Government Units financial reporting system on August 28, 2018, and August 29, 2019, that the School Corporation had provided employees with internal control training.

Criteria

Indiana 5-11-1-27(g) states in part:

". . . the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

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](#)."

COLLECTION OF DELINQUENT FEES

Condition and Context

The School Corporation did not fulfill their responsibility to collect amounts owed to the School Corporation for curricular material rental charges. No further action was taken to collect the unpaid fees. The School Corporation was not in compliance with School Board Policy 6152 - Student Fees and Charges which states in part:

SCHOOL CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

"In the event the above course of action does not result in the fee being collected, the Board authorizes the School Board Attorney to take the student and/or his/her parents to Small Claims Court for collection if the does not exceed \$1,500. If the claim exceeds \$1,500, the Board authorize the Corporation attorney or another attorney to pursue a collection action in the appropriate court against the student and/or his/her parents."

Furthermore, for 2019-2020, the School Corporation transitioned to a new student information system software program. The \$211,897 student account balances owed as of June 30, 2019, from the old system were not transferred to the new student information system per school officials; therefore, the new student system started with incorrect student account balances. However, a report from the new student information system could not be provided for verification of the beginning balances. No action was taken by the School Board to attempt to collect or write off the amounts owed.

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)

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."

School City of East Chicago

Lela Simmons, Chief Financial Officer

March 7, 2020

Dear State Board of Accounts

This letter serves as School City of East Chicago response to the audit results. This response is in reference to School City Policy 6423 and 6470 on Credit Card usage for the district.

The most recent audit shows that School City of East Chicago had a large number of district credit card charges without documenting receipts. As in the past, all cardholders are aware of the board policy for supporting documentation for use of credit cards. The policy has been addressed on several occasions with all card holders. The Chief Financial Officer, Lela Simmons, expressed to the former superintendent that a more detailed travel policy should be adopted for more internal controls.

In 2018, credit cards were moved to the Business Office for more control. Board members and the superintendent were required to sign out credit cards before travel. After travel, all charge receipts were required to be turned into the business office or to the designated official. The policy, however, has not followed by a few. The current audit findings will be reviewed with the current superintendent and the board of trustees. At that time, I am recommending that a detailed policy be adopted by May 31, 2020. The policy will detail internal controls for district credit card usage. The recommendation will include but is not limited to:

- ❖ List of proper charges on the district credit card
- ❖ Signing in and out the district credit card by all members except the board president and the superintendent
- ❖ Limit of days the credit card be out of the business office before and after travel
- ❖ All receipts and supporting documents shall be submitted within five business days upon return of travel
- ❖ Failure to submit receipts and supporting documentation will result of repayment by the board member or superintendent
- ❖ Repeated failure to comply with the district policy will result in revoking any credit card usage

In addition to the list above, all district credit cards usage will be monitored by the district Chief Financial Officer.

Respectfully
Lela Simmons
Chief Financial Office

Board of School Trustees

Vanessa Hernandez-Orange
President

Diane Smith
Vice President

Anton Williams
Secretary

Joel Rodriguez
Trustee

Jawann Jones
Trustee

SCHOOL CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on February 27, 2020, with Lela Simmons, Treasurer; Dee-Etta Wright, Superintendent of Schools; Diane Smith, Vice President of the School Board; and Joel Rodriguez, School Board member.