

**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, 2018 to June 30, 2020



**FILED**  
07/23/2021



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Mary Comer	07-01-18 to 06-30-21
Emergency Manager	Dr. Peggy Hinckley	07-01-18 to 12-06-18
	Dr. Peter Morikis	12-07-18 to 02-17-20
	Dr. Paige McNulty	02-18-20 to 06-30-21
Chief Financial Officer	Leonard Moody	07-01-18 to 01-24-19
	(Vacant)	01-25-19 to 03-18-19
	Lisa Rosinko	03-19-19 to 05-01-20
	(Vacant)	05-02-20 to 07-26-20
	Nicole Wolverton	07-27-20 to 06-30-21



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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, 2018 to June 30, 2020. 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/](http://www.in.gov/sboa/).

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The 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.

Tammy R. White, CPA  
Deputy State Examiner

June 9, 2021

GARY COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

**FINANCIAL TRANSACTIONS AND REPORTING**

*Condition*

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

*Payroll Withholding - Receipts and Disbursements*

The School Corporation began using a new payroll system on January 1, 2019. The new payroll system was not compatible with the School Corporation's financial accounting system. The School Corporation did not record payroll transactions timely or completely in the financial accounting system. This resulted in the understatement of certain payroll withholding funds' receipts and disbursements by \$3,975,414. The School Corporation converted to a new financial accounting system, which included the processing of payroll transactions within the system, as of January 1, 2020.

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

*Gross Payroll - Disbursements*

A process was not in place to ensure that supporting time and attendance records were retained to document employee time worked during the period of July 1, 2018 to December 31, 2018. The School Corporation converted to a new electronic time and attendance system as of January 1, 2019.

A documented oversight or review process was not established to ensure the accuracy of the biweekly payroll claim. Also, review or approval of gross payroll was not documented by the Chief Financial Officer and Emergency Manager during the period of July 1, 2018 to June 30, 2020.

The School Corporation began using a new payroll system on January 1, 2019. The new payroll system was not compatible with the School Corporation's financial accounting system. This resulted in the payroll not being recorded in the financial software until months later. Payroll claims were not recorded in a timely manner in the financial software from January 2019 through July 2019.

*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.

GARY COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

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. . . ."

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 Indiana Code 5-15-1-1.

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)

Indiana Code 6-1.1-20.3-8.5(b) states in part:

"Notwithstanding any other law, an emergency manager of a distressed political subdivision appointed under this chapter shall assume and exercise all of the power, authority, and responsibilities of both the executive and the fiscal body of the political subdivision during the time the political subdivision is a distressed political subdivision. An emergency manager's power, authority, and responsibilities include the following: . . .

- (5) Approving payrolls and other claims against the political subdivision before payment. . . ."

**OVERDRAWN CASH BALANCES**

A similar comment also appeared in prior Reports B45357 and B49001, entitled *FINANCIAL CONCERNS*, and in prior Report B52730, entitled *OVERDRAWN CASH BALANCES*.

*Condition and Context*

The financial statement presented for audit included the following funds with overdrawn cash balances as of June 30, 2019 and 2020:

GARY COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

Fund	Amount Overdrawn As of June 30,	
	2019	2020
Education	\$ 1,806,557	\$ -
Operations	3,072,235	8,201,946
Alternative Education	4,525	4,525
Teacher Appreciation Grant	159,198	159,198
High Ability	-	68
Title I	37,604	54,341
Special Ed Preschool 18-20	-	65,091
Adult Basic Education	65,693	65,693
5521 Ad Ed Vouchers	4,597	4,597
5540 Ad Ed Remediation	4,710	4,710
Banneker Sig 19-20	-	32,226
5601 Beveridge Sig 19-20	-	29,229
5602 McCullough Sig 19-20	-	31,227
5603 Bailly Sig 19-20	-	20,238
5604 Glen Park Sig 19-20	-	34,224
5605 Williams Sig 19-20	-	30,228
Student Support Title IV	-	143,551
CTE Summergrant	-	1,259
School Technology	65,354	65,354
Title III, English Language Acqui	761	761
State Tax	41	41
Credit Union	460	460

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

*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)

**AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS**

*Condition and Context*

*Brick and Mortar Students*

We were unable to determine that 43 of the 61 students tested were eligible pupils due to a lack of supporting documentation. There were 9 students that could not be determined to be properly enrolled or attending as proper enrollment and attendance records were not provided for audit. There were 43 students that could not be determined to be an Indiana resident as no proof of residency was provided for audit.

GARY COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Virtual Students*

There was no evidence of an internal control process in place over the count of virtual students during the audit period. The Principal did not provide written certification that the detailed student records maintained to support the Average Daily Membership claimed was accurate. In addition, we were unable to determine that 11 of the 11 virtual students tested were eligible pupils due to a lack of supporting documentation. A proof of residency was not provided for audit for any of the students tested. The virtual school ended after the 2019-2020 school year.

*Criteria*

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

Officials shall maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM.

The building level official (Principal, Assistant Principal, etc.) is responsible for reporting ADM to the School Corporation Central Office, must provide a written certification of ADM to properly document responsibility. The certification must at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

**TRAINING AND CERTIFICATION ON INTERNAL CONTROL STANDARDS**

A similar comment also appeared in prior Report B52730, entitled *TRAINING ON INTERNAL CONTROL STANDARDS*.

*Condition and Context*

The School Corporation incorrectly certified on the Indiana Gateway for Government Units financial reporting system that all personnel defined by Indiana Code 5-11-1-27(c) received training concerning the internal control standards adopted by the unit. The School Corporation was unable to provide documentation that the necessary personnel had completed the minimum internal control standards training as required by Indiana Code 5-11-1-27(g).

GARY COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Criteria*

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

"The state examiner shall require from every audited entity 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](#)."

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

"After June 30, 2016, 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."

**CONTRACT DISCLOSURE COMPLIANCE**

A similar comment also appeared in prior Reports B45357, B49001, and B52730, entitled *CONTRACT DISCLOSURE COMPLIANCE*.

*Condition and Context*

Indiana statute required the posting of various contracts and agreements on the School Corporation website. The employment contracts for administrators, principals, and other certificated employees were not posted on the School Corporation website.

*Criteria*

Indiana Code 20-29-6-19(d) 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 20-26-5-4.7 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."



# Gary Community School Corporation

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## OFFICIAL RESPONSE

Date: July 21, 2021

Indiana State Board of Accounts  
302 West Washington St. Room E418  
Indianapolis, IN 46204-2765

Re: 2018-2020 Audit Results

Gary Community School Corporation is dedicated to making the necessary corrective actions in order to address the audit findings from July 2018- June 2020. We have responded to the findings with new corrective action plans to be implemented by District staff by the end of 2021. The School Corporation has faced many challenges throughout the years and we feel that substantial progress has been made in the District's financial stability and educational standards for the children of Gary, Indiana. As a District, we will continue to enhance our policy and procedures, training, and documentation processes to ensure accuracy and compliance with State Board of Accounts' guidelines.

Nicole Wolverton  
Chief Financial Officer

GARY COMMUNITY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on June 9, 2021, with Mary Comer, Treasurer; Dr. Paige McNulty, Emergency Manager; Nicole Wolverton, Chief Financial Officer; and Eric Parish, MGT Consulting team member.