



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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June 5, 2014

Dr. Lewis D. Ferebee, Superintendent
Andrea J. Roof, School Board President
Indianapolis Public Schools
120 E. Walnut Street
Indianapolis, IN 46204

Dear Dr. Ferebee and Ms. Roof,

As authorized under Indiana Code 5-11-1, we performed certain agreed upon procedures as outlined in our letter of agreement with Indianapolis Public Schools on May 5, 2014, pertaining to calendar year 2013.

The seven procedures are described below with our findings and any accompanying recommendations, as applicable:

1. Procedure:

We will prepare a Budgetary Comparison Schedule (Schedule) for calendar year 2013. Receipts will be presented by source and Disbursements by object. Other Financing Sources and Uses will be reflected separately within the Schedule. The Schedule will reflect the net increase (decrease) and include the beginning and ending cash balances.

Finding:

See Exhibit A, Budgetary Comparison Schedule by Source and Object – General Fund and Budgetary Comparison of Expenditures by Program.

As reflected on the Budgetary Comparison of Expenditures by Program, two programs' disbursements exceeded the approved budget, but the General Fund budget in total did not exceed the approved budget.

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."

Recommendation:

We recommend that budgetary transfers between accounts be made in order to comply with statutory requirements.

2. *Procedure:*

We will verify the 2013 General Fund budget recorded on the IPS ledgers was in agreement with the budget amount approved by the Indiana Department of Local Government Finance.

Finding:

The approved 2013 General Fund budget was recorded properly in the financial accounting system.

3. *Procedure:*

Receipts and Disbursements submitted by IPS to Indiana Department of Education (IDOE) were used in our presentation of the Budget Comparison Schedule. These amounts were not audited; however, the amounts reported to IDOE were compared on a test basis to the accounting system records.

Finding:

Of the items tested, receipts and disbursements as submitted by IPS to IDOE were materially accurate as tested to the accounting system.

4. *Procedure:*

We will review the accounting records for the General Fund for any significant transfers to or from other funds. These transfers will be examined to determine School Board authorization was obtained, as applicable.

Finding:

No significant transfers of funds to or from the General Fund were noted, except as those shown on the Exhibit A, Budgetary Comparison Schedule – By Source and Object. The transfers into the General Fund were authorized by School Board in the budget resolution and by state statute as an approved use of the Capital Projects Fund and included in the Capital Project Plan adopted each January.

5. *Procedure:*

We will review the policies and procedures in place, if any, to monitor the budget versus actual during the period January 1, 2013 to December 31, 2013.

Finding and Recommendation:

See Exhibit B

6. *Procedure:*

We will verify the recorded cash balance of the General Fund at December 31, 2013, is accurately reflected in the six month report (Form 9 Report) sent to IDOE, and the December 2013 Status of Treasury Report provided to the Superintendent and School Board. Additionally, we will compare the total of all cash, of all funds, listed on the Status of Treasury Report reconciles to the bank reconciliation at December 31, 2013.

Finding:

The December Status of Treasury Report presented at the January 14, 2014 School Board meeting accurately represented the December 31, 2013 General Fund balance. The General Fund balance was accurately presented on the Indiana Department of Education required reporting of financial information (Form 9 report) for the six months ended December 31, 2013.

The Status of Treasury Report presented the Grand Total, All Funds, for the Board's review in the amount of \$212,549,153. The total of all funds was supported by the bank and investment reconciliation for December 31, 2013. We did not verify this reconciliation, but supporting documents were examined. As cited in the Prior Audit report B41998, issues continued with the Paycard bank account reconciliation, as a component of the combined reconciliation of all funds. Differences were not significant to the total of all funds and remained consistent since June 30, 2012.

7. *Procedure:*

We will examine the General Fund cash balances on hand on a semi-monthly basis, or as appropriate, to identify fluctuations within the balance.

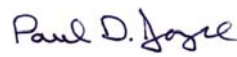
Finding:

See Exhibit C, General Fund Cash Balance Fluctuations

Our engagement was limited in scope and confined to our agreed-upon procedures. We do not express an opinion or any other form of assurance on them. Additionally, internal controls were examined for the limited purpose confined to our agreed-upon procedures. Deficiencies in internal control that might be material weaknesses or significant deficiencies may exist that were not identified.

We wish to thank the Interim Chief Financial Manager and Accounting and Business Office staff for their cooperation and diligence in providing us meaningful information to complete the procedures described above in a timely manner.

Sincerely,


Paul D. Joyce, CPA
State Examiner

Enclosures

INDIANAPOLIS PUBLIC SCHOOLS
BUDGETARY COMPARISON SCHEDULE - BY SOURCE AND OBJECT
GENERAL FUND
For The Year Ended December 31, 2013

	Budgeted Amounts		Actual Budgetary Basis Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Receipts:				
Local sources	\$ 1,815,000	\$ 1,815,000	\$ 2,313,325	\$ 498,325
State sources	226,310,000	226,310,000	242,522,534	16,212,534
Federal sources	-	-	359,095	359,095
Other	1,000,000	1,000,000	106,314	(893,686)
Total receipts	229,125,000	229,125,000	245,301,268	16,176,268
Disbursements:				
Instruction:				
Personal services - salaries	124,331,190	121,798,554	113,579,882	8,218,672
Personal services - employee benefits	34,859,310	34,863,367	33,503,362	1,360,005
Purchased professional and technical services	789,443	3,840,476	2,801,162	1,039,314
Public or private utility services	6,500	-	-	-
Other purchased services and communications	14,616,268	14,808,365	4,480,988	10,327,377
Supplies	989,505	1,446,665	1,172,574	274,091
Property	-	98,984	95,449	3,535
Total Instruction	175,592,216	176,856,411	155,633,417	21,222,994
Support Services:				
Personal services - salaries	54,997,303	54,935,900	51,236,923	3,698,977
Personal services - employee benefits	20,220,808	20,223,288	19,329,756	893,532
Purchased professional and technical services	6,168,334	8,214,783	3,752,206	4,462,577
Public or private utility services	1,422,081	1,510,962	224,601	1,286,361
Other purchased services and communications	4,031,811	4,232,302	2,427,326	1,804,976
Supplies	2,407,352	2,996,135	1,947,190	1,048,945
Property	346,930	611,530	424,751	186,779
Other Objects	162,668	238,797	(95,046)	333,843
Total Support Services	89,757,287	92,963,697	79,247,707	13,715,990
Noninstructional Services:				
Personal services - salaries	2,530,176	2,473,414	1,509,529	963,885
Personal services - employee benefits	455,019	536,773	444,047	92,726
Purchased professional and technical services	-	56,762	773,072	(716,310)
Total Noninstructional Services	2,985,195	3,066,949	2,726,648	340,301
Debt Services:				
Other purchased services and communications	12,700	12,700	3,839	8,861
Supplies	-	751	-	751
Total Debt Services	12,700	13,451	3,839	9,612
Total disbursements	268,347,398	272,900,508	237,611,611	35,288,897
Other financing sources (uses):				
Sale of capital assets	25,000	25,000	30,234	5,234
Transfers in	797,000	797,000	797,000	-
Transfers out	(6,052,602)	(5,092,901)	(93,900)	4,999,001
Total other financing sources (uses) - net	(5,230,602)	(4,270,901)	733,334	5,004,235
Net change in cash balances	(44,453,000)	(48,046,409)	8,422,991	56,469,400
Cash balances - beginning	53,207,628	53,207,628	53,207,628	-
Cash balances - ending	\$ 8,754,628	\$ 5,161,219	\$ 61,630,619	\$ 56,469,400

*

* - There is an immaterial difference, ending cash balance reported on the Status of Treasury Report was \$61,630,633.

Exhibit A (continued)

INDIANAPOLIS PUBLIC SCHOOLS
BUDGETARY COMPARISON OF EXPENDITURES BY PROGRAM
GENERAL FUND
For The Year Ended December 31, 2013

<u>Program</u>	<u>Budgeted Amounts</u>		<u>Actual Budgetary Basis Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Regular Programs - 1100	\$ 116,002,396	\$ 116,897,233	\$ 110,698,988	\$ 6,198,245
Special Programs - 1200	40,690,580	41,040,360	39,750,612	1,289,748
Adult/Continuing Education Programs - 1300	2,006,031	2,011,031	291,784	1,719,247
Summer School Programs - 1400	1,989,100	1,987,381	-	1,987,381
Non-credit Programs - 1500	-	24,500	-	24,500
Remediation Programs - 1600	337,867	339,586	512,637	(173,051) **
Payments to Other Governmental Units -1700	14,566,242	14,556,320	4,379,396	10,176,924
Support Services - Students - 2100	14,281,940	14,232,907	14,606,545	(373,638) **
Support Services - Instruction - 2200	10,307,774	12,379,297	8,904,697	3,474,600
Support Services - General Administration - 2300	9,494,037	9,962,795	6,299,572	3,663,223
Support Services - School Administration - 2400	17,752,291	17,858,733	16,941,263	917,470
Central Office - 2500	8,506,829	8,944,111	7,196,822	1,747,289
Service Area Direction - 2610	1,785,618	1,805,391	1,400,100	405,291
Maintenance of Buildings - 2620	19,351,833	19,480,422	17,508,808	1,971,614
Maintenance of Grounds - 2630	19,055	19,491	15,507	3,984
Maintenance of Equipment - 2640	145,700	151,035	150,142	893
Vehicle Maintenance (not buses) - 2650	454,610	549,264	532,242	17,022
Security Services - 2660	5,220,060	5,222,334	4,473,586	748,748
Insurance - 2670	2,437,540	2,357,917	1,218,423	1,139,494
Community Service Operations- 3300	2,985,195	3,066,949	2,726,647	340,302
Non-programmed Services - 6000	<u>6,065,302</u>	<u>5,106,352</u>	<u>97,739</u>	<u>5,008,613</u>
Totals - Programs	<u>\$ 274,400,000</u>	<u>\$ 277,993,409</u>	<u>\$ 237,705,511</u>	<u>\$ 40,287,898</u>

** - Expenditures exceed approved appropriations for this program.

Exhibit B

Indianapolis Public Schools
Review of Policies and Procedures Budget Versus Actual
General Fund
2013

We reviewed the policies and procedures in place to monitor the budget versus actual during the period January 1, 2013 to December 31, 2013. Our procedures applied included inquiries of current IPS financial staff, and review of reports and spreadsheets which they identified to us. We also reviewed the Board policies and guidelines, and the minutes and records of financial information sent to the Board.

The following items of concern were identified:

1. We did not see evidence of budget to actual reports being submitted to the IPS Board during the calendar year 2013.
2. There were no internal written policies and procedures pertaining to monitoring the budget. Internal written policies and procedures ensure adequate design and operation of internal controls, through consistent expectations for completing and evidencing procedures and reviews.
3. An internal financial report, Statement of Cash Flows, was produced monthly and included comparative information for each budgeted fund for receipts and expenditures by type. It included actual amounts for each month and estimates projected for the balance of the year with projected year to date totals. This evidenced monitoring of total category expenses.

The report also had an overall calculation of "cash available to spend" for the fund. However, this may be an inaccurate title as the full cash for the fund was not budgeted and thus would not be available.

The Statement of Cash Flows appears to have been used within the finance department, and was not communicated to the current Superintendent.

4. The Budget Director also prepared a summary level report monitoring of budget to actual for each fund. He had designed this in a spreadsheet format, which was not formally required or expected for supervisory review as a tool to monitor overall budgetary spending. Thus, he did not retain evidence of this control for our review, as he had overwritten the file upon updating it. We were only able to view the end of the year report, as it had been retained.
5. There was no evidenced monitoring of the budget at the level approved by the IPS Board. The calendar year 2013 budget was approved within IPS Resolution 3066-12 which stated: "NOW THEREFORE BE IT RESOLVED by the Board that for the expenses of Indianapolis Public School Corporation, Indiana for the year ending December 31, 2013 the sum of **\$443,814,000** as shown on Budget Form 4-A are hereby appropriated and ordered set apart out of the funds herein named and for the purposes herein specified, subject to the laws governing the same. Such sums herein appropriated shall be held to include all expenditures authorized to be made during the year, unless otherwise expressly stipulated and provided for by law. In addition, for the purposes of raising revenue to meet the necessary expense of Indianapolis Public School Corporation, a total property tax levy of **\$156,500,000** and a total tax rate of **2.1736**, are adopted as shown on Budget Form 4-B.

Budget Form 4-A, lists the published and adopted budget for each department within each fund and specifies total amounts within each department by type of expense as: personal services, supplies, services and charges, and capital outlays.

As the budget approval references Form 4-A, this appears to be the authorized level by which expenditures cannot be exceeded without IPS Board approval. There were no reports designed to provide the budget to actual expenditures with the categories specified in form 4-A.

6. Appropriation transfers within the accounting system regularly occurred as budgets are recorded at further detail accounts and cost centers (school locations). On Exhibit A, Expenditure Budgetary Comparison by Program, we noted some expenditures exceeded the appropriations program at that level approved by budget form 4-A.
7. Budget transfers between accounts within the General Fund were made without the School Board's approval, which is contrary to state statute.
8. We further identified that appropriation entries and transfers within the accounting system do not require a review and approval. These entries were performed by the two employees of the Budget Director's office. There is no subsequent review performed for accuracy.

We identified the following relevant criteria:

Indiana Code 20-25-3-11(a) states:

"Except as provided in subsections (b) and (c), a payment made from money of the board must be made in accordance with budget appropriations."

Indiana Code 20-25-3-13 states:

"(a) Money may not be drawn from the treasury of the board except for appropriations made:

(1) by the board; and

(2) upon an aye and nay vote recorded in the board's minutes.

(b) An appropriation may not be made for a period extending beyond December 31 of the current calendar year.

(c) Except as otherwise provided in this article, at the end of a fiscal year, all unexpended balances of all appropriations, except appropriations from tuition funds and the capital projects fund, revert to the board's general fund.

(d) General fund money that has been obligated but not paid at the end of a fiscal year may be paid without a new appropriation. Except as otherwise provided in this article, money obligated under this subsection does not revert to the board's general fund at the end of the fiscal year in which the money is appropriated, unless the board by affirmative act causes the money to revert."

Indiana Code 6-1.1-18-6 states,

"(a) The proper officers of a political subdivision may transfer money from one major budget classification to another within a department or office if:

(1) they determine that the transfer is necessary;

(2) the transfer does not require the expenditure of more money than the total amount set out in the budget as finally determined under this article; and

(3) the transfer is made at a regular public meeting and by proper ordinance or resolution.

(b) A transfer may be made under this section without notice and without the approval of the department of local government finance."

Indiana Code 6-1.1-1-12 states, "Political subdivision" means a county, township, city, town, separate municipal corporation, special taxing district, or school corporation."

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

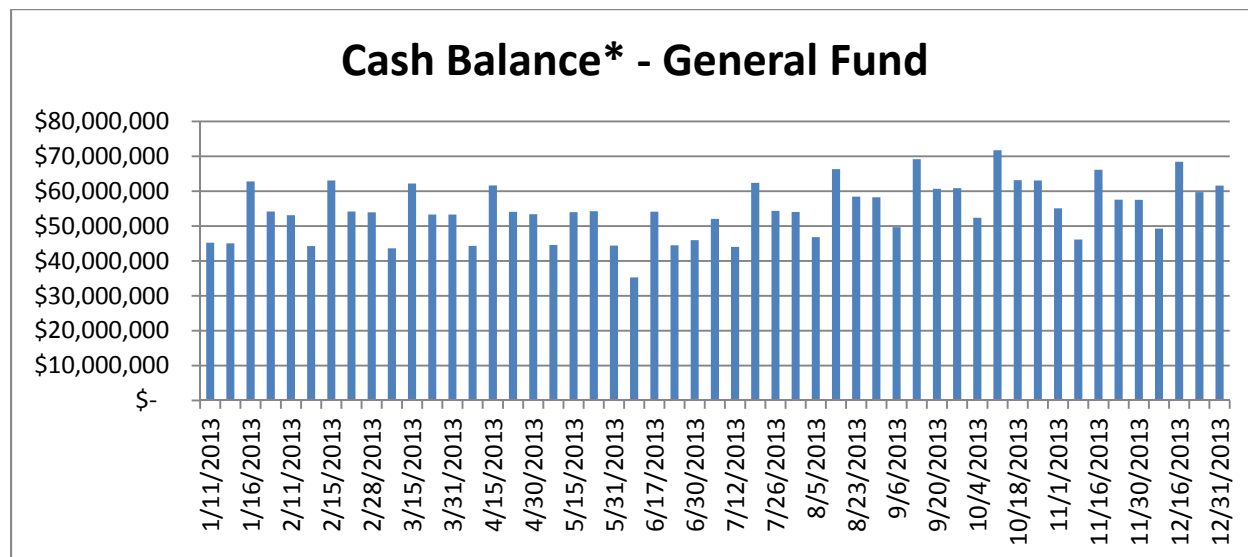
The computerized accounting system must provide input edits and controls to assure that information entered into the system is accurate, that all appropriate information is entered into the system, and that information is entered into the system only once. All information entered into the system must be authorized through effective manual or electronic controls. Transaction dates should be based upon system generated dates which cannot be modified by the user. If necessary, the system may provide an additional effective date of the transaction that is user controlled. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 10)

Recommendations:

1. Budget to actual reports should be prepared on an interim basis, with communication to the IPS Board during the calendar year and to give information on unallocated fund balances as contractual decisions are requested.
2. Written policies and procedures should be designed to evidence the internal control structure for the budgetary accounting. This would include the transaction controls and monitoring. This may also include enhanced information for documenting budgetary preparation estimates. Interim information prepared which evidences controls should be retained for audit.
3. The internal financial report, Statement of Cash Flows, should differentiate between the available budget and the cash balance.
4. The monitoring design for the IPS budget should include the budget and actual expenditures as per the approved budget, per form 4-A, by program and category of expense within each fund.
5. Regular analysis of appropriation transfer requests is necessary to identify those which require the prior approval of IPS Board in accordance with IC 6-1.1-18-6.
6. Appropriation entries and transfers within the accounting system should include a review and approval process to ensure accuracy and proper analysis for the necessary Board approvals.

Exhibit C

Indianapolis Public Schools General Fund Cash Balance Fluctuations 2013



* - The Table above documents the month end balances and dates when significant changes in the General Fund cash balance occur. Dates listed are not intended to present equally spaced periods. The primary transactions resulting in significant changes occur when monthly state distributions were received and when payroll expenses were paid.

Observations

In 2013, the fluctuations in the General Fund cash balance ranged from the largest balance on October 15 of \$71,772,566 to the smallest balance on June 14 of \$35,289,389. We did not calculate an average balance, since transactions were posted daily to the General Fund and within the proper month, but may not be chronologically posted in the financial system. Major influences on the General Fund cash balance were the State of Indiana distributions received mid-month causing a significant increase in cash balance and the 26 payrolls being disbursed every two weeks causing significant decreases in cash balance.

Receipts/State Distributions

The State is the primary funding source for IPS and most School Corporations in Indiana. Funding is based on enrollment and several other factors, as determined by the State and calculated based on funding formulas. State distributions were sent electronically on or about the 15th of the month. In 2013, the average of the 12 monthly distributions was \$19,147,520. There were some other less significant payments throughout the year. Additionally, IPS received \$6,012,837 on July 3, 2013, from a settlement on tuition support from the Indiana Department of Education and Indiana State Board of Education. The School Board adopted: Resolution No. 7617, June 25, 2013; Resolution on Settlement of Lawsuit Regarding State Tuition Support Funds.

Disbursements/Payroll

Payroll was the largest expense type within the General Fund in 2013. Significant decreases in cash balance regularly occurred on the 26 payroll dates. The average of the 26 payroll disbursements was \$8,324,446. (Some smaller payrolls were not included in this average.) There were three payrolls in May and November and two payrolls in all other months.