

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

EXAMINATION REPORT
OF
GARY PUBLIC LIBRARY
LAKE COUNTY, INDIANA
January 1, 2006 to December 31, 2007



FILED
08/11/2009

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Samuel Custard	01-01-06 to 01-28-07
	Roma Ivey (Interim)	01-29-07 to 11-02-08
	Sherri Ervin	11-03-08 to 12-31-09
Treasurer	Charlotte Gordon-Hull	01-01-06 to 05-15-07
President of the Board	Benjamin R. Coleman	05-23-05 to 06-14-06
	Andrew Ledbetter	06-15-06 to 05-27-08
	Cynthia D. Watts	05-28-08 to 12-31-09
Controller	Jetta Lewis	01-01-06 to 06-03-07
	Freddy McMillon	06-04-07 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE GARY PUBLIC LIBRARY, LAKE COUNTY, INDIANA

We have examined the schedules of receipts, disbursements, and cash and investment balances of the Gary Public Library (Library), for the period of January 1, 2006 to December 31, 2007. The Library's management is responsible for the schedules. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

The Library is using a computerized accounting system for recording financial activity. The system is accrual based, however the accruals are not being correctly maintained. Library officials were unable to provide adequate documentation to support the accrual balances. The Library was also unable to provide a ledger of cash receipts, disbursements, and balances for our examination.

Separate bank accounts are maintained for each of the Library's funds. Monthly bank reconciliations presented for the period January 1, 2006 to December 31, 2007 were not prepared and finalized until March 2008. Due to numerous unidentified posting adjustments in the accounting system, the bank balances have not been compared to any cash accounts or cash activities maintained as financial records of the Library.

Cash activity reported on the Library's annual reports for 2006 and 2007 materially differed from the activity posted in the financial system. The reported receipts and disbursements also materially differed from the deposits and withdrawals on the bank statements. The cash balances reported as of and for the year ended December 31, 2006, did not agree with the cash balances reported as of January 1, 2007.

As a result, the scope of the examination was not sufficient to warrant the expression of an opinion on the schedules. The schedules of receipts, disbursements, and cash and investment balances, as presented are a reflection of the bank deposits, withdrawals, and balances.

STATE BOARD OF ACCOUNTS

February 9, 2009

GARY PUBLIC LIBRARY
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL FUND TYPES
As Of And For The Years Ended December 31, 2006 And 2007

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 4,707,019	\$ 6,840,368	\$ 5,882,713	\$ 5,664,674
Gift	45,994	1,779	7,878	39,895
Library Improvement Reserve	26,018	182,407	-	208,425
Library Capital Projects	<u>85,078</u>	<u>751,414</u>	<u>177,000</u>	<u>659,492</u>
Totals	<u>\$ 4,864,109</u>	<u>\$ 7,775,968</u>	<u>\$ 6,067,591</u>	<u>\$ 6,572,486</u>

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ 5,664,674	\$ 5,206,790	\$ 8,229,524	\$ 2,641,940
Gift	39,895	1,613	15,301	26,207
Library Improvement Reserve	208,425	2,581,546	1,290,403	1,499,568
Library Capital Projects	<u>659,492</u>	<u>72,508</u>	<u>-</u>	<u>732,000</u>
Totals	<u>\$ 6,572,486</u>	<u>\$ 7,862,457</u>	<u>\$ 9,535,228</u>	<u>\$ 4,899,715</u>

The accompanying notes are an integral part of the financial information.

GARY PUBLIC LIBRARY
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Library was established under the laws of the State of Indiana. The Library provides the following services: culture and recreation, and general administrative services.

Note 2. Fund Accounting

The Library uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Library in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the Library to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

GARY PUBLIC LIBRARY
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Library contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Library authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

Note 7. Subsequent Event

Property Taxes

Property tax levies were not established by the Indiana Department of Local Government Finance as of February 15, 2008, as required by statute, due to the continued delay caused by the reassessment of Lake County. The second installment of the 2007 pay 2008 property tax bills were mailed and were due the county by February 6, 2009.

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

Financial records presented for examination were incomplete and not reflective of the activity of the Gary Public Library. The records presented did not provide sufficient information to examine or establish beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions. As a result, the financial activity reported on the Schedules of Receipts, Disbursements, and Cash and Investment Balances reflect the bank transactions during the examination period.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

BANK ACCOUNT RECONCILEMENT DEFICIENCIES

The following bank reconciliation deficiencies were noted:

1. Bank reconciliements for 2006 and 2007 were not prepared until after the current Controller was hired in May 2007.
2. The 2006 and 2007 computerized general ledger monthly records were not closed until March 2008.
3. The computerized accounting records were adjusted throughout the entire period from May 2007 until the records were closed in March 2008. The monthly records for 2006 and 2007 could be adjusted as long as the records remained open. This allowed adjustments to be made to prior months' activity which affected the balances in subsequent months which could not be verified (i.e.; a \$25,309.50 adjusting entry made in the general ledger report for February 2006 did not appear in the year to date report at December 31, 2006).
4. Unidentified adjustments to the general ledger were made to reconcile with the bank balance. These adjustments were referred to as "Reconciling Differences" which totaled \$26,986 for 2006 and \$13,376 for 2007.
5. Unidentified adjustments were made to the general ledger cash balance by batch postings referred to as "Imports" which totaled \$7,660,975 for 2006
6. Unidentified "miscellaneous bank deposits" were posted to the general ledger which totaled \$23,698 for 2006.

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

7. The unadjusted general ledger balance at month end as used by the Library's Controller in the bank reconcilements was determined by starting with the adjusted bank balance and backing into the unadjusted general ledger amount needed to agree with the adjusted bank balance. The computerized general ledger unadjusted balance at month end did not agree with the unadjusted general ledger balance used in the bank reconcilements. The monthly differences ranged from (\$8,018,892) to \$9,533,618 for 2006 and from (\$7,976) to \$49,670 for 2007.

IC 5-13-6-1(e) states in part:

"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."

The Library Financial and Appropriation Record should be totaled and balanced at the end of each page and a new ledger sheet should be opened at the beginning of each month. This amount should also be equal to the bank balance plus deposits in transit, less any outstanding warrants, plus petty cash and investments from total monies on deposit. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 3)

INTERNAL CONTROL DEFICIENCIES

Controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient. Deficiencies in controls were as follows:

1. Adjustments to the funds ledgers for 2006 and 2007 were made continually until March 2008 when the records were finally closed by the Controller. Monthly financial reports were not reliable since transactions recorded in the monthly ledger did not appear on the year to date ledger.
2. Receipts were not issued for all monies received. Receipts posted to the record were based on deposits made to the bank. When bank activity was not posted to the record, adjustments were made to the record as unidentified differences.
3. Disbursements were adjusted or reduced by the amount of unrecorded receipts.
4. Adjustments to the record balance were made without Board Approval.
5. A "reconciling difference" in the amount of \$25,309.50 posted in the February 2006 monthly general ledger did not appear in the December 2006 year to date ledger. The Library Controller could not explain why this occurred.

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. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

DUPLICATE PAYROLL PAYMENTS

A former employee of the Gary Public Library (GPL), Patricia Thompson, Payroll Specialist, issued duplicate payroll payments to herself totaling \$1,937.76. Duplicate payroll checks were issued in the amounts and on the dates as follows: \$716.53, (01-20-06); \$566.48, (02-03-06); and \$654.75, (02-17-06). The GPL filed a report with the Lake County Prosecuting Attorney and informed the Indiana Attorney General's Office regarding this matter. On November 17, 2008, the GPL received a \$495.00 partial reimbursement in the form of restitution from the Clerk of the Lake Superior Court.

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. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

PAYMENTS TO EMPLOYEES

Library employees were paid salaries and received reimbursement for travel and other expenses while performing work for the Gary Public Library Senior Citizens Friendship Club. It could not be determined if the aforementioned club was a part of the Library or a separate organization.

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

PUBLIC RECORDS RETENTION

In late 2006 the Gary Public Library (GPL) converted to a new computerized accounting system. The 2006 ledgers, payroll and all other records on the old computerized accounting system were not presented for examination. The staff at the GPL could not retrieve the records from the old system.

IC 5-15-6-3(f) concerning destruction of public records, states in part:

"Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, and other public records must be available for audit 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 Libraries, Chapter 4)

ANNUAL REPORTS

The Library Annual Reports (LAR) were not filed timely. The State Board of Accounts received the 2006 LAR on March 26, 2007, and the 2007 LAR on March 12, 2008.

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

The LAR did not agree with the general ledger. The LAR was prepared before various adjustments were made to the general ledger for 2007. When the 2006 LAR was filed there had been no reconciliation of the general ledger to the bank.

IC 5-3-1-4 states in part:

"(a) 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. . . .

(b) The following shall prepare, verify, and file the reports required under subsection (a) not later than sixty (60) days after the end of each year. . . (2) A public library."

PUBLIC PURCHASE LAW AND PREFERENCES

The Library has adopted a public purchase policy that states a preference given to contractors within the City limits of Gary. This preference is not enumerated as an allowable preference in Indiana Code 5-22-15.

Indiana Code 5-22-3-3(a) states:

"A governmental body may adopt rules to regulate purchases of the governmental body. A rule adopted under this subsection may: (1) supplement this article; and (2) not be inconsistent with this article."

Indiana Code 5-22-15-7 states in part:

"(a) An offeror may claim one (1) of the following types of preference for which the offeror is eligible:

(1) An Indiana business preference under rules adopted under section 20 of this chapter or IC 4-13.6-6-2.5.

(2) A preference for supplies as provided by sections 16, 18, 19, and 24 of this chapter.

(3) An Indiana small business preference as provided by section 23 of this chapter.

(b) An offeror may not claim more than one (1) preference as provided by sections 16, 18, 19, and 24 of this chapter for a given supply item."

PRESCRIBED FORMS

The Gary Public Library did not use the following prescribed or approved forms:

Financial and Appropriation Record (Form 1)

Employee's Service Record (Form 99A)

Employee's Earnings Record (Form 99B)

GARY PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

Additionally, the prescribe Receipt (Form 352) was not issued for all money received.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

CAPITAL ASSET RECORDS

The Gary Public Library recorded 2007 capital asset additions, but disposals were not recorded. The Library prepared a record of accumulated depreciation of its capital assets. When the Library disposes of a capital asset, the cost of the asset and the related accumulated depreciation should also be recorded in the records as deletions. There was no record of capital assets for 2006. The Library does not use Capital Assets Ledger - General Form 369.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

Capital Assets Ledger - General Form No. 369 . . . is required to account for all capital assets owned by the library. It is used to record additions and deletions in capital assets owned by the library. A complete inventory should be taken at least once every two (2) years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 3)

FRIENDS OF THE GARY PUBLIC LIBRARY COPY FEES

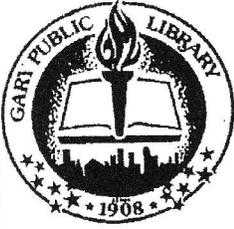
Friends of the Gary Public Library, an outside organization, provides copiers to be used by the patrons of the various Gary Public Library branches. These copiers are coin operated machines. On a weekly basis, Gary Public Library employees remove the collections from the copiers and prepare bank deposit tickets which are remitted to the Gary Public Library Controller. The Controller takes the deposit to the bank for the Friends of the Gary Public Library. These fees are not receipted to Library's record.

There is no written agreement or resolution authorizing the Gary Public Library to have the Friends of the Gary Public Library to operate copiers in the Library, nor for the Gary Public Library employees to collect and deposit the copy fees.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

GARY PUBLIC LIBRARY
EXIT CONFERENCE

The contents of this report were discussed on February 9, 2009, with Freddy McMillon, Controller; Sherri Ervin, Director; Cynthia D. Watts, President of the Board; Inga D. Lewis, Attorney; Jetta Lewis, Accounts Payable Clerk; and Roma Ivey, Chief Operations Manager. The official response has been made a part of this report and may be found on pages 13 through 19.



GARY PUBLIC LIBRARY

220 w. 5th avenue
(219) 886-2484

gary, indiana 46402-1215
FAX (219) 882-9528

MS. S. ERVIN
LIBRARY DIRECTOR

June 12, 2009

State Board of Accounts
302 West Washington Street
Room E 418
Indianapolis, IN 46204-2765

Re: Official Response

Dear Sir / Madam,

Pursuant to the State Board of Accounts (SBOA) Form 4, please consider this documentation from the Gary Public Library (GPL) in response to the examination of the Library's fiscal records for the years 2006 and 2007.

In 2005, the attrition and evolving of personnel included an unanticipated loss of Finance Department's Controller and both Payroll and Purchasing Specialists. As a result, the Library's fiscal records were not properly maintained. Remaining personnel were unable to manage the load required for efficient financial operations. For an approximate eighteen month period the Finance Department operated at minimal capacity. Another Library Controller was not hired until May, 2007, to manage and oversee the financial operations.

Besides personnel numerous other limitations also adversely impacted the management of the Finance Department. Both automated and manual fiscal recordkeeping tasks were neglected. Problems related to the automated accounting system were apparent. The American Fundware automated accounting system was used by the Library for an approximate sixteen-year period to manage financial recordkeeping (e.g., payroll, accounts payable, purchasing). Approximately ten (10) months after an abrupt departure of the Controller, the Library implemented a different accounting system.

In October of 2006, the Library made the transition from American Fundware to Accufund by utilizing an accrual-based module. Moving the fiscal to the new system resulted in reconciling errors. Unsubstantiated balances brought from the previous accounting modules were merged as batched amounts as a means to forward the fiscal data to the new automated accounting system.

"The People's University"

Existing fiscal data from the former accounting system (e.g., American Fundware) was not balanced. Transferring the data from the system was performed in batched amounts. Field audit examiners informed the Library that these methods hamper verification of fiscal data. In an effort to provide an explanation for the condition of the Library's fiscal records, the Library seeks to adhere to recommendations as prescribed and stipulated by the SBOA to correct the following discrepancies.

CONDITION OF RECORDS:

SBOA: Financial Records presented for examination were incomplete and not reflective of the activity of the Gary Public Library. The records presented did not provide sufficient information to examine or establish beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions. As a result, the financial activity reported on the Schedules of Receipts, Disbursements, and Cash and Investment Balances reflect the bank transactions during the examination period.

At all times, the manual and / or computerized records, subsidiary ledgers, control ledgers, and reconciled bank balances should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund.

GPL: The Library's Finance Department recognizes the importance of working in compliance with the SBOA by consulting the regional auditor including referencing the recommended Accounting and Uniform Compliance Guidelines Manual for Libraries when automated or manual fiscal changes are recommended by outside sources. Our primary goal is to correct the 2007 - 2008 audit discrepancies for an improved 2008 - 2009 audit scheduled in 2010.

BANK ACCOUNT RECONCILEMENT DEFICIENCIES:

SBOA: The following bank reconciliation deficiencies were noted:

Bank reconcilements for fiscal years 2006 and 2007 were not prepared until after May, 2007.

The computerized automated accounting General Ledger for 2006 and 2007 remained open until March 2008.

The computerized accounting records were adjusted throughout the entire period beginning May, 2007 until the records were closed in March 2008.

The monthly records for 2006 and 2007 could be adjusted as long as the records remained open. This allowed adjustments to be made to prior months' activity which affected the balances in subsequent months which could not be verified (i.e., a \$25,309.50 adjusting entry made in the general ledger report for February 2006 did not appear in the year to date report at December 31, 2006).

Unidentified adjustments to the general ledger were made to reconcile with the bank balance. These adjustments were referred to as "Reconciling Differences" which totaled \$26,986 for 2006; and \$13,376 for 2007.

Unidentified adjustments were made to the general ledger cash balance by batch postings

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. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

GPL: The overall purpose for unidentified postings in 2006 in the general ledger was due to the fact that the Controller was advised that the American Fundware software only provided for the transfer of batched data. Another option offered consisted of the American Fundware offer to upgrade the automated accounting system including recommending another system to print account balances for a substantial fee.

Once the upgrades and printed copies of the actual balances were available, the Library would be able to resolve these fiscal discrepancies by reconciling activities based on documentation (e.g., invoices, check stubs) from 2006 to verify cash balances.

Most *Reconciling Differences* were the direct result of the temporary personnel. Once the American Fundware fiscal data for 2006 and 2007 is accessed, the Library can eliminate bank accounts reconciliation deficiencies.

After the Library was informed its receipt issue was not resolved, immediate procedures were implemented for to issue and provide manual receipts for cash transactions to safeguard financial record integrity for cash handling procedures.

DUPLICATE PAYROLL PAYMENTS:

SBOA: A former employee of the Gary Public Library (GPL), Patricia Thompson, Payroll Specialist, issued duplicate payroll payments to herself totaling \$1,937.76. Duplicate payroll checks were issued in the amounts and on the dates as follows: \$716.53, 1/20/06; \$566.48, 2/3/06; and \$654.75, 2/17/06.

The GPL filed a report with the Lake County Prosecuting Attorney and informed the Indiana Attorney General's Office regarding this matter. On November 17, 2008, the GPL received a \$495.00 partial reimbursement in the form of restitution from the Clerk of the Lake Superior Court.

In 2006 the GPL hired an outside accounting consultant to perform bank reconciliements from December 31, 2004 to June 30, 2006. The duplicate payroll payments were disclosed during the reconciling process.

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. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4).

GPL: As a result of the fraud by perpetrated by a former employee, the Internal Revenue Service penalties and fines were assessed. To eliminate the possibility of these risks, procedures now require all voided checks must be submitted to the Controller for approval. Other

precautions and safeguards include the elimination of lapse in the reconciliation of monthly bank accounts by the preceding month. These safeguards including automated checks and balances via consistent report keeping developed by Finance Department personnel (e.g., Account Payable, Payroll Specialist, Purchasing Specialist) for improved internal controls to combat fraudulent activity. The Library has also implemented an improved automated accounting system.

PUBLIC RECORD RETENTION:

SBOA: In late 2006 the Gary Public Library converted to a new computerized accounting system. The 2006 ledger, payroll and all other records on the old computerized accounting system were not presented for examination. The staff at the GPL could not retrieve the records from the old system. IC 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, and other public records must be available for audit 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 Libraries, Chapter 4).

GPL: The Library recognizes the importance of the Indiana Code 5-15-6-3(f) which addresses the proper guidelines and procedures for destruction and / or removal of public records including Library fiscal records as stated in the Accounting and Uniform Compliance Guidelines Manual for Libraries.

The Library also accepts responsibility for missing supporting documentation and the obligation of providing efficient, knowledgeable and responsible personnel (e.g., Library Controller, Accounts Payable Specialist, Payroll Specialist, and Purchasing Specialist) for these specialized tasks.

The value of Library fiscal records for audit purposes including the ability to maintain support for the validity and accountability of public funds in the form of monies disbursed is considered an administrative priority. The Library intends to gain access to use fiscal data from the American Fundware accounting system to correct the 2006 and 2007 fiscal data prior to 2008 - 2009 audit in 2010.

ANNUAL REPORTS:

SBOA: Library Annual Reports (LAR) for 2006 and 2007 were not filed on time. Neither did the reports agree with the General Ledger. Various adjustments were not made to the 2007 General Ledger. When the 2006 LAR was filed there had been no reconciliation of the General Ledger to the bank.

IC 5-3-1-4 states, in part: "(a) 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. . . (b) The following shall prepare, verify, and file the reports

required under subsection (a) not later than sixty (60) days after the end of each year. . . (2) A public library."

GPL: During the 2006 - 2007 audit examination, the current administration learned Form 352 for 2006 was submitted March 26, 2006; and for 2007 the document was submitted March 12, 2007. The Finance Department failed to submit the LAR-1 for both 2006 and 2006 in a timely manner as required. After the current Library administrator was informed of the late submission, guidelines and procedures including timelines for fiscal documentation requiring submission to SBOA was developed. These procedures were developed and strictly adhered to restore efficiencies and to promptly forward fiscal documentation as required.

AccuFund is an accrual based automated accounting system. In 2007, the Controller neglected to extract the cash data appropriately. This serves as an explanation for submission an incorrect LAR-1 report and these activities resulted in a late LAR-1 report for 2006 and 2007.

PUBLIC PURCHASE LAW AND PREFERENCES:

SBOA: The Library has adopted a public purchase policy that states a preference given to contractors within the City limits of Gary. This preference is not enumerated as an allowable preference in Indiana Code 5-2215.

Indiana Code 5-22-3-3(a) states: "A governmental body may adopt rules to regulate purchases of the governmental body. A rule adopted under this subsection may: (1) supplement this article; and (2) not be inconsistent with this article."

Indiana Code 5-22-15-7 states in part:

"(a) An offeror may claim one (1) of the following types of preference for which the offeror is eligible:

- (1) An Indiana business preference under rules adopted under section 20 of this chapter or IC 4-13.6-6-2.5.
- (2) A preference for supplies as provided by sections 16, 18, 19, and 24 of this chapter.
- (3) An Indiana small business preference as provided by section 23 of this chapter.

(b) An offeror may not claim more than one (1) preference as provided by sections 16, 18, 19, and 24 of this chapter for a given supply item."

GPL: The Library has revised their policy compliant with section 8 of the Library Compliance Manual as well as IC 5-3-1-4. The Library recognizes the importance of the Indiana Code 5-22-15-7 which addresses a government organization preference for supplies and / or an Indiana small business organization preferences the proper guidelines and procedures for destruction and / or removal of public records including Library fiscal records as stated in the Accounting and Uniform Compliance Guidelines Manual for Libraries.

The Library also acknowledges the current adopted public purchase policy which states preferences given to contractors within the City limits of Gary is not congruent with allowances prescribed and referenced by Indiana Code 5-22-15-7 under rules adopted under the following sections 16, 18, 19, 20, 23 and 24 of this chapter including Indiana Code 4-13.6-6-2.5.

PRESCRIBED FORMS:

SBOA: The Gary Public Library did not use the following prescribed or approved forms:

Financial and Appropriation Record	(Form 1)
Employee Service Record	(Form 99A)
Employee Earnings Record	(Form 99B)
Prescribed Receipt	(Form 352) Not issued for all money received

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

GPL: SBOA Forms **1**, **99A**, **99B** and **352** have been designed for submitting automated record keeping to monitor and track cash handling activities (Receipts); earnings for personnel (Employee Earning Records); public service information for personnel (Employee Service Record); and appropriation and financial (Financial and Appropriation Record) upon SBOA approval. Prior to approval the documentation has been maintained manually.

CAPITAL ASSET RECORDS:

SBOA: The Gary Public Library recorded 2007 capital asset additions, but disposals were not recorded. The Library prepared a record of accumulated depreciation of its capital assets. When the Library disposes of a capital asset, the cost of the asset and the related accumulated depreciation should also be recorded in the records as deletions. There was no record of capital assets for 2006. The Library does not use Capital Assets Ledger - General Form No. 369.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every two years for good internal control and for verifying account balances carried in the accounting records (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4).

Capital Assets Ledger - General Form No. 369 ... is required to account for all capital assets owned by the library. It is used to record additions and deletions in capital assets owned by the library.

GPL: The Library recognizes the importance of properly recording and disposing of its acquired capital assets as a means to sustaining its future records as required by the SBOA and stated in the Accounting and Uniform Compliance Guidelines Manual for Libraries. The Finance Department has initiated practices and procedures which include manually listing all capital assets by using approved and prescribed documents.

For improved efficiency in monitoring and tracking all physical assets, an Inventory Control Committee lead by a team of inventory specialist and technology specialist including other support personnel has been assigned to physically track all capital assets. The Committee has formed an Inventory Control Team to implement an ongoing project which involves the development of an automated database designed to electronically track physical assets both functional and obsolete. As a result all physical assets have been inventoried and tagged. Since

the audit findings, the Inventory Specialist along with the Inventory Control Team has initiated an Inventory Action Plan with participation from each branch and department.

FRIENDS OF THE GARY PUBLIC LIBRARY COPY FEES:

SBOA: Friends of the Gary Public Library an outside organization, provides copiers to be used by the patrons of the various Gary Public Library branches. These copiers are coin operated machines. On a weekly basis, Gary Public Library employees remove the collections from the copiers and prepare bank deposit tickets which are remitted to the Gary Public Library Controller.

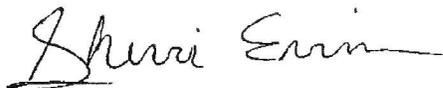
The Controller takes the deposit to the bank for the Friends of the Gary Public Library. These fees are not receipted to the Library's record. There is no written agreement or resolution authorizing the Gary Public Library to have the Friends of the Gary Public Library to operate copiers in the Library, nor for the Gary Public Library employees to collect and deposit the copy fees.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

GPL: Friends of the Gary Public Library is considered an outside organization by the Library. Both the Library and the Friends have worked together collaboratively for many years. The Friends has been extremely generous by providing copiers for patron use including financial support for Library programs.

As result of the audit findings, the Library promptly contacted the Friends organization to inform the President that it is not in the best interest of the Library to participate and / or perform the organization's cash handling activities. Even though their support has been a great advantage and service for the community, the Library administration is required to minimize risks in terms of financial liability.

Sincerely,



Sherri Ervin
Library Director