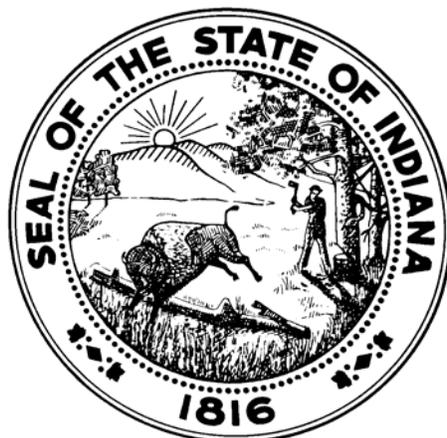


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
HAPPY MOMENTS DAY CARE
MERRILLVILLE COMMUNITY SCHOOL CORPORATION
LAKE COUNTY, INDIANA
January 1, 2004 to December 31, 2006



FILED
08/16/2007

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SCHOOL CORPORATION OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent	Dr. Anthony M. Lux	01-01-04 to 06-30-07
Assistant Superintendent of Business Affairs	Ronald Price	01-01-04 to 05-14-06
Assistant to the Superintendent for Business Affairs	Kimberly J. Fox	05-15-06 to 06-30-07
Director of Adult Education	Beverly Bashia Pamela S. Schilling	01-01-04 to 06-30-05 07-01-05 to 06-30-07
Day Care Coordinator	Susan Pierson	01-01-04 to 06-30-07
Day Care Clerk	Nancy Surber	01-01-04 to 11-03-06
President of the School Board	Scott Rosenbalm Donna Stath Mark Lucas Thomas G. Bainbridge	01-01-04 to 06-30-04 07-01-04 to 06-30-05 07-01-05 to 06-30-06 07-01-06 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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TO: THE OFFICIALS OF MERRILLVILLE COMMUNITY SCHOOL CORPORATION:

We have examined the records of the Happy Moments Day Care for the period from January 1, 2004 to December 31, 2006, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Examination Results and Comments. The financial transactions of this office are reflected in the Biennial Reports of the Merrillville Community School Corporation for the periods July 1, 2003 to June 30, 2005, and July 1, 2005 to June 30, 2007.

STATE BOARD OF ACCOUNTS

February 20, 2007

HAPPY MOMENTS DAY CARE
MERRILLVILLE COMMUNITY SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS

RETENTION OF RECORDS

The Happy Moments Day Care did not maintain billing history, payments posted history, and year end accounts receivable balances for any of the approximate 400 families for any of the years prior to 2006. The stand alone computer system used for this purpose crashed in January of 2006 and was not restorable. The School Corporation's computer specialist stated that he could not find a way to restore the system. The Day Care did not maintain any backups for this system.

Indiana Code 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."

POSTING ERRORS AND SEGREGATION OF DUTY CONTROLS

The Day Care Clerk wrote receipts for the collection of Day Care fees, posted the payments to the family ledger, prepared and posted the billing of tuition and fees, and posted adjustments and credits to family accounts. The Day Care Coordinator made out the deposit ticket, based on the receipts, and made the deposit in the bank account. Routine management approval of amounts posted for payments, billings, and credits was not established. We found numerous posting errors, receipts posted to the wrong account, receipts posted for the wrong amount, and receipt numbers used multiple times in the posting process. Manual adjustments to the family ledgers were not processed through the posting system.

Although many parents made payments on a regular basis, the Day Care sporadically sent account statements to all Day Care participants. The statements detailed all of the billing and payment history for the current billing cycle. Because of the lack of segregation of duties, no information was presented for examination indicating that many of these statements were not withheld and not sent to all parents.

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 Extra-Curricular Accounts, Chapter 7)

DEPOSIT NOT INTACT

We chose to review four individual deposits made to the School's depository in order to review the composition of deposits. We requested and received a copy of each check included in these deposits from the School's depository. We compared each check to a corresponding official receipt to verify the deposit composition.

A deposit made on July 31, 2006, by the Day Care Clerk, included a two party check for \$50. Neither the payee nor the payor on the check was from a family with children in the Day Care or from the School Corporation employee. Consequently, the money was not deposited intact. There were more checks in the deposit than the corresponding group of receipts indicated, although the deposit agreed to the total of the receipts issued. The total cash in the deposit was less than the cash marked on the receipts.

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

HAPPY MOMENTS DAY CARE
MERRILLVILLE COMMUNITY SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

REASONABLENESS OF DAY CARE COLLECTIONS

Day Care collections deposited to the bank for the year ended December 31, 2006, significantly decreased, as compared to the years ended December 31, 2002, 2003, 2004, and 2005. The decrease occurred at a time when enrollment was relatively unchanged and fees increased approximately 10% in July 2006. The School Corporation started the Day Care program in 1982. Also, the change in the number of official receipts issued does not correspond to the collections received or to the student participation in the Day Care program.

Year	Collections for the Year	Amount of Change	Percent Change	Number of Receipts Issued	Amount of Change	Percent Change
2002	\$ 531,808	\$		3,996	\$	
2003	626,114	94,306	17.73%	4,557	561	14.04%
2004	622,626	(3,488)	(0.56%)	4,311	(246)	(5.40%)
2005	665,551	42,925	6.89%	4,186	(125)	(2.90%)
2006	520,405	(145,146)	(21.81%)	3,201	(985)	(23.53%)

An explanation as to why there was such a drastic decline in revenue from the operation of the Day Care program was not presented by the officials of the School Corporation. We noted that the School Corporation did not implement any monitoring controls over the revenue generated and deposited. Since the revenue was commingled with other types of revenue when transferred to the School Corporation records (i.e., adult education fees) the decrease was not readily recognizable by the officials. The schedule above indicates loss revenue to the School Corporation, thereby the Day Care program being subsidized by other revenue sources rather than operating self-sufficiently.

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 Extra-Curricular Accounts, Chapter 7)

RECEIPTS NOT DEPOSITED

The Day Care Clerk used multiple single receipts multiple times. Only the amount collected and recorded on the carbon copies (duplicate) of the receipts remaining in the receipt book were deposited in the bank. Examination of the receipt books revealed the above process was accomplished by inserting the back cover of the receipt book under the top copy (receipts were in a triplicate format) of the receipt, writing a receipt using only the top copy, giving the top copy of the receipt to the parent, leaving the second and third copy of the receipt to be used for the collections from other parents, that would actually be deposited. We used the individual accounts receivable records for 2006 to determine the amounts. Parents in some instances provided the School Corporation officials with a copy of the original "top" copy of a receipt that did not match the duplicate in the receipt book. We calculated the total of "top" receipts not deposited as follows:

HAPPY MOMENTS DAY CARE
MERRILLVILLE COMMUNITY SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

<u>Description</u>	<u>Amount</u>
Payments recorded on "top" copy of receipt not deposited:	
2004	\$ 3,749
2005	1,039
2006	<u>22,529</u>
 Total receipts not deposited	 <u>\$ 27,317</u>

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

We requested Nancy Surber, Day Care Clerk, to reimburse Happy Moments Day Care, Merrillville Community School Corporation, for \$27,317 receipts not deposited. (See Summary, page 12)

CRIME POLICY

The Merrillville Community School Corporation has a crime insurance policy (FID7003494) with RLI Insurance Company. The policy period is from June 30, 2003 to June 30, 2007, with a \$80,000 limit for Public Employee Dishonesty.

HAPPY MOMENTS DAY CARE
MERRILLVILLE COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 29, 2007, with Thomas G. Bainbridge, President of the School Board; Dr. Anthony M. Lux, Superintendent of Schools; Kimberly J. Fox, Assistant to the Superintendent of Business Affairs; Pamela S. Schilling, Director of Adult Education; Susan Pierson, Day Care Coordinator; and Janice Stojakovich, Assistant Treasurer. The official response has been made a part of this report and may be found on pages 8 and 9.

The contents of this report were sent to Nancy Surber, Day Care Clerk, on April 3, 2007, via certified mail. The official response has been made a part of this report and may be found on pages 10 and 11.



**MERRILLVILLE COMMUNITY
SCHOOL CORPORATION**

6701 Delaware Street, Merrillville, IN 46410-3586
(219) 650-5300 FAX (219) 650-5320

ADMINISTRATION

ANTHONY M. LUX, Ph.D.
Superintendent

MARK B. SPERLING, Ed.D.
Ass't Superintendent

KIMBERLY J. FOX
Ass't To The Superintendent
Business Affairs

JAMES C. KURTH
Director Personnel

KELLY P. MURPHY
Director
Information Technology
Services

JANELLE BOWEN
Director
Media Services

MARY McVADE
Coordinator
Student Data Services

RAY HAMILTON
Director
Technology Instruction
and Training

LARRY JUZWICKI
Director Security

GREG PIERSON
Director
Maintenance Services

PAM SCHILLING
Director
Adult
Education/Community
Services

COLLEEN HOSTETLER
Director Food Services

CAROL BENNETT
Public Information Officer

**BOARD
OF
SCHOOL TRUSTEES**

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Member

DONNA R. STATH
Member

April 5, 2007

OFFICIAL RESPONSE

State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204-2765

Gentlemen:

Please consider this letter our Official Response to the Audit Results and Comments that were shared with us at the Exit Conference held at the above address on March 29, 2007.

RETENTION OF RECORDS

The Happy Moments Day Care did run a billing history and did back up the year end file prior to the reformatting of the hard drive on the stand alone computer located in the Happy Moments office. An unknown party destroyed the hard copy reports and the back up disks. The Merrillville Community School Corporation system network engineer is now backing up the Happy Moments computer to the school corporations network. Also, there is a daily backup on a flash drive. That flash drive is locked in a fireproof safe.

POSTING ERRORS AND SEGREGATION OF DUTY CONTROLS

We have instituted procedures at Happy Moments that separate the duties of issuing receipts and posting those receipts. Also, the Happy Moments Day Care program will be using our school corporation software in the near future. Our software does not allow for duplicate receipts and will have an audit trail for any posting or accounting changes. It is our belief that by using the financial software of the school corporation many of the accounting issues will be addressed.

Page 2

DEPOSIT NOT INTACT

The funds that are deposited in the bank will be deposited in the same form in which they were received.

REASONABLENESS OF DAY CARE COLLECTIONS AND RECEIPTS NOT DEPOSITED

We fully understand the seriousness of what occurred at Happy Moments Day Care in regard to the diverted funds. The internal changes that have been implemented will greatly reduce the chance that this type of activity could occur in the future.

Sincerely,

A handwritten signature in cursive script that reads "Kimberly J. Fox".

Kimberly J. Fox
Assistant to the Superintendent
Business

Nancy Surber
508 W. Jackson St.
Hebron, IN. 46341
219-996-7305

August 5, 2007

Dear Mr. Joyce:

As per our prior conversation, I could not reach our family attorney for advice concerning this matter, so I would like to thank you again for the time extension to August 9, 2007.

To begin with, this letter is to serve as a formal rebuttal, in reference to the July 19, 2007 letter I received on Tuesday, July 24, 2007. The letter was a notice of the results by the State Board of Accounts regarding a debt of \$27,317.00, which is to be reimbursed or explained. I am taking this opportunity to give you an explanation. I started as a daycare teacher, and then two years later became a secretary for the daycare. When I took over the secretary job, I noticed many of the accounts in arrears of \$2000 or more. When I asked why people were receiving "free" daycare, I was told that these people racked up these huge bills, and when they couldn't pay any of it, they just left the program. The total debt was \$46,000, and these families were no longer in the program. However, I also noticed that the current families enrolled had high debt too. Knowing that you cannot run a business like this, I took it upon myself to create enrollment contracts, so parents would be liable for their tuition. I also started a suspension program for tuition not paid on time. Once a parent received this notice, we normally received the tuition that day or the next. I also created the daycares first handbook. From the fall of 2002 to the summer of 2005, the daycare actually made money. The procedures that I implemented were very successful. I am happy to say that until the summer of 2005, everyone paid his or her tuition.

You are probably wondering what changed? Two changes occurred. The director of Adult Education, Beverly Bashia retired, and Pam Schilling took over. She did not think it was right to suspend children, so people didn't pay again, and "free" daycare started again. The other change started when the director, Susan Pierson, and I had a confrontation. The summer of 2005 until the day I quit, my work environment became a hostile one. On a day-to-day basis, I endured constant criticism, harassment, and discrimination at the hands of Susan Pierson. I went to the head of personnel over these matters; nothing was done to stop it. The director of the daycare, Susan Pierson was determined to get me to quit. Almost daily she would ask me to find another job. After having several meetings with her to settle our differences, it was then that I realized how adamant she was to get rid of me. I would be called into meetings almost every month where I had union representation by Diana Zajac. She even went as far as telling Diana Zajac not to represent me anymore. When she continued to represent me, she started harassing Diana Zajac, and even told her, "Why don't you retire and get it over with?" She can confirm this, as well as many others if necessary, how this situation escalated.

Since I would not quit until I found another job I liked, all of a sudden errors started arising in the accounting program where receipts did not match what I posted. I will not take responsibility for this for several reasons. I would like to inform you that I posted FROM THE PAYMENTS, not the receipt book. I never went back to verify that the receipt matched the payment that I was posting, that should not have been necessary. The director Susan Pierson receipted 95% of the payments and I only wrote receipts when she was not there, from 4:00 p.m. to 5:00 p.m. I had no clue of how these discrepancies were happening until the week I quit. I received several calls from parents that their receipts were not matching the amounts posted on their accounts. I looked up the receipt numbers and the parents were correct, the amount was different from what I had posted. Again, I will remind you I posted from the payments and not the receipt book. Any receipts that I wrote that were different from the computer; I believe were the results of someone changing the posted amount. This is when I realized how much she really hated me and this situation would only get worse.

The second reason is Susan Pierson had my accounting password, which she told me I had to give it to her. She knew how to change the postings not me. She is the one who had the computer manual and knew how to override the system. Everyday I came in Susan Pierson was on my computer, with the receipt book looking at accounts. I believe that this was done as a set up, when actually this discrepancy is the result of people not paying their tuition which is being covered up.

Third, if I had taken any money, the receipts would not have matched the deposit. Susan Pierson did all of the deposits, meaning that the receipts she wrote and the few I wrote each day, had to balance with the money on hand. All monies on the premises, confirmed with the receipts, were then deposited.

The fourth reason is that the director allowed other employees to use my computer. On my days off and before/after, I left for the day. She allowed employees to use my password to access my computer. One time while an employee was using my computer, they did something that caused the connection to the security door to malfunction, and we lost our security door. That day upon my arrival to work, I noticed that the director looked panicked because the security door did not work. The only reason I found out what happened is that the employee admitted she did something wrong while on my computer. I will be happy to give the names of those employees, as well as the parents who also told me that people were using my computer.

The first letter I received about this matter insinuates that I caused the computer to crash! How could I do that when I had no computer knowledge before the director, Susan Pierson, trained me? Everything was lost and I was the one who had to reenter over 400 families' information after the computer crashed! Why would I cause myself more work? That was a tedious, time-consuming job. Besides that, I do not have a clue on how to crash a computer and why would I?

Finally, my last day on that premises was November 4, 2006. That gave her and anyone with my password access to the accounting program. I am sure of two things, I did not take any money, and accusing me of this is unjustified considering the fact that others who should not have been on my computer, used it daily. I should not have to pay back money I never took, or have my credit ruined because of Susan Pierson's inability to run a business. Do you really think she would admit she lost money because people did not pay, and she did nothing about it? Look at the accounts before 2002 and you will see the high balances. Then look at the profits from the fall of 2002 through the summer of 2005. Then from the summer of 2005 to the fall of 2006, you will see the numbers drop due to the accounts in arrears. Why would I steal money when I fought so hard to get people to pay their tuition? I was very proud of this achievement. I was so excited to see our numbers increase every month because the tuition was being paid. When I left, there were many accounts in arrears with high balances again. I am sure that people are receiving daycare services and not paying for it. This daycare will never be prosperous as long as she does not run it correctly. I believe this discrepancy is the result of adjustments made, so these facts would never be discovered.

I am confident that once you take into consideration all of this information, you will also conclude that blaming me for this discrepancy is not justified. I expect that after further review, these accusations will be dropped and dismissed. Thank you for your time.

Sincerely,



Nancy A. Surber

HAPPY MOMENTS DAY CARE
MERRILLVILLE COMMUNITY SCHOOL CORPORATION
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Nancy Surber, Day Care Clerk: Receipts Not Deposited, pages 5 and 6	<u>\$ 27,317</u>	<u>\$ -</u>	<u>\$ 27,317</u>

AFFIDAVIT

STATE OF INDIANA)
Lake COUNTY)

We, Jane E. Elder and Jeffrey W. Kopkey, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Happy Moments Day Care, Merrillville Community School Corporation, Lake County, Indiana, for the period from January 1, 2004 to December 31, 2006, is true and correct to the best of our knowledge and belief.

Jane E Elder
Jeffrey W Kopkey
Field Examiners

Subscribed and sworn to before me this 24 day of JULY, 2007

Barbara J. Bortoli
Notary Public

My Commission Expires: MAY 19, 2008

County of Residence: LAKE

BARBARA J. BORTOLI
Notary Public, State of Indiana
County of Lake
My Commission Expires 05/19/2008