

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

SPECIAL AUDIT REPORT

OF

MICHIGAN CITY AREA SCHOOLS

LAPORTE COUNTY, INDIANA

July 1, 1997 to June 30, 2007



**FILED**

05/08/2008



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## SCHOOL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent	Dr. Jerry Sesse	01-21-95 to 04-14-97
	Dr. Linda Anast	04-15-97 to 06-30-03
	Fred LaBorn	07-01-03 to 06-30-04
	Michael Harding	07-01-04 to 06-30-08
Treasurer	Richard Cook	07-01-97 to 06-30-99
	Vincent Taylor	07-01-99 to 08-11-06
	Theo Boone	09-13-06 to 06-30-08
President of the School Board of Trustees	James L. Kintzele	07-01-97 to 06-30-99
	Clyde Zeek	07-01-99 to 06-30-00
	Fred LaBorne	07-01-00 to 06-30-01
	James L. Kintzele	07-01-01 to 06-30-05
	Adrienne B. Gottlieb	07-01-05 to 06-30-06
	Robert C. Frame	07-01-06 to 12-31-06
	J. Jeffrey Jones	01-01-07 to 06-30-08



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF MICHIGAN CITY AREA SCHOOLS

We have examined the compensation for extra-curricular duties included in payroll contracts of the Michigan City Area Schools for the period from July 1, 1997 to June 30, 2007, and certify that the records and accountability for the compensation of extra-curricular duties examined are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments.

STATE BOARD OF ACCOUNTS

January 8, 2008

MICHIGAN CITY AREA SCHOOLS  
AUDIT RESULTS AND COMMENTS

GHOST EMPLOYMENT - EXTRA-CURRICULAR DUTY COMPENSATION

The Athletic Director made on July 25, 2007, a request of the Administration Office to provide a list of all certified employees who were being paid as coaches due to a large number of changes in coaching positions. The Athletic Director made comparisons from the listing provided, to the list compiled based upon approvals from the School Board Minutes. The Athletic Director noticed that Eugene Zarazee (Teacher) was listed as being paid as an Assistant Girls Softball Coach; but did not have a record of Eugene Zarazee performing duties as a softball coach. An internal investigation was performed by School Corporation Officials who determined a contract with Mr. Zarazee, which was handwritten and never signed by the affected party or the School Board, was executed on February 10, 1998, which added the assistant softball coaching position. Eventually a finalized contract, which was signed by all parties, included the assistant softball coaching position as well as other extra-curricular positions.

A review of the minutes of the School Board from the calendar year 1997, and of the first few months of 1998, under the headings of "Extra-curricular Assignments" and "Extra-curricular Resignations" made no mention of Eugene Zarazee being approved for the Assistant Softball coaching position. School Corporation Officials stated that employees are notified of approval of such duties through letters, of which a copy is retained in the individual's personnel file. Eugene Zarazee's personnel file was reviewed; however, no letter was found. Also, a copy of "Board Letters," which are the "Extra-curricular Assignments" and "Extra-curricular Resignations" approved by the School Board are given to the Payroll Department. The "Board Letters" are retained by the Payroll Department to support changes made to contracts. A "Board Letter" could not be located in the Payroll Department assigning the assistant softball coaching position to Eugene Zarazee.

The initial contract covered the school year 1997-1998. The policy of the School Corporation, in accordance with the Master Teacher Contract is "Teachers presently holding ECA position(s) shall continue in that (those) position(s) for as long as they desire . . ." All prior extra-curricular positions were included, as subsequent contracts were prepared, unless the Payroll Department was informed of a resignation or reassignment through the "Board Letters". Therefore Eugene Zarazee was presented with subsequent contracts which included the assistant softball coaching position, and was paid for the position through the end of the 2006-2007 school year even though Eugene Zarazee did not perform the duties of Assistant Softball Coach.

The Athletic Director contacted the Head Softball Coaches concerning some of the time periods in question as well as other Assistant Softball Coaches to inquire as to whether or not Eugene Zarazee was performing the duties of an Assistant Softball Coach, all of whom indicated Eugene Zarazee had never performed duties in a softball coaching position.

Another individual who actually performed duties as Assistant Softball Coach was paid during the 1997-1998 school year as the Assistant Softball Coach and was assigned to that position on February 11, 1998 based upon a letter in the personnel file. The contract adding the position was executed on April 20, 1998. The contract was typed, and signed by all affected parties. The position was also included on the finalized contract, which was also signed by all affected parties. The assistant coach retired at the end of the 1997-1998 school year, which also had the effect of resigning the position. A new person was assigned and performed the assistant coaching duties in the subsequent school year.

A comparison of contracts which included the position of Assistant Softball Coach confirmed that two individuals were paid as assistant softball coach. Eugene Zarazee's contract included the position of Assistant Coach and was paid for the position but did not perform coaching duties in all subsequent periods through June 30, 2007.

MICHIGAN CITY AREA SCHOOLS  
 AUDIT RESULTS AND COMMENTS  
 (Continued)

The School Corporation contacted Eugene Zarazee to repay the money paid for duties not performed. To date no such repayments have been made.

We compared other extra-curricular duties assigned to Mr. Zarazee to extra-curricular pay schedules provided by the School Corporation, and noted the following:

Eugene Zarazee should have been paid as the Assistant Football Coach with four to seven years experience for the 1998-1999 school year as opposed to zero to three years experience.

Mr. Zarazee should have been paid as the Assistant Football Coach with eight or more years experience for the 2002-2003 school year, but he was paid at the four to seven years experience rate.

Additionally, in the 2002-2003 school year, Mr. Zarazee began as an Assistant Junior Varsity Baseball Coach. After the season began, Mr. Zarazee was promoted to the position of Junior Varsity Baseball Coach. Due to the timing of events, the additional compensation for being the Junior Varsity Baseball Coach was not paid on a normal pay check; a separate check was drafted for the pay difference, which included an overpayment.

The following documents amounts over or underpaid for Eugene Zarazee.

	Beginning Contract Period	Ending Contract Period	Salary	Employer Share of Fringe Benefits	Totals
Amounts paid as Assistant Softball Coach	August 21, 1997	June 11, 1998	\$ 2,044.00	\$ 217.69	\$ 2,261.69
	August 24, 1998	June 11, 1999	2,098.00	223.44	2,321.44
	August 23, 1999	June 12, 2000	2,121.00	225.88	2,346.88
	August 22, 2000	June 8, 2001	2,125.00	226.31	2,351.31
	August 21, 2001	June 6, 2002	2,684.00	285.85	2,969.85
	August 20, 2002	June 10, 2003	2,699.00	287.45	2,986.45
	August 21, 2003	June 8, 2004	2,761.00	294.04	3,055.04
	August 23, 2004	June 8, 2005	2,788.00	296.93	3,084.93
	August 18, 2005	June 5, 2006	2,975.00	316.84	3,291.84
	August 16, 2006	June 7, 2007	3,110.00	331.22	3,441.22
			25,405.00	2,705.65	28,110.65
Incorrect amounts paid as Assistant Football Coach	August 24, 1998	June 11, 1999	2,714.00	289.04	3,003.04
	August 20, 2002	June 10, 2003	3,453.00	367.75	3,820.75
Correction of amounts due as Assistant Football Coach	August 24, 1998	June 11, 1999	(2,864.00)	(305.02)	(3,169.02)
	August 20, 2002	June 10, 2003	(3,603.00)	(383.72)	(3,986.72)

MICHIGAN CITY AREA SCHOOLS  
 AUDIT RESULTS AND COMMENTS  
 (Continued)

	Beginning Contract Period	Ending Contract Period	Salary	Employer Share of Fringe Benefits	Totals
Incorrect amount paid as Assistant Girls Basketball Coach	August 23, 1999	June 12, 2000	1,068.00	113.75	1,181.75
Correction of amount due as Assistant Girls Basketball Coach	August 23, 1999	June 12, 2000	(1,184.56)	(126.16)	(1,310.72)
Total payroll amounts due from Eugene Zarazee			<u>\$ 24,988.44</u>	<u>\$ 2,661.29</u>	<u>\$ 27,649.73</u>

Indiana Code 20-28-6-2(a) states in part: "A contract entered into by a teacher and a school corporation must: . . .

(2) be signed by both parties . . ."

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for School Corporations, Chapter 15)

Indiana Code 35-44-2-4 (c) states: "A person employed by a governmental entity who, knowing that he has not been assigned any duties to perform for the entity, accepts property from the entity commits ghost employment, a Class D felony."

Indiana Code 35-44-2-4(e) states: "Any person who accepts property from a governmental entity in violation of this section and any public servant who permits the payment of property in violation of this section are jointly and severally liable to the governmental entity for that property. The attorney general may bring a civil action to recover that property in the county where the governmental entity is located or the person or public servant resides."

We are requesting repayment of extra-curricular salary and fringe benefits for duties not performed in the amount of \$27,649.73 from Eugene Zarazee. (See Summary, page 12)

INSURANCE COVERAGE

The School Corporation retains a commercial crime policy with Travelers Casualty and Surety Company of America. The policy has been in effect since February 1, 2004, and covers employee dishonesty in the amount of \$10,000. The School Corporation retained a commercial crime policy from February 2, 1997 to February 1, 2004, covering employee dishonesty in the amount of \$10,000 with the Hartford Insurance Company.

MICHIGAN CITY AREA SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

ADDITIONAL AUDIT COSTS

Additional audit costs were incurred in examining the compensation included in contracts of employees of the School Corporation. Additional audits costs totaled \$2,858.90.

Audit costs incurred because of theft and shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for School Corporations, Chapter 9)

POLICIES AND PROCEDURES - NOTIFICATION OF EXTRA-CURRICULAR DUTIES

We have been informed by School Corporation Officials certified persons (teachers) interested in performing extra-curricular duties such as coaching are given preference over classified (nonteaching) persons. The certified personnel will submit a form to the school principal of their interest in an extra-curricular position. The principal will then make recommendations to the Superintendent, after having performed background checks. The Superintendent will verify the information collected and make finalized recommendations to the School Board. The finalized recommendations are presented in the form of "Board Letters." "Board Letters" are basically a listing of the individuals recommended, the positions, and the effective dates. "Board Letters" also include information on extra-curricular position resignations in the same format, as well as other personnel related issues. These "Board Letters," after action by the School Board, are given to the payroll department, so that the appropriate changes can be made to the employment contracts.

A letter is sent to the employee in order to inform the employee of the School Board's decision, and a letter is also to be placed in his or her personnel file. The letter basically informs the employee that his or her application or resignation has been accepted by the School Board, and the letter includes the effective date or period. The letter will also include a statement that a revised contract will be subsequently sent for their signature.

A comparison was made of the extra-curricular duties listed in the contracts to the letters placed in the personnel files. We noted several cases in which letters were not included in the personnel files. Next, we looked for approvals by the School Board through examination of the "Board Letters." "Board Letters" in most cases, supported the contracts. All exceptions observed were for resignations of extra-curricular positions, except for one. We did observe that for one employee, we could not locate a copy of a letter of acceptance of an extra-curricular position in his personnel file, nor could we find School Board acceptance in either the "Board Letters" or Board minutes (which contain the "Board Letters").

It is important that the minutes be accurate and complete since the governing body speaks from its minutes. It is not necessary that all documents acted upon, such as bids and contracts, be copied in the minutes but reference thereto and the action taken thereon should be recorded in the minutes and the documents carefully preserved. There are important papers and documents; however, that will need to be completely recorded in the minutes, such as proceedings to issue bonds. You should consult the school attorney if a question arises as to the need for making a complete record on any matter.

MICHIGAN CITY AREA SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

Examples of school business decisions and transactions which should be recorded in the minutes are:

1. Employment and compensation of teachers, bus drivers, janitors and other employees, including salary schedules adopted. . . .
15. All decisions relative to school activities, recreation programs, adult education and other programs. . . .

(Accounting and Uniform Compliance Guidelines Manual for School Corporations, Chapter 8)

Each governmental unit is responsible for complying with the ordinances, resolution, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

MICHIGAN CITY AREA SCHOOLS SPECIAL  
EXIT CONFERENCE

The contents of this report were discussed on January 8, 2008, with Marsha Volk Bugalla, Attorney for the School Board; Michael Harding, Superintendent; John Nielsen, Director of Personnel; Mary R. Junglas, Indiana State Teachers Association UniSev Director; Eugene Zarazee, Teacher; and Phyllis Stark, President of the Michigan City Education Association. The official response has been made a part of this report and may be found on pages 10 and 11.

**OFFICIAL RESPONSE**

**Response on Behalf of Eugene Zarazee  
Michigan City Area Schools Special  
LaPorte County  
Audit Results and Comments**

Eugene Zarazee does not dispute that he was overpaid by the Michigan City Area Schools. The fault lies both with Mr. Zarazee for not paying closer attention to the contracts he signed but also with the Administration of the Michigan City Area Schools for their failure to institute sufficient checks and balances on the expenditure of public monies.

On September 25, 2007, (see attachment) Mr. Zarazee made a good faith repayment offer. To this date, he has had no reply.

Obviously with the Administration's additional errors in determining extra-curricular salaries Mr. Zarazee's offer will be reduced accordingly.

Of note, fringe benefits do not accompany extra-curricular salaries.

  
\_\_\_\_\_  
Mary R. Junglas  
ISTA UniServ Director and Representative of Eugene Zarazee

  
\_\_\_\_\_  
Date

cc: Eugene Zarazee

Phyllis Stark, President  
Michigan City Education Association



**Indiana  
State  
Teachers  
Association**

Judith A. Briganti, President  
Warren L. Williams, Executive Director

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Mary Junglas  
UniServ Director, Unit 1-C

September 25, 2007

Marsha Volk Bugalla  
LOCKE REYNOLDS LLP  
201 North Illinois Street, Suite 1000  
PO Box 44961  
Indianapolis, IN 46244-0961

RE: Eugene Zarazee

Dear Marsha,

The Association does not dispute that Eugene Zarazee was overpaid by the Michigan City Area Schools (hereafter referred to as "MCAS"). This overpayment continued for ten (10) years. The fault lies both with MCAS for not implementing basic internal controls which would have identified the overpayment and also with Mr. Zarazee for not paying closer attention to the contracts he signed.

In an effort to resolve this matter and understanding there is a real legal question about the statute of limitations on recovering overpayments by a school corporation to an employee we offer the following:

1. Mr. Zarazee shall repay the Board for six (6) years of overpayment for the ECA Girls Softball position; that is from 2001-2002 through 2006-2007.
2. Mr. Zarazee shall repay the amount due over three (3) years in equal amounts over twenty-six (26) pays in each of the three (3) years.
3. The exact amount of the payback will be \$218.16 per check for a total of \$17,017.00.

Please advise us at your earliest convenience of your response to our offer. If our offer is declined and any other action is taken we shall be forced to resort to litigation.

Sincerely,



Mary R. Junglas  
ISTA UniServ Director

MRJ:vp

cc: Richard Darko, ISTA General Council  
Phyllis Stark, MCEA President  
Michele Nauyokas, MCEA Grievance Chairperson  
Eugene Zarazee

MICHIGAN CITY AREA SCHOOLS SPECIAL  
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Eugene Zarazee, Teacher:			
Ghost Employment - Extra-Curricular Duty			
Compensation, pages 4 through 6	<u>\$ 27,649.73</u>	<u>\$ -</u>	<u>\$ 27,649.73</u>

AFFIDAVIT

STATE OF INDIANA)  
LaPorte COUNTY)

I, Michelle M. Janosky, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Michigan City Area Schools, Laporte County, Indiana, for the period from July 1, 1997 to June 30, 2007, is true and correct to the best of my knowledge and belief.

mmj  
Field Examiner

Subscribed and sworn to before me this 28<sup>th</sup> day of April, 2008.

Vicki Mrozinski  
Notary Public

My Commission Expires: 1-21-09

County of Residence: LaPorte

