

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

SUPPLEMENTAL REPORT
OF THE

SUPERINTENDENT'S OFFICE FOR
CANNELTON CITY SCHOOL CORPORATION
PERRY COUNTY, INDIANA

July 1, 2005 to December 31, 2011



FILED
08/14/2012

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
School of Officials	2
Transmittal Letter	3
Examination Results and Comments:	
Compensation and Benefits	4-5
Dorothy von Solbrig Income Trust - Expended Principal	5
Attorneys' Fees.....	5-6
Travel Expenses.....	6
Penalties, Interest, and Other Charges	6-7
Audit Costs	7
Government Errors and Omissions Policy and Crime Policy Insurance Information	7-8
Exit Conference.....	9
Summary of Charges	10
Affidavit	11

SCHOOL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Judith G. Schneider Melissa B. Embry	07-01-05 to 06-30-07 07-01-07 to 06-30-12
Superintendent of Schools	Marion A. Chapman Dr. Alva L. Sibbitt, Jr. (Interim)	07-01-05 to 12-22-11 12-23-11 to 06-30-12
President of the School Board	Jack Harris Christal Moskos William Garrett	07-01-05 to 06-30-07 07-01-07 to 06-30-08 07-01-08 to 06-30-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF CANNELTON CITY SCHOOL CORPORATION

We have examined the records of the Superintendent's Office for Cannelton City School Corporation for the period from July 1, 2005 to December 31, 2011, 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.

STATE BOARD OF ACCOUNTS

May 7, 2012

SUPERINTENDENT'S OFFICE FOR
CANNELTON CITY SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS

COMPENSATION AND BENEFITS

Marion A. Chapman, former Superintendent of Schools, received payments for the years 2005-2006 through 2011-2012 which were in excess of his contract. An affidavit signed by Melissa Embry, Treasurer, states: "Shortly after I became Treasurer in July 2007, Mr. Chapman would occasionally submit claims for compensation other than that included on the semi-monthly payroll. These claims included things such as grant administration and the payment of the annuity directly to Mr. Chapman. There were also times he would have the Deputy Treasurer change the wording on our claim docket so it would not read M. Chapman-grant admin pay." All of these additional payments were included on claim dockets signed by the School Board. Bill Garrett, President of the School Board, signed an affidavit stating: "I was not aware that the Superintendent received compensation in excess of his contract until it was brought to my attention by Melissa Embry." Barbara Beard, School Board member, signed an affidavit stating: "In April 2011, I received a phone call from Board Member Jerry Harris stating that Mr. Chapman had been authorizing payments to himself in excess of his contract." In addition to compensation received via payroll, Mr. Chapman received 32 annuity payments made directly to him totaling \$41,175.44. Only \$15,555.92 of these direct annuity payments (those made in 2011) were reported to the Internal Revenue Service (on a Form 1099-MISC). In 2007, Mr. Chapman received \$8,787.80 in other compensation such as grant administration via three vendor checks. This compensation was not reported to the Internal Revenue Service. Compensation of \$34,407.32 in the table below (included under the "Compensation by way of Vendor Check Column") was not reported to the Internal Revenue Service by way of a W-2 or a Form 1099.

Contract Year	Salary Per Contract	Compensation Paid by way of Payroll	Compensation Paid by way of Vendor Check	Total Compensation	Compensation Over (Under) Contract Amount
2005-2006	\$ 84,050.00	\$ 84,049.93	\$ 402.00	\$ 84,451.93	\$ 401.93
2006-2007	84,050.00	86,403.22	7,266.80	93,670.02	9,620.02
2007-2008	93,000.00	116,468.61	2,487.00	118,955.61	25,955.61
2008-2009	93,000.00	132,200.58	8,400.00	140,600.58	47,600.58
2009-2010	94,860.00	143,117.75	9,100.00	152,217.75	57,357.75
2010-2011	94,860.00	130,793.25	17,452.64	148,245.89	53,385.89
2011-2012*	47,430.00	54,941.69	4,854.80	59,796.49	12,366.49
Totals	<u>\$ 591,250.00</u>	<u>\$ 747,975.03</u>	<u>\$ 49,963.24</u>	<u>\$ 797,938.27</u>	<u>\$ 206,688.27</u>

*Represents ½ year of contract as former Superintendent Chapman was terminated December 22, 2011.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUPERINTENDENT'S OFFICE FOR
CANNELTON CITY SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

We requested Marion A. Chapman, former Superintendent of Schools, reimburse Cannelton City School Corporation \$206,688.27 for compensation and benefits received in excess of contract. (See Summary of Charges, page 10)

DOROTHY VON SOLBRIG INCOME TRUST - EXPENDED PRINCIPAL

On June 15, 2011, the School Corporation received a \$333,333.33 distribution from the Dorothy von Solbrig Income Trust. An affidavit signed by Melissa Embry, Treasurer, states: "In June 2011 when we received \$333,333.33 from the Dorothy von Solbrig Income Trust, Mr. Chapman instructed me to receipt it to the General Fund and use it as needed to pay outstanding invoices. I used part of this money to catch up our state withholding taxes, with fees and interest." Barbara Beard, School Board member, signed an affidavit stating: "Mr. Chapman did not inform the board that the money received from the Dorothy von Solbrig Income Trust could not be spent for the general expenses of the School Corporation. In fact, I questioned whether the School Corporation could use the principal because of an article I had read in the Winter 2011 The Journal, an ISBA publication. In that article it stated that IC 20-26-7-7 requires the principal of a gift to be "inviolable", which means it cannot be used by the corporation. I specifically asked Mr. Chapman in a board meeting if he knew whether or not this law pertained to the trust. He stated he did not know." The School Attorney had advised Marion A. Chapman, former Superintendent of Schools, by letter dated May 12, 2011, that the principal of the gift be kept intact and that "Cannelton City Schools would have to hold the money in perpetuity and use the interest or income from the principal to make improvements to the high school or for scholarships for high school graduates, so long as the expenditure is not for purchases already provided for in the budget, such as school furniture and supplies." Since the General Fund's overdrawn balance on December 31, 2011, was \$430,091, the principal of the gift is considered to have been disbursed in full.

Each governmental unit is responsible for complying with any requirements of trust agreements or endowments received which are not contrary to state statute or constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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 Indiana Public School Corporations, Chapter 9).

We requested the former Superintendent of Schools, Marion A. Chapman, reimburse the School Corporation \$333,333.33 for the principal of the Dorothy von Solbrig Income Trust. (See Summary of Charges, page 10)

ATTORNEYS' FEES

An affidavit signed by Melissa Embry, Treasurer, states: "In July of 2008, Mr. Chapman instructed me to discontinue payment of federal taxes until further notice. I went to Mr. Chapman several times with the amount of money we owed to the IRS and received no response from him." Another affidavit from the Treasurer states: "In August, 2010, Mr. Chapman came into the office and said that Kim Biever and I will each have to choose an attorney from the two names he had received from his attorney, which he had in regards to the delinquent taxes owed to the IRS." The School Corporation has paid \$50,185.64 for attorneys' fees in regards to the taxes owed to the Internal Revenue Service.

SUPERINTENDENT'S OFFICE FOR
CANNELTON CITY SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

We requested Marion A. Chapman, former Superintendent of Schools, reimburse Cannelton City School Corporation \$50,185.64 for incurring excessive and unreasonable costs. (See Summary of Charges, page 10)

TRAVEL EXPENSES

Marion A. Chapman, former Superintendent of Schools, received checks of \$4,000, on February 7, 2007, for "Travel Allowance-Expenses for 2007," and \$2,000 on May 11, 2007, for "Travel and Business Expenses for the 2nd Half of 2007 Mileage, Motels, Meals, and Registration Fees." There were no receipts attached for these expenses. This was in addition to being reimbursed \$517.62 on January 24, 2007, for mileage at the established rate. He also received a check for \$3,000 on August 20, 2009, for "Travel Allowance for School Business as Superintendent, Grant Writer, and High School Principal." This was in addition to being reimbursed for mileage at the established rate ten times in 2009 totaling \$2,928.20. There was no provision in the former Superintendent of School's contract to be paid a travel allowance. None of these travel allowance payments were reported to the Internal Revenue Service on a W-2.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Official Opinion No. 74 of the Indiana Attorney General, issued in 1953, concluded there is no statutory authority for payment of a fixed amount of travel allowance to public employees and that a public employer may not reimburse an employee for travel expense which is, in fact, not incurred by the employee. Also, there is no authority for a travel allowance to be paid without regard to the number of miles, if any, actually traveled. Therefore, the State Board of Accounts is of the audit position that a fixed amount for travel allowance should not be paid. The prescribed method is to reimburse the employee for travel on the basis of a claim filed on Mileage Claim, Form No. 101, for reimbursement at the rate per mile as established by the local board of school trustees for all employees of the corporation. (The School Administrator and Uniform Compliance Guidelines, March 2010, Volume 189, Page 3)

We requested Marion A. Chapman, former Superintendent of Schools, reimburse Cannelton City School Corporation \$9,000 for the travel allowance received. (See Summary of Charges, page 10)

PENALTIES, INTEREST, AND OTHER CHARGES

An affidavit signed by Melissa Embry, Treasurer, states: "In September 2010, Mr. Chapman instructed me not to pay state withholding taxes." Interest totaling \$46.75 was paid to the Indiana Department of Revenue on July 25, 2011, for the months ended September 30, 2010 through March 31, 2011, and the month ended May 31, 2011.

SUPERINTENDENT'S OFFICE FOR
CANNELTON CITY SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

An affidavit signed by Melissa Embry, Treasurer, states: "In fall of 2010, we received an invoice for an installment payment due to SunTrust Equipment Finance and Leasing Corporation for \$19,482.39. I asked Mr. Chapman what we should do because of our cash limitations. Mr. Chapman instructed me to pay \$12,500.00. He began receiving e-mails from SunTrust on December 15, 2010 about a past due amount. He did not forward this information to me until January 19, 2011. In 2011 we incurred late fees because I was instructed by Mr. Chapman to wait to pay the invoice until we received our Full Day Kindergarten money, which is usually in mid December. We ended up having enough to pay it in November, so I issued a check to Suntrust, but by that time it was already late so I had to pay the late fees." Late fees totaling \$1,174.67 were paid to SunTrust Equipment Finance and Leasing Corporation for delinquent payments on a lease for two activity buses.

A similar comment was included in the prior report.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

We requested Marion A. Chapman, former Superintendent of Schools, reimburse the School Corporation \$1,221.42 for interest and other charges. (See Summary of Charges, page 10)

AUDIT COSTS

Additional costs were incurred by the State of Indiana during the current examination due to the examination of the items listed herein.

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

We requested Marion A. Chapman, former Superintendent of Schools, pay \$15,157.89 for additional costs incurred by the State of Indiana. (See Summary of Charges, page 10)

GOVERNMENT ERRORS AND OMISSIONS POLICY AND CRIME POLICY INSURANCE INFORMATION

As Superintendent of Schools, Marion A. Chapman was covered by government school leaders' errors and omissions policies and the government crime insurance policies held by Indiana Insurance Company as shown in the following schedule:

SUPERINTENDENT'S OFFICE FOR
CANNELTON CITY SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Insurance Company	School Leaders Errors and Omissions Policy		Crime Insurance Policy		
	Policy Period Covered	Insurance Limit	Deductible	Insurance Limit	Deductible
	05-18-05 to 05-18-06	\$ 1,000,000	\$ 5,000	\$ 10,000	\$ 500
	05-18-06 to 05-18-07	1,000,000	5,000	10,000	500
	05-18-07 to 05-18-08	1,000,000	5,000	10,000	500
	05-18-08 to 05-18-09	1,000,000	5,000	10,000	500
	05-18-09 to 05-18-10	1,000,000	5,000	10,000	500
	05-18-10 to 05-18-11	1,000,000	5,000	10,000	500
	05-18-11 to 05-18-12*	1,000,000	5,000	10,000	500

* Marion A. Chapman, former Superintendent of Schools, was suspended with pay November 22, 2011, and was terminated on December 22, 2011.

SUPERINTENDENT'S OFFICE FOR
CANNELTON CITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on May 7, 2012, with Dr. Alva L. Sibbitt, Jr., Interim Superintendent of Schools; Melissa B. Embry, Treasurer; William Garrett, President of the School Board; and Cory Faulkenberg, Vice President of the School Board. The officials concurred with our findings.

A certified letter was mailed to Marion A. Chapman, former Superintendent of Schools, inviting him to the exit conference, but he did not attend.

SUPERINTENDENT'S OFFICE FOR
CANNELTON CITY SCHOOL CORPORATION
SUMMARY OF CHARGES

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Marion A. Chapman, former Superintendent of Schools:			
Compensation and Benefits, pages 4 and 5:			
FY 2005-2006	\$ 401.93	\$ -	\$ 401.93
FY 2006-2007	9,620.02	-	9,620.02
FY 2007-2008	25,955.61	-	25,955.61
FY 2008-2009	47,600.58	-	47,600.58
FY 2009-2010	57,357.75	-	57,357.75
FY 2010-2011	53,385.89	-	53,385.89
FY 2011-2012	<u>12,366.49</u>	<u>-</u>	<u>12,366.49</u>
Total Compensation and Benefits	<u>206,688.27</u>	<u>-</u>	<u>206,688.27</u>
Dorothy von Solbrig Income Trust - Expended Principal, page 5:			
FY 2011-2012	<u>333,333.33</u>	<u>-</u>	<u>333,333.33</u>
Attorneys' Fees, pages 5 and 6:			
FY 2009-2010	3,358.50	-	3,358.50
FY 2010-2011	28,193.78	-	28,193.78
FY 2011-2012	<u>18,633.36</u>	<u>-</u>	<u>18,633.36</u>
Total Attorneys' Fees	<u>50,185.64</u>	<u>-</u>	<u>50,185.64</u>
Travel Expenses, page 6:			
FY 2006-2007	6,000.00	-	6,000.00
FY 2009-2010	<u>3,000.00</u>	<u>-</u>	<u>3,000.00</u>
Total Travel Expenses	<u>9,000.00</u>	<u>-</u>	<u>9,000.00</u>
Penalties, Interest, and Other Charges, pages 6 and 7:			
SunTrust Equipment Finance and Leasing Corporation:			
FY 2010-2011	955.89	-	955.89
FY 2011-2012	218.78	-	218.78
Indiana Department of Revenue:			
FY 2011-2012	<u>46.75</u>	<u>-</u>	<u>46.75</u>
Total Penalties, Interest, and Other Charges	<u>1,221.42</u>	<u>-</u>	<u>1,221.42</u>
Audit Costs, page 7:			
FY 2011-2012	<u>15,157.89</u>	<u>-</u>	<u>15,157.89</u>
Totals	<u>\$ 615,586.55</u>	<u>\$ -</u>	<u>\$ 615,586.55</u>

This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.

STATE OF INDIANA)
)
PERRY COUNTY)

I, Thomas M. Alles, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Superintendent's Office for Cannelton City School Corporation, Perry County, Indiana, for the period from July 1, 2005 to December 31, 2011, is true and correct to the best of my knowledge and belief.

Thomas M. Alles
Field Examiner

Subscribed and sworn to before me this 20th day of June, 2012.

Sara Belcher
Notary Public

My Commission Expires: 6/3/2015

County of Residence: Perry