

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

SPECIAL INVESTIGATION REPORT

OF

LAKE RIDGE SCHOOLS

LAKE COUNTY, INDIANA

September 29, 2011 to April 4, 2013



FILED
07/02/2013

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SCHOOL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent of Schools	Sharon Johnson-Shirley, Ed. D	07-01-11 to 06-30-13
Treasurer	Edward R. Sopko	07-01-11 to 06-30-13
President of the Board of Education	Richard A. Lowe Glenn I. Johnson	07-01-11 to 06-30-12 07-01-12 to 06-30-13
Business Manager	James W. Huddleston (Vacant)	07-01-11 to 04-04-13 04-05-13 to 06-30-13



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF LAKE COUNTY

We reviewed records of Lake Ridge Schools for the period September 29, 2011 to April 4, 2013. We have reviewed the Self-Insurance Fund Ledger, the Corporation Ledger of Receipts and the Disbursement Ledger for compliance with applicable State laws and the Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations as established by the State Board of Accounts. We have noted our findings for the reporting period in the Results and Comments section of the report.

STATE BOARD OF ACCOUNTS

May 14, 2013

LAKE RIDGE SCHOOLS
RESULTS AND COMMENTS

BACKGROUND INFORMATION

On April 3, 2013, an in-house auditor from Tech Credit Union contacted the President of the Board of Education concerning suspicious transactions in an account of the School Corporation. The President of the Board of Education contacted the Superintendent of Schools, who in turn, contacted the former Business Manager, James W. Huddleston. The Superintendent of Schools met with the Business Manager and learned that Mr. Huddleston had opened a savings account in the School Corporation's name at the credit union and had used the account to pay for personal expenses. The President of the Board of Education, the Superintendent of Schools, and the former Business Manager met at the School Corporation Administration Office on April 4, 2013, to discuss the situation. Based upon this meeting, Mr. Huddleston resigned his position as the Business Manager.

The Superintendent of Schools contacted the State Board of Accounts on April 5, 2013, to request a special investigation into the former Business Manager's activities. Upon meeting with the Superintendent of Schools and reviewing statements from Tech Credit Union, we determined that many of the checks deposited into this account should have been receipted into the Self-Insurance Fund of the School Corporation. Therefore, we conducted a review of the Self-Insurance Fund for the period January 1, 2010 to April 4, 2013. We also reviewed the former Business Manager's financial activities at the School Corporation for the period July 1, 2011 to April 4, 2013. Following are the results of our review.

PUBLIC FUNDS DIVERTED FOR PERSONAL USE

On August 22, 2011, the Board of Education approved a list of public depositories and gave the Treasurer and/or Business Manager the authority to open savings/CD accounts from the list. On September 29, 2011, the former Business Manager, James W. Huddleston, opened a new savings account at a local credit union without the knowledge of the Board of Education or the Superintendent of Schools. The account was opened in the name of the School Corporation and the only authorized signature was that of the former Business Manager. All deposits to this account, from its inception until April 4, 2013, were from refunds or rebates issued to the School Corporation from various vendors. Total deposits to the account for the review period were \$150,276.57. Of this amount, \$130,055.99 were refunds issued on behalf of the School Corporation's employee healthcare and prescription drug benefit programs. The remaining deposits were refunds or rebates from other vendors of \$20,068.98 and dividends of \$151.60.

Withdrawals from this savings account totaled \$133,624.21. The withdrawals included cash withdrawals and checks issued for personal obligations of the former Business Manager as follows:

	School Year		
	2011-2012	2012-2013	Totals
Cash Withdrawals	\$ 16,900.00	\$ 51,741.50	\$ 68,641.50
Check Withdrawals	32,040.06	32,942.65	64,982.71
 Totals	 \$ 48,940.06	 \$ 84,684.15	 \$ 133,624.21

In addition to cash withdrawals at credit union branches using signed withdrawals slips, on April 9, 2012, the former Business Manager applied for and received a debit card for this account. Of the \$68,641.50 in cash withdrawals, \$40,400 was made at Automatic Teller Machines (ATM). Cash withdrawals were also used to purchase gift cards totaling \$2,000 and money orders totaling \$741.50. We found no evidence that

LAKE RIDGE SCHOOLS
RESULTS AND COMMENTS
(Continued)

any obligations of the School Corporation were paid in cash. Check withdrawals included payments to credit card companies; electric and gas utilities; medical, dental and orthodontics providers; auto dealerships; and wholesale stores. We found no evidence that these payments were for obligations of the School Corporation. The former Business Manager was the only signer on this account; he was also in control of the only debit card issued for this account.

We requested that James W. Huddleston, former Business Manager, make restitution to the Lake Ridge Schools in the amount of \$133,624.21 for public funds diverted for personal use. (See Summary of Charges, page 8)

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. (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)

FEES AND OTHER CHARGES

The School Corporation was charged fees of \$429.85 which were withdrawn from the account by the credit union. The fees were for purchases of gift cards and money orders, ATM fees when a Tech Credit Union ATM was not used, and for excessive numbers of transactions from a savings account in a month.

The School Corporation was also required to pay \$60.00 in other charges to MoneyGram International to receive vendor details of MoneyGram money orders purchased with some of the cash withdrawals noted above.

Fees and other charges paid by school year are as follows:

	School Year		
	2011-2012	2012-2013	Totals
Fees paid	\$ 81.49	\$ 348.36	\$ 429.85
Other charges	-	60.00	60.00
	\$ 81.49	\$ 408.36	\$ 489.85

We requested that James W. Huddleston, former Business Manager, make restitution to the Lake Ridge Schools in the amount of \$489.85 for fees and other charges incurred due to the diversion of public funds for personal use. (See Summary of Charges, page 8)

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)

LAKE RIDGE SCHOOLS
RESULTS AND COMMENTS
(Continued)

ADDITIONAL AUDIT COSTS – MISAPPROPRATED FUNDS

The State of Indiana incurred additional fees in the investigation of misappropriated funds by the former Business Manager, James W. Huddleston, of Lake Ridge Schools. The State of Indiana is requesting reimbursement of fees in the amount of \$10,112.38.

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)

EMPLOYEE DISHONESTY INSURANCE

The former Business Manager, James W. Huddleston, was not bonded and was not listed as a covered position in the crime policy. At this time, we know of no coverage for this loss.

LAKE RIDGE SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on May 14, 2013, with Sharon Johnson-Shirley, Ed. D., Superintendent of Schools; Edward R. Sopko, Treasurer; and G. Annette Wells, Board of Education member.

The contents of this report were discussed on May 14, 2013, with James W. Huddleston, former Business Manager.

LAKE RIDGE SCHOOLS
SUMMARY OF CHARGES

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
James W. Huddleston, former Business Manager:			
Public Funds Diverted for Personal Use, pages 4 and 5	\$ 133,624.21	\$ -	\$ 133,624.21
Fees and Other Charges, page 5	489.85	-	489.85
Additional Audit Costs - Misappropriated Funds, page 6	<u>10,112.38</u>	<u>-</u>	<u>10,112.38</u>
Totals	<u>\$ 144,226.44</u>	<u>\$ -</u>	<u>\$ 144,226.44</u>

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

AFFIDAVIT

STATE OF INDIANA)
)
 Lake COUNTY)

We, Susan M. Lardino and Carla E. Wenger, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Lake Ridge Schools, Lake County, Indiana, for the period from September 29, 2011 to April 4, 2013, is true and correct to the best of our knowledge and belief.

Susan M. Lardino

Carla E. Wenger
Field Examiners

Subscribed and sworn to before me this 17 day of JUNE, 2013.

Ofelia Gregoline
Notary Public

My Commission Expires: NOV 14, 2020

County of Residence: LAKE

