

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

SPECIAL INVESTIGATION REPORT

OF

WARSAW COMMUNITY SCHOOLS

KOSCIUSKO COUNTY, INDIANA

January 1, 2006 to December 31, 2014



FILED
07/21/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Erica Purvis	01-01-06 to 06-30-15
Chief Financial Officer	Kevin Scott	01-01-06 to 06-30-15
Superintendent of Schools	Ralph Bailey (Interim)	08-02-05 to 06-30-06
	Dr. Robert Haworth	07-01-06 to 07-31-08
	Ralph Bailey (Interim)	08-01-08 to 05-21-09
	(Vacant)	05-22-09 to 06-30-09
	Dr. Craig Hintz	07-01-09 to 06-30-14
	Dr. David Hoffert	07-01-14 to 06-30-15
President of the School Board	Ronald Yeiter	01-01-06 to 12-31-08
	Deborah Wiggins	01-01-09 to 12-31-11
	Jennifer Tandy	01-01-12 to 06-30-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE WARSAW COMMUNITY SCHOOLS

We have conducted a special investigation of the records of the Warsaw Community Schools for the period of January 1, 2006 to December 31, 2014. Our investigation was limited to the following records: payment vouchers, invoices, and other documentation relating to purchases made from Continental Maintenance Specialties, Inc. The purpose of our investigation was to determine if the transactions related to Continental Maintenance Specialties, Inc., were in compliance with the laws and regulations of the State of Indiana. The results of our investigation are fully described in the Special Investigation Results and Comments and Summary of Charges as listed in the Table of Contents.

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

Any Official Response included herein has not been examined or verified for its accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

May 6, 2015

WARSAW COMMUNITY SCHOOLS
SPECIAL INVESTIGATION RESULTS AND COMMENTS

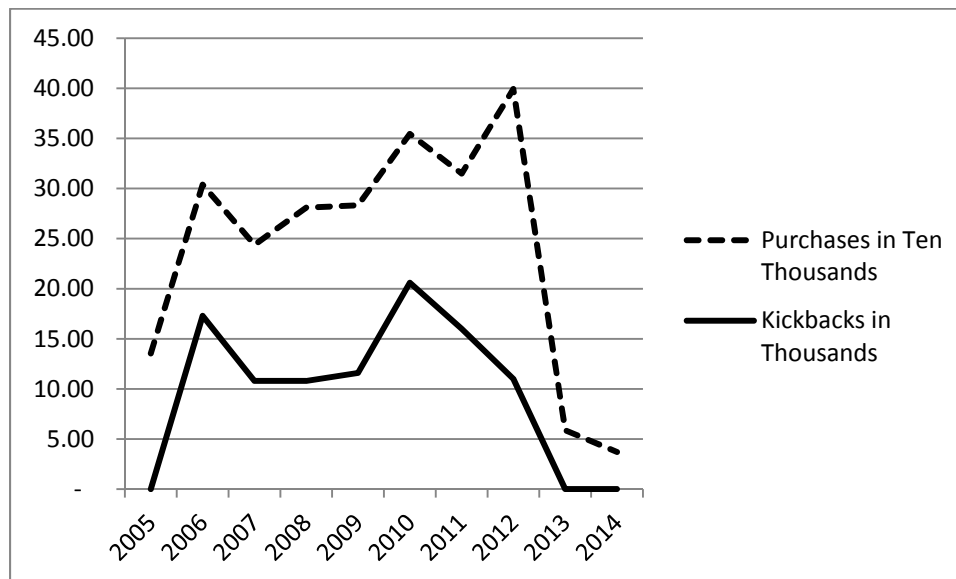
OFFICIAL MISCONDUCT, BRIBERY, AND KICKBACKS

On October 27, 2014, Gregory A. Schroeder, former Director of Maintenance, admitted to Warsaw Community Schools' (School Corporation) officials and later to the Warsaw Police Department that he had received improper incentive payments (kickbacks) from one of the School Corporation's vendors, Continental Maintenance Specialties, Inc. (CMS), and its Owner, Brian K. Stowers. Mr. Schroeder retained these payments for personal use and the School Corporation received no benefit from them. The School Corporation incurred excessive and unreasonable costs relating to the purchase of maintenance products from CMS.

Our investigation of bank accounts belonging to Mr. Schroeder, CMS, and Mr. Stowers revealed that Mr. Schroeder received 90 payments totaling \$115,620.87 from CMS and/or Brian K. Stowers between June 1, 2006 and September 24, 2012. The payments were in the form of CMS company checks, Brian K. Stower's personal checks, USPS Money Orders, Harley-Davidson motorcycle payments made on Mr. Schroeder's behalf, and unidentified bank deposits in Mr. Schroeder's bank accounts. These payments are detailed in the following schedule.

Type of Payment	Number of Payments	Date Range	Amount
CMS Company Checks Deposited	47	06-13-06 to 09-24-12	\$ 54,766.00
Brian K. Stowers Personal Checks Deposited	22	01-23-07 to 08-27-12	22,750.00
USPS Money Orders Deposited	3	09-25-08(1) and 11-22-10(2)	1,600.00
CMS Checks Cashed (not deposited)	4	10-26-09 to 06-28-10	3,800.00
Unidentified Deposits	12	06-01-06 to 02-19-11	15,700.00
Harley-Davidson Payments	2	06-08-06 and 12-31-09	17,004.87
Total Improper Payments	90		\$ 115,620.87

The following chart compares total School Corporation purchases from CMS to kickbacks received by Mr. Schroeder:



WARSAW COMMUNITY SCHOOLS
SPECIAL INVESTIGATION RESULTS AND COMMENTS
(Continued)

Indiana Code 35-44.1-1-1 as quoted below was the effective statute at the end of the investigation period. The statute was recodified effective July 1, 2012, and the amended effective July 1, 2014.

Indiana Code 35-44.1-1-1 states in part:

"A public servant who knowingly or intentionally:

- (1) commits an offense in the performance of the public servant's official duties; . . .

commits official misconduct, a Level 6 felony."

Indiana Code 35-44.1-1-2(c) as quoted below was the effective statute at the end of the investigation period. The statute was recodified effective July 1, 2012, and the amended effective July 1, 2014.

Indiana Code 35-44.1-1-2(a) states in part:

"A person who:

- (1) confers, offers, or agrees to confer on a public servant, either before or after the public servant becomes appointed, elected, or qualified, any property, except property the public servant is authorized by law to accept, with intent to control the performance of an act related to the employment or function of the public servant or because of any official act performed or to be performed by the public servant, former public servant, or person selected to be a public servant;
- (2) being a public servant, solicits, accepts, or agrees to accept, either before or after the person becomes appointed, elected, or qualified, any property, except property the person is authorized by law to accept, with intent to control the performance of an act related to the person's employment or function as a public servant; . . .

commits bribery, a Level 5 felony."

Any compensation, premium, bonus, or product earned as a result of the purchase of goods or services by the governmental unit becomes the property 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)

We consider Gregory A. Schroeder, former Director of Maintenance; Continental Maintenance Specialties, Inc.; and Brian K. Stowers, Owner of Continental Maintenance Specialties, Inc., to be jointly and severally liable for these improper payments to Mr. Schroeder. We requested reimbursement in the amount of \$115,620.87 to the School Corporation. (See Summary of Charges, page 11)

EXCESSIVE OR UNREASONABLE COSTS

The School Corporation had the following instances of excessive or unreasonable costs related to the purchase of maintenance products from Continental Maintenance Specialties, Inc., (CMS) during the period investigated:

WARSAW COMMUNITY SCHOOLS
SPECIAL INVESTIGATION RESULTS AND COMMENTS
(Continued)

1. Between 2005 and 2014, the School Corporation spent \$790,298.33 (16,869 gallons) on kitchen drain maintenance products. We were unable to determine if all of the products purchased were used or received. Based on inquiries with School Corporation maintenance personnel, other vendors selling similar products, and other units using the same products, we determined the maximum reasonable cost to be \$40,291 (860 gallons). This resulted in the School Corporation incurring excessive or unreasonable costs of \$750,007.33.
2. Between 2005 and 2014, the School Corporation spent \$370,643.41 (6,930 gallons) on weed killer/sterilant. We were unable to determine if all of the products purchased were used or received. Based on inquiries with School Corporation maintenance personnel, inquiries with other units using the same products, and inventory on hand at the end of 2014, we determined the maximum reasonable cost to be \$329,971.60 (6,170 gallons). This resulted in the School Corporation incurring excessive or unreasonable costs of \$40,671.81.
3. Between 2010 and 2012, the School Corporation spent \$41,002.68 on cleaning products used in automated cleaning machines for restrooms and shower rooms. We were unable to determine if all of the products purchased were used or received. Based on inquiries with School Corporation maintenance personnel and inventory on hand at the end of 2014, we determined the maximum reasonable cost to be \$3,520.75. This resulted in the School Corporation incurring excessive or unreasonable costs of \$37,481.93.

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)

Payments made for goods or services which are not received 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 consider Gregory A. Schroeder, former Director of Maintenance; Continental Maintenance Specialties, Inc.; and Brian K. Stowers, Owner of Continental Maintenance Specialties, Inc., to be jointly and severally liable for these excessive or unreasonable costs. We requested reimbursement in the amount of \$828,161.07 to the School Corporation. (See Summary of Charges, page 11)

PUBLIC PURCHASES

The School Corporation did not solicit quotes for the purchase of drain maintenance chemicals, herbicide, liquid ice melt, and weed killer/sterilant as required by law. Annual purchases of these products exceeded \$50,000 between 2006 and 2012 as follows:

Years	Drain Maintenance Chemicals	Herbicide	Liquid Ice Melt	Weed Killer/ Sterilant
2006	\$ 180,242.00	\$ -	\$ 17,127.00	\$ 19,582.20
2007	91,960.00	9,274.65	37,026.00	43,389.50
2008	104,270.80	16,285.50	27,299.80	81,701.46
2009	174,966.40	27,390.00	26,433.55	51,574.60
2010	81,089.18	62,958.50	69,101.45	46,453.55
2011	72,368.70	55,693.00	75,402.25	26,635.40
2012	81,806.20	117,774.80	41,125.15	101,306.70

WARSAW COMMUNITY SCHOOLS
SPECIAL INVESTIGATION RESULTS AND COMMENTS
(Continued)

Effective January 1, 2006 - June 30, 2007

Indiana Code 5-22-8-3 states:

- "(a) This section applies only if the purchasing agent expects the purchase to be:
- (1) at least twenty-five thousand dollars (\$25,000); and
 - (2) not more than seventy-five thousand dollars (\$75,000).
- (b) A purchasing agent may purchase supplies under this section by inviting quotes from at least three (3) persons known to deal in the lines or classes of supplies to be purchased.
- (c) The purchasing agent shall mail an invitation to quote to the persons described in subsection (b) at least seven (7) days before the time fixed for receiving quotes.
- (d) If the purchasing agent receives a satisfactory quote, the purchasing agent shall award a contract to the lowest responsible and responsive offeror for each line of class of supplies required.
- (e) The purchasing agent may reject all quotes.
- (f) If the purchasing agent does not receive a quote from a responsible and responsive offeror, the purchasing agent may purchase the supplies under IC 5-22-10-10."

Effective July 1, 2007 - Present

Indiana Code 5-22-8-3 states:

- "(a) This section applies only if the purchasing agent expects the purchase to be:
- (1) at least fifty thousand dollars (\$50,000); and
 - (2) not more than one hundred fifty thousand dollars (\$150,000).
- (b) A purchasing agent may purchase supplies under this section by inviting quotes from at least three (3) persons known to deal in the lines or classes of supplies to be purchased.
- (c) The purchasing agent shall mail an invitation to quote to the persons described in subsection (b) at least seven (7) days before the time fixed for receiving quotes.
- (d) If the purchasing agent receives a satisfactory quote, the purchasing agent shall award a contract to the lowest responsible and responsive offeror for each line or class of supplies required.
- (e) The purchasing agent may reject all quotes.
- (f) If the purchasing agent does not receive a quote from a responsible and responsive offeror, the purchasing agent may purchase the supplies under IC 5-22-10-10."

WARSAW COMMUNITY SCHOOLS
SPECIAL INVESTIGATION RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS

Internal controls over procurement and purchasing were insufficient as discussed herein:

- The School Corporation had not separated incompatible activities related to purchases, receipt of goods, and approval of the accounts payable vouchers.
- The School Corporation had not established adequate internal controls to monitor compliance with the requirements of the Public Purchase law as outlined in Indiana Code 5-22-8-3.

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.

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 Indiana Public School Corporations, Chapter 9)

Based on their internal review and recommendations from the Indiana State Board of Accounts, the School Corporation has designed and implemented additional internal controls regarding procurement and purchasing to address these deficiencies.

EMPLOYEE DISHONESTY INSURANCE COVERAGE

The School Corporation had insurance coverage for employee dishonesty as follows:

Insurance Company	Policy Number	Coverage Period	Coverage Amount	Charges
The Netherlands Insurance Company	9328486	07-01-05 to 07-01-06	\$ 25,000.00	\$ 96,034.53
The Netherlands Insurance Company	9328486	07-01-06 to 07-01-07	25,000.00	157,815.00
The Netherlands Insurance Company	9328486	07-01-07 to 07-01-08	25,000.00	113,959.37
The Netherlands Insurance Company	9328486	07-01-08 to 07-01-09	25,000.00	137,654.16
The Netherlands Insurance Company	9328486	07-01-09 to 07-01-10	25,000.00	116,878.71
The Netherlands Insurance Company	9328486	07-01-10 to 07-01-11	25,000.00	101,265.54
The Netherlands Insurance Company	9328486	07-01-11 to 07-01-12	25,000.00	115,584.83
The Netherlands Insurance Company	9328486	07-01-12 to 07-01-13	25,000.00	54,576.30
The Netherlands Insurance Company	9328486	07-01-13 to 07-01-14	<u>25,000.00</u>	<u>50,013.50</u>
Totals			<u>\$225,000.00</u>	<u>\$943,781.94</u>

The School Corporation has requested reimbursement for these losses on two occasions under this policy. Both requests have been denied by the insurance company. As of May 6, 2015, the School Corporation continues to pursue collection of these losses; however, the final settlement amount if any, is unknown at this time.

WARSAW COMMUNITY SCHOOLS
SPECIAL INVESTIGATION RESULTS AND COMMENTS
(Continued)

ADDITIONAL INVESTIGATION COSTS

The State of Indiana incurred additional costs in the investigation of official misconduct, bribery, kickbacks, and excessive or unreasonable costs totaling \$45,135.63.

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 consider Gregory A. Schroeder, former Director of Maintenance; Continental Maintenance Specialties, Inc.; and Brian K. Stowers, Owner of Continental Maintenance Specialties, Inc., to be jointly and severally liable for these additional investigation costs. We requested reimbursement in the amount of \$45,135.63 to the State of Indiana. (See Summary of Charges, page 11)

WARSAW COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on April 29, 2015, with Gregory A Schroeder, former Director of Maintenance.

The contents of this report were discussed on May 6, 2015, with Dr. David Hoffert, Superintendent of Schools; Kevin Scott, Chief Financial Officer; Erica Purvis, Treasurer; Jennifer Tandy, President of the School Board; and Timothy Shelly, School Attorney.

WARSAW COMMUNITY SCHOOLS
SUMMARY OF CHARGES

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Gregory A. Schroeder, former Director of Maintenance; Continental Maintenance Specialties, Inc.; and Brian K. Stowers, Owner of Continental Maintenance Specialties, Inc., jointly and severally:			
Official Misconduct, Bribery, and Kickbacks, pages 4 and 5	\$ 115,620.87	\$ -	\$ 115,620.87
Excessive or Unreasonable Costs, pages 5 and 6	828,161.07	-	828,161.07
Additional Investigation Costs, page 9	<u>45,135.63</u>	<u>-</u>	<u>45,135.63</u>
 Totals	 <u>\$ 988,917.57</u>	 <u>\$ -</u>	 <u>\$ 988,917.57</u>

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

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AFFIDAVIT

STATE OF INDIANA)
Kosciusko COUNTY)

We, Stephen R. Poor and Stanley W. Willmert, Special Investigators, being duly sworn on our oaths, state that the foregoing report based on the official records as described in our letter to the officials of Warsaw Community Schools, Kosciusko County, Indiana, for the period from January 1, 2006 to December 31, 2014, is true and correct to the best of our knowledge and belief.

Stephen R. Poor

Stanley W. Willmert
Special Investigators

Subscribed and sworn to before me this 16th day of July, 2015.

Kelly A Geiger
Notary Public

My Commission Expires: 10/26/2022
County of Residence: Kosciusko

