

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

AUDIT REPORT  
OF

FORMER SCHOOL CORPORATION TREASURER  
NORTH KNOX SCHOOL CORPORATION  
KNOX COUNTY, INDIANA

July 1, 2010 to August 28, 2012



**FILED**  
05/17/2013



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### SCHOOL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent of Schools	Dr. Darrel L. Bobe	07-01-10 to 06-30-13
Treasurer/Director of Business	Peggy E. Smith (Vacant) Terri Roesler(Interim) Terri Roesler	07-01-10 to 08-28-12 08-29-12 to 09-09-12 09-10-12 to 11-18-12 11-19-12 to 06-30-13
President of the School Board	(Vacant) James E. Franklin James Dotson	07-01-10 to 07-29-10 07-30-10 to 06-30-11 07-01-11 to 06-30-13



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF NORTH KNOX SCHOOL CORPORATION

We have audited the records of the School Corporation for the period from July 1, 2010 to August 28, 2012, as they pertain to the noted charge 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 Audit Results and Comments. The financial transactions of this office are reflected in the Annual Report of North Knox School Corporation for the audit period July 1, 2010 to June 30, 2012.

STATE BOARD OF ACCOUNTS

February 14, 2013

FORMER SCHOOL CORPORATION TREASURER  
NORTH KNOX SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

**PERSONAL EXPENSES**

A review of Peggy E. Smith's, former Treasurer/Director of Business, school credit card bills showed expenditures for personal expenses. Credit card bills in the name of North Knox School Corporation from American Express showed purchases for Diet Mountain Dew and unknown items from Walmart, totaling \$110.46.

Additional credit card bills in the name of North Knox School Corporation from First Bankcard also showed purchases for personal expenses. Expenditures were made to Endeavor Communication, Chuckles, Marathon Petro, Rent-A-Center, Parke County REMC, Walmart, Paypal, Amazon, Regional Acceptance, Jeannie's TV & Appliance, WIN Energy REMC, Buffalo Wild Wings, Speedway, AT&T, Geico, CATO-CATO Plus, El Rancherito, McDonald's, Vincennes Ocular Center, The Childrens Place, Stoll's Country Inn, Paula Young-Especial Years, House of Phones, Inc, Dirtbuster Carwash LLC and Casey's General Store. There were also charges for over limit fees, late fees, interest charged, and expedited payment fees totaling \$206.82. The charges to First Bankcard were \$5,716.25, including fees and interest. Payments were made on the First Bankcard which were not found on the School Corporation's records totaling \$2,216.22. In addition, on August 28, 2012, Peggy E. Smith wrote a check to the School Corporation in the amount of \$1,000.00 for personal expenses charged on the School Corporation credit card, dated for September 4, 2012. The remaining balance due on the First Bankcard as of January 31, 2013, was \$2,500.03.

There was also a Walmart credit card which had 2.78 paid for late fees during the audit period. The total amount due for personal expenses for all credit cards is \$2,613.27.

	Personal Expenses <u>Total</u>
American Express	\$ 110.46
First Bankcard	5,716.25
Walmart penalties and interest	<u>2.78</u>
 Total charges	 5,829.49
 Check written to School Corporation	 (1,000.00)
Payments made not on School records	<u>(2,216.22)</u>
 Amount due for personal expenses	 <u><u>\$ 2,613.27</u></u>

Documentation of a meeting provided by Dr. Darrel L. Bobe, Superintendent of Schools, held on August 28, 2012, with Peggy E. Smith, former Treasurer/Director of Business, and Max Nickless, School Board member, verified that Peggy E. Smith agreed that she had used the School Corporation credit card for personal purchases. According to the documentation, she specified she had not informed Dr. Bobe of the expenditures. Peggy E. Smith resigned on August 28, 2012, and post-dated a check to the School Corporation for September 4, 2012. Following this meeting Dr. Bobe notified the State Board of Accounts and requested an audit of the financial statements.

FORMER SCHOOL CORPORATION TREASURER  
NORTH KNOX SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

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

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)

Peggy E. Smith, former Treasurer/Director of Business, was requested to pay North Knox School Corporation \$2,613.27 for the personal expenses, penalties, interest, and late fees which were charged to the school credit cards. (See Summary of Charges, page 9)

**MANUAL CHECK DISBURSEMENTS**

Several disbursements were observed where manual checks were made out to Peggy E. Smith, former Treasurer/Director of Business, and IN BPA Alumni. Vendor receipts, invoices, claims, or other supporting information were not available to verify the validity of the disbursements. Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established.

On February 27, 2012, check number 2597 was manually written to IN BPA Alumni in the amount of \$3,000.00. This check cleared the bank February 29, 2012. No claim or ledger entry could be found for this expenditure. It was noted that check number 2632 written to WIN Energy REMC on February 27, 2012, was posted to the ledger in the amount of \$26,413.97. Cancelled check number 2632 was written to WIN Energy REMC in the amount of \$23,413.97, which agreed with the itemized claim. The difference between what the check was posted in the ledger for and what it cleared the bank for was \$3,000.00.

On May 12, 2012, check number 2845 was manually written to Peggy E. Smith in the amount of \$800.00. This check cleared the bank May 14, 2012. No claim or ledger entry could be found for this expenditure. It was noted that check number 2858 written to Energyusa-TPC Corp on May 14, 2012, was posted to the ledger in the amount of \$8,594.22. Cancelled check number 2858 was written to Energyusa-TPC Corp in the amount of \$7,794.22, which agreed with the itemized claim. The difference between what the check was posted in the ledger for and what it cleared the bank for was \$800.00.

On July 19, 2012, check number 3054 was manually written to Peggy E. Smith in the amount of \$1,645.97. This check cleared the bank July 19, 2012. No claim or ledger entry could be found for this expenditure. It was noted that check number 3055 written to WIN Energy REMC on July 13, 2012, was posted to the ledger in the amount of \$33,706.42. Cancelled check number 3055 was manually written to WIN Energy REMC in the amount of \$32,060.45, which agreed with the itemized claim. The difference between what the check was posted in the ledger for and what it cleared the bank for was \$1,645.97.

On August 10, 2012, check number 3139 was manually written to Peggy E. Smith in the amount of \$1,845.50. This check cleared the bank August 13, 2012. On August 16, 2012, check number 3140 was manually written to Peggy E. Smith in the amount of \$1,845.50. This check cleared the bank August 16, 2012. No claim or ledger entry could be found for either expenditure. It was noted that check number 3212

FORMER SCHOOL CORPORATION TREASURER  
NORTH KNOX SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

written to WIN Energy REMC on August 28, 2012, was posted to the ledger in the amount of \$40,557.12. Cancelled check number 3212 was written to WIN Energy REMC in the amount of \$36,866.12, which agreed with the itemized claim. The difference between what the check was posted in the ledger for and what it cleared the bank for was \$3,691.00.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Peggy E. Smith, former Treasurer/Director of Business, was requested to repay \$9,136.97 to North Knox School Corporation for the manual checks written without documentation. (See Summary of Charges, page 9)

**OFFICIAL BOND**

The following official bonds were filed in the Office of the County Recorder for Peggy E. Smith, former Treasurer/Director of Business:

Peggy E. Smith, School Corporation Treasurer, Bond B172425,  
07-01-10 until successor duly qualified, \$100,000

Peggy E. Smith, School Corporation Treasurer, Bond B172425,  
07-01-11 until successor duly qualified, \$100,000

Peggy E. Smith, School Corporation Treasurer, Bond B172425,  
07-01-12 until successor duly qualified, \$100,000

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder . . ."

**AUDIT COSTS - MISSING FUNDS**

The State of Indiana incurred additional audit fees in the investigation of the missing funds. The State of Indiana is requesting reimbursement of audit fees incurred in the amount of \$6,191.25.

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)

Peggy E. Smith, former Treasurer/Director of Business, was requested to pay additional audit costs involved with the investigation of the missing funds. (See the Summary of Charges, page 9)

FORMER SCHOOL CORPORATION TREASURER  
NORTH KNOX SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on February 14, 2013, with Dr. Darrel L. Bobe, Superintendent of Schools; James Dotson, President of the School Board; Max Nickless, School Board member; and Terri Roesler, Treasurer/Director of Business. The officials concurred with our audit findings.

The contents of this report were discussed on March 5, 2013, with Peggy E. Smith, former Treasurer/Director of Business. An Official Response has been made a part of this report and may be found on page 8.

March 15, 2013

Official Response  
State Board of Accounts  
302 W. Washington St, Room E418  
Indianapolis, IN 46204

In reference to my exit interview conducted on March 5, 2013....

The two charges to the American Express corporate credit card were for North Knox School Corporation expenses. The smaller of the amounts was for two 6-packs of Dt. Mountain Dew for the administration office. Normally those were purchased by Pepsi directly, however, there were none in stock and Dr. Bobe had me purchase a couple 6-packs until the Pepsi delivery came. The larger of the charges were for cleaning supplies needed by the school buildings. At no time were personal expenses charged to the American Express card. Dr. Bobe approved all purchases once the statement was received.

Sincerely,

Peggy E. Smith

FORMER SCHOOL CORPORATION TREASURER  
 NORTH KNOX SCHOOL CORPORATION  
 SUMMARY OF CHARGES

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Peggy E. Smith, former Treasurer/Director of Business:			
Personal Expenses, pages 4 and 5	\$ 2,613.27	\$ -	\$ 2,613.27
Manual Check Disbursements, pages 5 and 6	9,136.97	-	9,136.97
Audit Costs - Missing Funds, page 6	<u>6,191.25</u>	<u>-</u>	<u>6,191.25</u>
Totals	<u>\$ 17,941.49</u>	<u>\$ -</u>	<u>\$ 17,941.49</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     )  
Knox COUNTY     )

We, Mary Annette Ladson and Mike McCarty, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the former School Corporation Treasurer, North Knox School Corporation, Knox County, Indiana, for the period from July 1, 2010 to August 28, 2012, is true and correct to the best of our knowledge and belief.

Mary Annette Ladson  
Michael McCarty  
Field Examiners

Subscribed and sworn to before me this 6 day of May, 2013

Margie McCormack  
Notary Public

My Commission Expires: July 13, 2014  
County of Residence: Knox

