

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

SPECIAL EXAMINATION REPORT

OF

SCHOOL TOWN OF MUNSTER

LAKE COUNTY, INDIANA

July 1, 1999 to August 31, 2015



**FILED**  
10/10/2017



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Richard A. Sopko Janice Swanson	07-01-99 to 06-30-12 07-01-12 to 06-30-16
Superintendent of Schools	William J. Pfister Richard A. Sopko Dr. Jeffery Hendrix	07-01-99 to 06-30-12 07-01-12 to 06-30-14 07-01-14 to 06-30-16
President of the School Board	Melissa Higgason	01-01-16 to 12-31-16



**STATE OF INDIANA**  
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TO: THE OFFICIALS OF SCHOOL TOWN OF MUNSTER

We have examined salary contracts, payroll records, annuity payments, and health insurance benefits of the School Town of Munster (School Corporation) for the period from July 1, 1999 to August 31, 2015.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Special Examination Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of the procedures applied to the specific records as identified above.

Any Official Response to the Special Examination Results and Comments, incorporated within this report, was not verified for accuracy.

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

March 17, 2016

SCHOOL TOWN OF MUNSTER  
SPECIAL EXAMINATION RESULTS AND COMMENTS

***BENEFITS AND OTHER COMPENSATION - STIPENDS***

According to the Administration Salary Schedule approved by the School Board, the Superintendent of Schools was given the authority to award annual stipends to administrators and non-certified employees who met certain requirements. There was no documentation presented for examination to determine if the amounts classified as "stipends" paid to administrators and noncertified employees met the requirements approved by the School Board.

Official Attorney General Opinion 89-5, issued February 24, 1989, provides the following conclusion: "Indiana school corporation are not currently authorized by statute to pay certified and noncertified employees "appreciation stipends," "bonuses," or other compensation, regardless of the nomenclature used, in addition to compensation or benefits agreed to or fixed by contract or salary schedule, except additional salaries to be paid for continuing education pursuant to Indiana Code Chapter 20-6.1-1 and the annual stipend to be paid to mentors by the State pursuant to Indiana Code Chapter 20-6.1-8." (The School Administrator and Uniform Compliance Guidelines, June 2009)

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 law. Compensation must be paid 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 1)

***ADMINISTRATIVE FRINGE BENEFITS SCHEDULE AND SALARY CONTRACTS***

The salaries paid to the administrators were calculated based on certain provisions outlined in the Administrative Fringe Benefits Schedule adopted by the School Board. We reviewed the salaries included in the contracts, and subsequently paid to administrators, for the fiscal year 2013-2014. We determined that the amounts paid were not calculated in accordance with the Administrative Fringe Benefits Schedule.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

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 law. Compensation must be paid 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 1)

***FRINGE BENEFITS FOR THE SCHOOL BOARD***

Pursuant to policies adopted by the School Board, the members of the School Board were allowed to participate in the fringe benefits offered by the School Corporation. Such fringe benefits included health insurance, life insurance, vision, and dental insurance. Participation in the programs will be at the same cost as administrators.

SCHOOL TOWN OF MUNSTER  
SPECIAL EXAMINATION RESULTS AND COMMENTS  
(Continued)

The employees' and administrators' share of the cost of the health benefits were paid through bi-weekly payroll deductions. The annual cost for family coverage was \$3,600 for family coverage and \$1,800 for single coverage. However, since the compensation to the School Board members was only paid twice a year, the School Board members participating in the health benefits only contributed \$300 for family coverage or \$150 for single coverage.

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 law. Compensation must be paid 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 1)

All types of employee benefits must be detailed in a written policy. Payments for expenses not authorized in a written policy cannot be allowed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

***CASH BONUS IN LIEU OF SEVERANCE***

Cash Bonus in Lieu of Severance Benefits was a fringe benefit added to the contracts starting in June 21, 2000, and was paid based on the employee's salary, benefit days, bonus days, and years of service. The individual contract states in part: "The administrator will receive a cash bonus in lieu of severance benefits as outlined in the Administrative Fringe Benefits, Section VI, 'Severance.'" Under this section it states: "An administrator who leaves the School Town of Munster with ten (10) or more years of service as an administrator or an administrator with a total of ten (10) years experience as a School Town of Munster employee (with prior approval of the Superintendent) and is not terminated for cause shall receive one of the following plans."

There were 11 employees of the School Corporation who received cash bonus in lieu of severance for up to 10 years while remaining employed with the School Corporation. As a result, the School Corporation did not follow the policy by paying prior to leaving service or confirming that they were not terminated for cause since payments were made prior to leaving service.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Unless specifically authorized by law, severance pay, or other payments to employees upon separation from employment, must be supported by the written opinion of the attorney for the unit stating that the payments are in accordance with all laws, including IC 35-44.1-1-3, and a properly enacted Home Rule ordinance/resolution. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

SCHOOL TOWN OF MUNSTER  
SPECIAL EXAMINATION RESULTS AND COMMENTS  
(Continued)

**INTERNAL CONTROLS OVER PAYROLL**

We noted deficiencies in the internal control system of the School Corporation related to payroll:

1. Lack of Segregation of Duties: The School Corporation has not separated incompatible activities related to payroll disbursements. The Payroll Specialist inputted, prepared, recorded, and remitted payrolls without evidence of a review or approval. Segregation of duties was not in evidence; nor were there adequate oversight and approval of the transactions and reports generated based on these transactions.
2. There was no authorization of administrative compensation. Not all administrative contracts were signed by the School Board; some were only signed by the employee and the Superintendent of Schools.

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

SCHOOL TOWN OF MUNSTER  
LAKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on March 17, 2016, with Janice Swanson, Treasurer; Dr. Jeffery Hendrix, Superintendent of Schools; Melissa Higgason, President of the School Board; Ronald Ostajic, Vice President of the School Board; Judith Florczak, School Board Secretary; John Friend, School Board member; Paula Nellans, School Board member; Kathleen M. Maicher, School Corporation Attorney; Robin Winston, Public Relations; and Vicki Swing, Payroll Specialist.

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**VIA EMAIL**

September 28, 2017

Mr. Ryan Preston  
**STATE BOARD OF ACCOUNTS**  
302 W. Washington Street, Room E418  
Indianapolis, IN 46204-2765

RE: Official Response of the School Town of Munster to the Special Examination Results and Comments of the State Board of Accounts for 7/1/99 to 8/31/15  
Our File No. ZZ8-72464

Dear Mr. Preston:

Please find attached the Official Response of the School Town of Munster to the Special Examination Results and Comments of the State Board of Accounts for 7/1/99 to 8/31/15 (new draft).

Should you have any questions, please do not hesitate to contact me.

Very truly yours,

**SPANGLER, JENNINGS & DOUGHERTY, P.C.**

By: KATHLEEN M. MAICHER  
Merrillville Office

KMM/ml  
Enclosures

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**VIA EMAIL**

April 25, 2016

Ms. Mary Jo Small, CPA  
Ms. Karen Tetrault, CPA  
STATE BOARD OF ACCOUNTS  
302 W. Washington Street, Room E418  
Indianapolis, IN 46204-2765

RE: Official Response of the School Town of Munster to the Special Examination Results and Comments of the State Board of Accounts for 7/1/99 to 8/31/15  
Our File No. ZZ8-72464

Dear Meses. Small and Tetrault:

The School Town of Munster (STM) would like to take this opportunity to respond to the Special Examination Results and Comments of the State Board of Accounts (SBOA) for 7/1/99 to 8/31/15. We would like to comment both on actions already undertaken by STM which bear upon these issues as well as proposed actions dealing with these concerns.

**Compliance Issues**

I. Benefits and Other Compensation

A. Citation: STM was cited for past awards of annual stipends by the Superintendent to administrators (both certified and non-certified) which were to have been based upon certain criteria sent out in the Administrative Fringe Benefits Schedule. The SBOA audit revealed no documentation to confirm that the stipends awarded were based upon the requirements approved by the Board of School Trustees of the School Town of Munster (Board).



B. Corrective Action: The Board has discontinued the practice of allowing the Superintendent to award annual recurring stipends to administrators (both certified and non-certified). The Administrative Fringe Benefits Schedule no longer contains any mention of, or reference to, annual recurring administrative stipends and no new contract or employment agreement entered into after January 1, 2015 will contain a provision for annual recurring administrative stipends.

## II. Fringe Benefits for School Board Members

A. Citation: STM policies allowed the members of the School Board to participate in various health benefits at the same cost charged to administrators through payroll deductions. Contributions by the Board were substantially less than contributions by other administrators because Board members were paid only twice a year.

B. Corrective Action: The Board amended its policy on health insurance benefits on January 16, 2016. Current Board members in office on or before January 1, 2014 may participate in the corporation's health insurance plans at the costs paid for such benefit plans by an administrator in the corporation until December 31, 2016. A Board member commencing a newly elected four-year term and/or a Board member appointed to fill a vacancy on the Board on or after January 1, 2014 may elect to participate in the health insurance plans of the School Corporation at the full premium amount at the Board member's sole cost. See Bylaw 0144.1 attached.

## III. Cash Bonus and Severance

A. Citation: STM was cited for paying out severance benefits before employees actually retired.

B. Corrective Action: The practice of paying out retirement benefits prior to actual separation from STM (cash bonus in lieu of severance) ceased upon Dr. Jeffrey Hendrix assuming the office of Superintendent. Any severance payments currently owed to



teachers/staff/administrators will be paid only upon retirement of that individual from the corporation.

IV. Internal Controls Over Payroll

A. Citation: The SBOA found that there was no segregation of duties among employees handling financial transactions for the school corporation and inadequate oversight and approval of the transactions and reports generated on those transactions.

B. Corrective Action: I.C. §-11-1-27 requires all Indiana political subdivisions to adopt a minimum level of internal control standards developed by the SBOA as published in the Uniform Internal Control Standards for Indiana Political Subdivisions. The Board is aware that it must adopt these standards, train personnel, and implement policies and procedures consistent with those standards. The Board believes that in complying with this statute, any weaknesses noted in this report will be rectified. We have retained the firm of Umbaugh & Associates to serve as financial consultants to the district and expect to utilize their expertise in resolving any issues which may arise in achieving compliance with I.C. §-11-1-27 in a timely fashion.

Very truly yours,

**SPANGLER, JENNINGS & DOUGHERTY, P.C.**

By: Kathleen M. Maicher  
Merrillville Office

KMM/ml  
Enclosures

# School Town of Munster

Bylaw: 0144.1

## School Town of Munster Bylaws & Policies

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### 0140 - MEMBERSHIP

0141            **Number**

The School Board shall consist of five (5) members.

0142            **Election/Appointment of Members and Eligibility to Serve**

Members of the Board shall be qualified and elected in accordance with the Corporation's organization plan on file with the State Board of Education. In accordance with I.C. 20-26-4-11, if a teacher or a noncertified employee (as defined in I.C. 20-29-2-11) of the Board is elected or appointed to the Board, the employee must resign from employment by the Board before serving on the Board.

No person otherwise eligible to assume office as a member of the Board shall be disqualified on the basis of age if s/he is at least twenty-one (21) years of age (I.C. 20-26-4-9); and ownership of property shall not be a qualification to serve as a Board member (I.C. 20-26-4-11).

Before August 1<sup>st</sup> of each school year (July 1 to June 30), the Superintendent shall file with the State Superintendent of Public Instruction a listing of the:

- A.        names and addresses of members of the Board;
- B.        names and addresses of the Board's officers;
- C.        expiration dates of the terms of the Board members and officers.

Should a change occur in Board membership during the term of one (1) or more members of the Board, the School Corporation shall file the change with the State Superintendent of Public Instruction within thirty (30) days after the change occurs. (I.C. 20-23-8-22)

Revised 3/11/13

0142.1            **Term**

The term of each Board member shall be four (4) years.

- A. to local media;
- B. to local officials and/or State officials.

Sometimes the statements imply, or the readers (listeners) infer, that the opinions expressed or statements made are the official positions of the Board. The misunderstandings that can result from these incidents can embarrass both the member and the Board. Therefore, Board members should, when writing or speaking on school matters to the media, legislators, and other officials, make it clear that their views do not necessarily reflect the views of the Board or of their colleagues on the Board.

- A. This bylaw shall apply to all statements and/or writings by individual Board members not explicitly sanctioned by a majority of its members, except as follows:
  - 1. correspondence, such as legislative proposals, when the Board member has received official guidance from the Board on the matters discussed in the letter
  - 2. routine, not for publication, correspondence of the Superintendent and other Board employees
  - 3. routine "thank you" letters of the President of the Board
  - 4. statements by Board members on nonschool matters (providing the statements do not identify the author as a member of the Board)
  - 5. personal statements not intended for publication
- B. Copies of this bylaw shall be sent to local media by the Board President.

0144            **Operations**

0144.1        **Compensation**

Each member of the Board of School Trustees will receive compensation for service on the Board, not to exceed the statutory maximum. The specific amount will be set by the Board.

Any current Board member in office on or before January 1, 2014, may participate in the corporation's health insurance plans at the cost paid for such benefit plans by an administrator in the corporation until December 31, 2016. A Board Member commencing a newly elected four-year term

and/or a board member appointed to fill a vacancy on the board on or after January 1, 2014 may elect to participate in the health insurance plans of the school corporation at the full premium amount at the board member's sole cost.

Beginning September 1, 2015, participation in the corporation's benefits plan ceases at the earlier of:

- A. the expiration of the Board member's term;
- B. the Board member's election to terminate such coverage;
- C. the Board member's failure to pay any premium for a benefit.

Expenses of a Board member shall be reimbursed when incurred in the performance of his/her duties or in the performance of functions authorized by the Board and will be reimbursable through the regular claim process.

The following guidelines have been established by the Board to ensure appropriate and proper reimbursement of expenses for Board members.

- A. Expenses will be reimbursed only for activities authorized by the Board.
- B. Reimbursement for mileage will not exceed the current rate established for Corporation employees.
- C. When attending a Board-approved conference, all fees, parking, mileage, meals, and lodging will be reimbursed.
- D. Purchase of any printed or other materials relating to Boardmanship will be reimbursed if prepurchase approval is given by the Board. If such approval is not possible or feasible, a voucher must be submitted to the Board for approval.
- E. When the Board attends a community or school-related event as a Board function, or if a Board member attends as the designated representative of the Board, any incurred expenses, including mileage, will be reimbursed by the Board. If a Board member attends such events as a private citizen, any incurred expenses are to be paid by the Board member.
- F. No entertainment expenses or purchases of alcoholic beverages are reimbursable.
- G.