

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

SPECIAL INVESTIGATION REPORT
OF

AK SMITH CENTER
MICHIGAN CITY AREA SCHOOLS
LAPORTE COUNTY, INDIANA

July 1, 2015 to February 28, 2018



FILED

10/11/2018

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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 MICHIGAN CITY AREA SCHOOLS, LAPORTE COUNTY, INDIANA

This is a special investigation report for Michigan City Area Schools (School Corporation), for the period July 1, 2015 to February 28, 2018, and is in addition to any other report for the School Corporation as required under Indiana Code 5-11-1. All reports pertaining to the School Corporation may be found at www.in.gov/sboa/.

We performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts and were limited to records associated with the AK Smith Center. The Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

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

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

September 17, 2018

AK SMITH CENTER
MICHIGAN CITY AREA SCHOOLS
RESULTS AND COMMENTS

BACKGROUND

The AK Smith Center (Center) was the vocational service center for the Michigan City Area Schools and surrounding area school corporations. Vocational classes offered included cosmetology, automotive mechanics, culinary, and health occupational training (HOSA). In addition, the Center offered adult education classes in preparation of HSE (High School Equivalency) testing.

The revenue generated by the Center was generally from class fees, automotive services, salon services, and fundraisers. As of December 14, 2015, Nicole DeMunck (DeMunck), Secretary/Treasurer, was solely responsible for the accounting of cash collected, including issuing receipts, preparing the bank deposits, taking the deposit to the bank, and processing accounts payable vouchers for payment by the High School Extracurricular Treasurer.

The collection process for some of the revenue originated with the classroom instructors. Any money collected by the instructors was remitted to DeMunck for deposit to the bank with a signed form titled "ECA Account Deposit Slip for Teachers." The form included the total amount of checks and a breakdown by denomination for the cash remitted to DeMunck. The instructors from culinary and HOSA each signed a notarized affidavit stating that on each occasion that money was remitted to DeMunck, an "ECA Account Deposit Slip for Teachers" was included. The automotive mechanics instructor signed a notarized affidavit stating that on each occasion that money he remitted to DeMunck, included a "Wolf Shop" work order.

The revenue generated from HSE testing fees, uniform fees, cosmetology beauty kits, textbook rental fees, and welding gear packs were collected by DeMunck. DeMunck was responsible for issuing receipts for the money she collected. DeMunck was responsible for remitting the HSE testing fees to the School Corporation office. All other revenue, after deposit, was reported to the High School Extracurricular Treasurer for recording in the individual Extracurricular Account (ECA) funds designated to the AK Smith Center.

The results of our investigation are described in the following comments and are based on the records provided by the Director of the Center that were prepared by DeMunck and the records maintained by instructors of each area of vocational classes.

RECEIPTS NOT DEPOSITED TO ECA ACCOUNT

Health Occupational Students of America (HOSA)

The HOSA instructor provided copies of all the "ECA Account Deposit Slips for Teachers" that were, along with the cash and/or checks, remitted to DeMunck during the school years 2015-2016, 2016-2017, and up to February 20, 2018.

The following schedule compares the total amount remitted to DeMunck by the HOSA instructor based on the copies of "ECA Deposit Slips for Teachers" with the amount deposited and recorded in the HOSA fund by school year:

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MICHIGAN CITY AREA SCHOOLS
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	School Year 2015-2016	School Year 2016-2017	School Year 2017-2018	Totals
ECA Deposit Slip Per Teacher	\$ 1,770.31	\$ 1,895.20	\$ 869.50	
Amount Deposited to HOSA Fund	(1,770.31)	(1,818.30)	(562.25)	
Difference - Cash Not Deposited	\$ -	\$ 76.90	\$ 307.25	\$ 384.15

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance 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 Extra-Curricular Accounts, Chapter 7)

We requested that DeMunck reimburse the Center's HOSA Fund \$384.15 for receipts not deposited to the ECA Account. (See Summary of Charges, page 11)

Culinary Operations

Beginning in the 2017-2018 school year, the culinary class began to operate a café at the Center. The café was open on Wednesdays and Fridays and provided prepared meals for a nominal price. Also, the culinary class provided catering services to various organizations for special occasions. The revenues generated from café sales were normally accounted for using the "Square" system, whereby patrons paid by debit cards and the charges were directly deposited into the ECA bank account. However, there were some sales paid in cash. The culinary instructor provided copies of the "ECA Account Deposit Slips for Teachers" documenting the amounts remitted to DeMunck for deposit and credited to the Commercial Food fund.

The following schedule compares the total amount remitted to DeMunck by the culinary instructor based on the copies of the "ECA Deposit Slips for Teachers" with the amount deposited and recorded in the Commercial Food fund:

	School Year 2017-2018
ECA Deposit Slip Per Teacher	\$ 1,340.73
Amount Deposited to Culinary Fund	(1,094.53)
Difference - Cash Not Deposited	\$ 246.20

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

AK SMITH CENTER
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Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance 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 Extra-Curricular Accounts, Chapter 7)

We requested that DeMunck reimburse the Center's Commercial Food fund \$246.20 for receipts not deposited to the ECA Account. (See Summary of Charges, page 11)

Automotive Mechanics

The Automotive Mechanics instructor was unable to provide copies of the "ECA Deposit Slips for Teachers" that he completed when remitting money to DeMunck. However, he did provide "Wolf Work Shop" work orders. The work orders included a description of the auto parts, work to be performed, and designated the method of payment (cash or check including the check number). In addition, we obtained copies of the bank deposits from the Center's local bank. By utilizing the information on the work orders and the copies of the bank deposits, we were able to determine the amount collected by the instructor and compared that to the monies deposited in the Voc Auto Trades Fund.

The following schedule compares the total amount remitted to DeMunck by the instructor based on the work orders with the amount deposited and recorded to the Voc Auto Trades Fund.

	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>Totals</u>
Total Wolf Shop Work Orders**	\$ 4,952.33	\$ 3,108.00	\$ 2,132.31	
Amount Deposited to Voc Auto Trades Fund for Repairs	(4,327.62)	(2,973.00)	(1,190.31)	
Difference - Cash Not Deposited	\$ 624.71	\$ 135.00	\$ 942.00	1,701.71

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance 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 Extra-Curricular Accounts, Chapter 7)

We requested that DeMunck reimburse the Center's Voc Auto Trades Fund \$1,701.71 for receipts not deposited to the ECA Account. (See Summary of Charges, page 11)

Cosmetology

Cosmetology Kits

Students enrolled in the cosmetology class were required to purchase cosmetology kits at the beginning of the first year of the cosmetology program. The students purchased the kits at a fee of \$300 each. The fee for the kits was paid directly to DeMunck. Receipts for any payments made for the kits could not be located; however, the Director of the Center was able to retrieve a computerized spreadsheet from

AK SMITH CENTER
MICHIGAN CITY AREA SCHOOLS
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DeMunck's computer, which included names of the students enrolled in the cosmetology class, designation of grade level (first or second year), and indication of whether the \$300 fee was paid. Based on this spreadsheet, two students paid in cash for their kits. We were unable to trace these payments to any bank deposit made by DeMunck.

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance 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 Extra-Curricular Accounts, Chapter 7)

We requested that DeMunck reimburse the Center's Cosmetology Fund \$600 for cash received and not deposited to the ECA Account. (See Summary of Charges, page 11)

Salon Services

The cosmetology class began offering salon services beginning with the 2016-2017 school year. The services were available to the public for a nominal fee. Each service was recorded using an invoice which included the student name, description of the service, and the cost. Based on the invoices, we were able to determine the amount of fees not deposited.

	School Year 2016-2017	School Year 2017-2018	Totals
Total Salon Fees per Invoices	\$ 2,220.60	\$ 952.00	
Total Deposits to Cosmetology Fund	(1,143.40)	(75.50)	
Difference - Cash Not Deposited	\$ 1,077.20	\$ 876.50	\$ 1,953.70

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance 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 Extra-Curricular Accounts, Chapter 7)

We requested that DeMunck reimburse the Center's Cosmetology Fund \$1,953.70 for receipts not deposited to the ECA Account. (See Summary of Charges, page 11)

Welding Gear Packs

Students enrolled in the Welding Technology class had the option to purchase welding gear packs at cost. Receipts issued for welding gear were traced to the amounts deposited in the AK Students fund. Receipt #661357, dated September 28, 2017, issued by DeMunck for \$220 cash was not deposited.

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Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance 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 Extra-Curricular Accounts, Chapter 7)

We requested that DeMunck reimburse the Center's AKS Student Fund \$220 for cash received and not deposited to the ECA Account. (See Summary of Charges, page 11)

Student Uniforms

The Center had a policy that each student purchase a uniform for their respective class. DeMunck accepted payments and issued receipts for student uniforms. The following schedule compares the total receipts issued by DeMunck for uniform sales to the amounts deposited to the AK Student Fund for the school year 2017-2018.

	<u>2017-2018</u>
Total Receipts Issued for Uniforms	\$ 3,225
Amount Deposited to AK Student Fund	(2,229)
Difference - Cash Not Deposited	\$ 996

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance 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 Extra-Curricular Accounts, Chapter 7)

We requested that DeMunck reimburse the Center's AKS Student Fund \$996 for cash received and not deposited to the ECA Account. (See Summary of Charges, page 11)

Pancake Breakfast Ticket Sales

The Center hosted an Annual Pancake Breakfast. For the 2015-2016 event, a comparison of the "ECA Deposit Slip for Teachers," completed by the HOSA instructor and remitted to DeMunck for ticket sales, with the deposits made for the event revealed \$163 in cash collections which were not deposited.

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance 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 Extra-Curricular Accounts, Chapter 7)

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MICHIGAN CITY AREA SCHOOLS
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We requested that DeMunck reimburse the Center's AKS Student Fund \$163 for pancake breakfast tickets sales not deposited to the ECA Account. (See Summary of Charges, page 11)

Summary of Receipts Not Deposited to ECA Account

The schedule below summarizes the receipts not deposited as discussed in the above paragraphs.

Description	Amount
Health Occupational Students of America (HOSA)	\$ 384.15
Culinary Operations	246.20
Automotive Mechanics	1,701.71
Cosmetology Kits	600.00
Cosmetology Salon Services	1,953.70
Welding Gear Packs	220.00
Student Uniforms	996.00
Pancake Breakfast Ticket Sales	<u>163.00</u>
 Total Receipts Not Deposited	 <u>\$ 6,264.76</u>

RECEIPTS NOT DEPOSITED TO CORPORATION

High School Equivalency (HSE) Fees Not Deposited

The Center offered HSE testing each month. The cost of taking the five part test was \$18 per part. DeMunck's duties included the collection of HSE testing fees, issuing receipts for the fees collected, and remitting the fees, including duplicate copies of the receipts, to the School Corporation's administrative office for deposit. DeMunck prepared a sign in sheet each month listing the adults that had paid the fees and were eligible to take the test.

For the school years 2015-2016 and 2016-2017, \$1,822 and \$918, respectively, in receipts issued by DeMunck were not remitted to the School Corporation administrative office for deposit.

Receipts issued by DeMunck for HSE testing fees could not be located for the period July 2017 to February 2018. The School Corporation's administrative office confirmed that no fees had been remitted by DeMunck for this same period. The sign-in sheets for each date of HSE testing were provided for our investigation along with the testing results for each testing participant. Based on this information, we calculated \$4,292 of HSE testing fees were collected and not remitted by DeMunck to the School Corporation's administrative office for deposit.

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance 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 Extra-Curricular Accounts, Chapter 7)

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We requested that DeMunck reimburse the Michigan City Area Schools \$7,032 for HSE testing fees not deposited. (See Summary of Charges, page 11)

SPECIAL INVESTIGATION COSTS

The State of Indiana incurred costs in the amount of \$8,737.75 due to the special investigation of the AK Smith Center, Michigan City Area Schools.

Audit costs incurred because of theft and shortage may be the personal obligation of the responsible official or employee.

Audit costs or other costs incurred because of poor records, nonexistent records or other inadequate bookkeeping practices may be the personal obligation of the responsible official or employee of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-curricular Accounts, Chapter 7)

We requested that DeMunck reimburse the State of Indiana for special investigation costs in the amount of \$8,737.75 (See Summary of Charges, page 11)

EMPLOYEE DISHONESTY INSURANCE

The School Corporation had insurance policies that included employee theft with coverage amounts as shown below by policy period:

<u>Term</u>	<u>Coverage</u>
01-01-15 to 01-01-16	\$ 100,000
01-01-16 to 01-01-17	100,000
01-01-17 to 01-01-18	200,000
01-01-18 to 01-01-19	200,000

AK SMITH CENTER
MICHIGAN CITY AREA SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on September 17, 2018, with Dr. Barbara Eason-Watkins, Superintendent of Schools; Dr. Wendel McCollum, Associate Superintendent of Schools; Donald J. Dulaney, President of the School Board; Lance Werner, Business Manager; Audra L. Peterson, Director; Beryle A. Burgwald, School Board member; Deborah Chubb, School Board member; and Beth Pishkur, School Board member.

On August 22, 2018, a certified letter was mailed to Nicole DeMunck extending an invitation to meet with us to discuss our findings. Ms. DeMunck was unresponsive to our request.

AK SMITH CENTER
MICHIGAN CITY AREA SCHOOLS
SUMMARY OF CHARGES
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Nicole DeMunck, former Secretary/Treasurer:			
Receipts Not Deposited to ECA Account, pages 3 through 8	\$ 6,264.76	\$ -	\$ 6,264.76
Receipts Not Deposited to Corporation, pages 8 through 9	7,032.00	-	7,032.00
Special Investigation Costs, page 9	<u>8,737.75</u>	<u>-</u>	<u>8,737.75</u>
 Totals	 <u>\$ 22,034.51</u>	 <u>\$ -</u>	 <u>\$ 22,034.51</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)
Porter COUNTY)

We, Kristin Campbell and Mary Jo Small, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of Michigan City Area Schools, AK Smith Center, LaPorte County, Indiana, for the period from July 1, 2015 to February 28, 2018, is true and correct to the best of our knowledge and belief.

Kristin Campbell
Mary Jo Small
Field Examiners

Subscribed and sworn to before me this 3 day of October, 2018

Julie Lebeau
Notary Public

My Commission Expires: 10/26/25
County of Residence: Porter

