

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

SPECIAL INVESTIGATION REPORT  
OF

KRUEGER MIDDLE SCHOOL  
MICHIGAN CITY AREA SCHOOLS  
LAPORTE COUNTY, INDIANA

July 1, 2013 to June 30, 2017



**FILED**  
12/26/2018



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**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF MICHIGAN CITY AREA SCHOOLS, LAPORTE COUNTY, INDIANA

This is a special investigation report of Michigan City Area Schools (School Corporation), for the period July 1, 2013 to June 30, 2017, 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/](http://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 Krueger Middle School. 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.

The 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

KRUEGER MIDDLE SCHOOL  
MICHIGAN CITY AREA SCHOOLS  
RESULTS AND COMMENTS

**BACKGROUND**

Each school, including Krueger Middle School (Middle School), within the School Corporation had an Extracurricular (ECA) Account, which was used to account for various student activities, such as athletics, field trips, and club activities. The ECA Treasurers for the Middle School were Nancy Hurley (Hurley) (2013-2014, 2014-2015 school years), Debbie Bye (Bye) (2015-2016 school year), and Karen Parrish (Parrish) (2016 to present). The ECA Treasurer was primarily responsible for the accounting of these funds; however, Vera Jones (Jones), Middle School Principal, had direct control over the management of the funds, including the authorizing of transactions and signing of checks for the 2013-2014, 2014-2015, and 2015-2016 school years.

On June 21, 2016, School Corporation officials discovered checks made payable to Jones, issued from the Middle School ECA Account. The checks were described in the memo section of the check as reimbursements for purchases for the Middle School; however, no documentation was presented to support the purpose of these disbursements.

After an internal review conducted by the School Corporation, Jones was requested to reimburse the ECA Account in the amount of \$1,719.37. The ECA Account was reimbursed on July 25, 2016 (See Summary of Charges, Page 8). Jones resigned her position on July 6, 2016.

The Indiana State Board of Accounts performed an investigation of the ECA Account for the period of July 1, 2013 to June 30, 2017, to determine if any other discrepancies existed in the ECA Account. The results of our investigation are described below.

**ACCOUNTABLE ITEMS NOT DEPOSITED**

The Middle School traditionally held 13 athletic events (volleyball, girls and boys basketball) each school year. Admission tickets were sold for each of these events. Tickets sold to students and adults were differentiated by color and were sold in numerical order. At the conclusion of the event, tickets and monies collected were remitted to the ECA Treasurer, along with a ticket sales report and ticket stubs. The ticket sales report was used to reconcile the tickets sold based on the ticket stubs to the monies collected.

For the 2013-2014 school year, no ticket sales reports or ticket stubs were presented to account for the admission proceeds from these events. The Middle School ECA records reflect eight deposits for ticket sales for the school year, totaling \$1,581.83. Because ticket sales reports and ticket stubs were unavailable, we were unable to verify the amounts deposited and recorded into the ECA Account for these events.

For the 2014-2015 school year, five ticket sales reports with the ticket stubs were presented to account for the admission proceeds of these events. Ticket sales reports were not available for examination for the remaining eight events.

The ticket sales reports for the first event in both the 2014-2015 school year and 2015-2016 school year were available. Ticket sales for 2014-2015 were calculated by subtracting the first ticket number sold in the 2014-2015 school year from the first ticket sold in the 2015-2016 school year. This procedure was used for both adult and student ticket series. Based on this calculation, \$3,758 in collections should have been deposited. The extracurricular records reflect one deposit for ticket sales, totaling \$234.75. Based on this calculation, \$3,523.25 of tickets sales was not deposited for the 2014-2015 school year.

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 Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

KRUEGER MIDDLE SCHOOL  
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(Continued)

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 Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

We requested Hurley to reimburse \$3,523.25 to the Middle School for accountable items not deposited. (See Summary of Charges, page 8)

**TEXTBOOK RENTAL FEES**

Students were assessed textbook rental fees (fees) based on which classes they enrolled in. These fees were paid to the Middle School's ECA Treasurer. The Middle School's ECA Treasurer was responsible for preparing billing invoices for Text Book Rental, collecting the fees, recording the payments in the computer software for credit to individual student accounts, and depositing collections to the bank. The computer software automatically generated a three-part receipt for the payment. For each day money was received, a "Daily Fee Payment Report" was generated, detailing the required deposit by student, date, receipt number, amount, and whether the payment received was made by cash or check.

Hurley was the ECA Treasurer for the 2014-2015 school year. The daily fee payment report for the collections from March 3, 2015 to April 16, 2015, totaled \$1,848.25. Total deposits of fees for the same period totaled \$1,718.35, resulting in \$129.90 cash not deposited.

Parrish was the ECA Treasurer for the 2016-2017 school year. We compared the daily fee payment reports to the subsequent bank deposits. We were unable to trace total payments for eight days to a bank deposit. The following schedule details the payment by date, type of payment, deposit, if any, and differences.

Collection Date	Cash	Check	Total Collections	Deposited Amount	Difference
11-28-16	\$ -	\$ 73.11	\$ 73.11	\$ -	\$ 73.11
03-16-17	162.11	-	162.11	-	162.11
05-01-17	-	136.98	136.98	115.85	21.13
05-02-17	37.86	-	37.86	-	37.86
05-15-17	15.73	-	15.73	-	15.73
05-19-17	37.86	-	37.86	-	37.86
05-22-17	67.72	-	67.72	-	67.72
05-26-17	3.77	-	3.77	-	3.77
<b>Totals</b>	<b>\$ 325.05</b>	<b>\$ 210.09</b>	<b>\$ 535.14</b>	<b>\$ 115.85</b>	<b>\$ 419.29</b>

Indiana Code 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . . Public funds deposited under this subsection shall be deposited in the same form in which they were received. . . ."

KRUEGER MIDDLE SCHOOL  
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(Continued)

Indiana Code 5-13-6-1(g) states in part:

"The following are not required to deposit funds on the business day following receipt if the funds on hand do not exceed five hundred dollars (\$500): . . .

(2) A local officer of a political subdivision required to deposit funds under subsection (c) other than a township trustee.

(3) A city or a town required to deposit funds under subsection (d). . . ."

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 Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

We requested Hurley to reimburse \$129.90 to the Middle School for textbook rental fees not deposited in 2014-2015. (See Summary of Charges, page 8)

We requested Parrish to reimburse \$419.29 to the Middle School for textbook rental fees not deposited in 2016-2017. On October 3, 2018, Parrish reimbursed the School Corporation \$419.29 (Check Number 2570295). (See Summary of Charges, page 8)

**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>
01-01-11 to 02-01-14	\$ 25,000
01-01-14 to 01-01-15	100,000
01-01-15 to 01-01-16	100,000
01-01-16 to 01-01-17	100,000

**SPECIAL INVESTIGATION COSTS**

The State of Indiana incurred costs, in the amount of \$2,996.73, due to the special investigation of the Krueger Middle School, 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 Hurley and Parrish to reimburse \$2,305.71 and \$691.02, respectively, to the State of Indiana for special investigation costs. On October 3, 2018, Parrish reimbursed the School Corporation \$691.02 (Check Number 2570295). (See Summary of Charges, page 8)

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**INTERNAL CONTROLS**

We noted the following deficiencies with internal controls at the Middle School.

1. There was no segregation of duties or oversight for the recordkeeping at the Middle School.
2. Ticket sales reports and ticket stubs were not retained for 2013-2014 school year and for eight games of the 2014-2015 school year.
3. Receipts were not issued at the time money was remitted to the ECA Treasurer.
4. There was no reconcilements performed between the Textbook Rental software and the deposits.

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. . . ."

KRUEGER MIDDLE SCHOOL  
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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; Josh Malone, Principal; Beryle A. Burgwald, School Board member; Deborah Chubb, School Board member; and Beth Pishkur, School Board member.

The contents of this report were discussed on September 17, 2018, with Nancy Hurley, former ECA Treasurer.

The contents of this report were discussed on September 17, 2018, with Karen Parrish, ECA Treasurer.

KRUEGER MIDDLE SCHOOL  
MICHIGAN CITY AREA SCHOOLS  
SUMMARY OF CHARGES  
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Vera Jones, former Principal:			
Background (Checks Issued to Jones), page 3	\$ 1,719.37	\$ 1,719.37	\$ -
Nancy Hurley, former ECA Treasurer:			
Accountable Items Not Deposited, pages 3 and 4	3,523.25	-	3,523.25
Textbook Rental Fees, pages 4 and 5	129.90	-	129.90
Karen Parrish, ECA Treasurer:			
Textbook Rental Fees, pages 4 and 5	419.29	419.29	-
Special Investigation Costs:			
Nancy Hurley, former ECA Treasurer, page 5	2,305.71	-	2,305.71
Karen Parrish, ECA Treasurer, page 5	<u>691.02</u>	<u>691.02</u>	<u>-</u>
Totals	<u>\$ 8,788.54</u>	<u>\$ 2,829.68</u>	<u>\$ 5,958.86</u>

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

AFFIDAVIT

STATE OF INDIANA )  
Porter COUNTY )

I, Kristin Campbell, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of Michigan City Area Schools, Laporte County, Indiana, for the period from July 1, 2013 to June 30, 2017, is true and correct to the best of my knowledge and belief.

Kristin Campbell  
Field Examiner

Subscribed and sworn to before me this 11 day of Dec, 2017

Mandi Kendall  
Notary Public

My Commission Expires: 11.20.24

County of Residence: Porter

