

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

SPECIAL INVESTIGATION REPORT  
OF

CENTER GROVE COMMUNITY  
SCHOOL CORPORATION  
JOHNSON COUNTY, INDIANA

September 1, 2014 to April 26, 2019



**FILED**  
02/04/2020



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Transmittal Letter .....	2
Results and Comments:	
Background.....	3
Improper Payroll Payments .....	3
Workers Compensation Payment.....	3-4
Special Investigation Costs .....	4
Internal Control Deficiencies.....	4-5
Insurance Coverage .....	5
Investigations by Other Governmental Agencies .....	5
Exit Conference.....	6
Official Response .....	7
Summary of Charges .....	8
Affidavit .....	9



**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](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE CENTER GROVE COMMUNITY SCHOOL CORPORATION, JOHNSON COUNTY, INDIANA

This is a special investigation report for the Center Grove Community School Corporation (School Corporation), for the period September 1, 2014 to April 26, 2019, 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 payroll. 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

January 28, 2020

CENTER GROVE COMMUNITY SCHOOL CORPORATION  
SPECIAL INVESTIGATION RESULTS AND COMMENTS

**BACKGROUND**

School Corporation officials became aware that Emily Holmes (Holmes), former Payroll Clerk, was activating terminated employees' payroll accounts for her benefit. Holmes was hired by the School Corporation on September 2, 2014. Due to an inquiry by a former employee, the Treasurer and Chief Financial Officer researched the former employee's payroll records. The School Corporation found that funds had been paid to the former employee after termination according to their records. The funds had not been deposited into the terminated employee's bank account, but into a bank account of record for Holmes.

The Indiana State Board of Accounts was notified by the School Corporation of the inquiry and their findings in accordance with Indiana Code 5-11-1-27. The Indiana State Board of Accounts examined the records and reviewed the procedures for payroll. The following describes noncompliance with statutes or the *Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations*.

**IMPROPER PAYROLL PAYMENTS**

Ninety-two payroll direct deposits were made into accounts owned by Holmes in the name of former employees. In addition, thirteen manual payroll checks made payable to former employees were deposited into bank accounts owned by Holmes. See the schedule below for details:

	<u>Direct Deposits</u>	<u>Manual Checks</u>	<u>Total</u>
01-01-16 to 12-31-16	\$ 16,223.39	\$ 22,582.75	\$ 38,806.14
01-01-17 to 12-31-17	75,996.49	4,425.18	80,421.67
01-01-18 to 12-31-18	128,117.23	-	128,117.23
01-01-19 to 04-26-19	45,128.09	-	45,128.09
Totals	<u>\$ 265,465.20</u>	<u>\$ 27,007.93</u>	<u>\$ 292,473.13</u>

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any official or employee may be the personal obligation of the responsible official or employee. (*Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1*)

We requested Holmes to reimburse the School Corporation \$292,473.13 for improper payroll payments deposited into bank accounts owned by Holmes. (See Summary of Charges, page 8)

**WORKERS COMPENSATION PAYMENT**

The School Corporation received a worker's compensation payment for an employee in the amount of \$510.35. The check should have been forwarded to the employee and the employee's payroll check adjusted in the amount of the payment. A review of the employee's payroll records did not reflect an adjustment for the payment. Subpoenaed bank account information for Holmes bank accounts showed the check was deposited into a bank account owned by Holmes.

CENTER GROVE COMMUNITY SCHOOL CORPORATION  
SPECIAL INVESTIGATION RESULTS AND COMMENTS  
(Continued)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any official or employee may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

We requested Holmes to reimburse the School Corporation \$510.35 for the workers compensation payment improperly deposited into her bank account. (See Summary of Charges, page 8)

**SPECIAL INVESTIGATION COSTS**

The State of Indiana incurred additional costs in the special investigation of the former Payroll Clerk.

Audit costs incurred because of poor records, nonexistent records, or any other inadequate book-keeping practices, or because of theft or a shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

We requested Holmes to reimburse \$22,348.48 to the State of Indiana for special investigation costs. (See Summary of Charges, page 8)

**INTERNAL CONTROL DEFICIENCIES**

The School Corporation had established internal controls over payroll. A further review of the controls found a weakness that allowed Holmes to reactivate terminated employee's payroll and make payments in their names that were deposited into Holmes's bank account. The School Corporation is currently reviewing and establishing new payroll procedures.

The 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. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. Separating the ability to record, authorize, and approve the transactions along with the handling of the related asset reduces the risk of error or fraudulent actions. It also reduces the risk of management override.

CENTER GROVE COMMUNITY SCHOOL CORPORATION  
SPECIAL INVESTIGATION RESULTS AND COMMENTS  
(Continued)

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. Clear documentation should be maintained for continuity as well as ease of communication to outside parties."

**INSURANCE COVERAGE**

The following is information regarding employee dishonesty insurance coverage obtained by the School Corporation:

Term	Coverage
01-01-16 to 01-01-17	\$ 25,000
01-01-17 to 01-01-18	25,000
01-01-18 to 01-01-19	25,000
01-01-19 to 01-01-20	25,000

The following is information regarding funds transfer fraud insurance coverage obtained by the School Corporation:

Term	Coverage
01-01-16 to 01-01-17	\$ 100,000
01-01-17 to 01-01-18	100,000
01-01-18 to 01-01-19	100,000
01-01-19 to 01-01-20	100,000

**INVESTIGATIONS BY OTHER GOVERNMENTAL AGENCIES**

Investigation of the payroll expenditures of the former Payroll Clerk are also being conducted by the United States Attorney's office, Indiana State Police, Johnson County Sheriff's Department, and Internal Revenue Service.

CENTER GROVE COMMUNITY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on January 28, 2020, with Paul Gabriel, Chief Financial Officer; William Long, Assistant Superintendent of Operations; Jason Taylor, Assistant Superintendent of Human Resources and Technology; Rob Daniels, President of the School Board; and Sandra London, Director of Business.

The contents of this report were discussed on January 28, 2020, with Emily Holmes, former Payroll Clerk, and Eric Risk, Attorney for Ms. Holmes.

Thursday, January 30, 2020

As a public school corporation, we work very hard to be good stewards of the taxpayers' hard-earned money. We have to have a level of trust with our employees. And in this case, we had a person who violated not only the trust of the employees in our school district, but also the taxpayers in White River Township.

We have been working with an outside accounting firm for the last eight months to make right any issues created by this fraud for the former employees who were victims. That includes correcting IRS reports and any other related concerns.

We have also contracted an independent review of our processes and put in place additional controls in our systems to ensure that an incident like this does not happen again. We have begun the process of recovering funds and will continue to do whatever we can to recover the funds taken from our accounts.

We appreciate the diligent work of the Johnson County Sheriff's Department, the FBI, the IRS, the State Board of Accounts, and the US Attorney's office to bring the terminated employee to justice.



---

Paul G. Gabriel  
Chief Financial Officer

CENTER GROVE COMMUNITY SCHOOL CORPORATION  
SUMMARY OF CHARGES  
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	Charges	Credits	Balances
Emily Holmes, former Payroll Clerk:			
Improper Payroll Payments, page 3	\$ 292,473.13	\$ -	\$ 292,473.13
Workers Compensation Payment, pages 3 and 4	510.35	-	510.35
Subtotal	292,983.48	-	292,983.48
Special Investigation Costs, page 4	22,348.48	-	22,348.48
Totals	\$ 315,331.96	-	\$ 315,331.96

This report was forwarded to the United States Attorney's office, Office of the Indiana Attorney General, and the local prosecuting attorney.

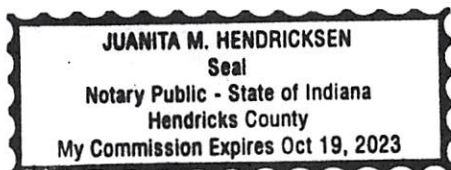
AFFIDAVIT

STATE OF INDIANA )  
                          )  
marion COUNTY)

I, M Annette Ladson, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of Center Grove Community School Corporation, Johnson County, Indiana, for the period from September 01, 2014 to April 26, 2019, is true and correct to the best of my knowledge and belief.

*M Annette Ladson*  
Field Examiner

Subscribed and sworn to before me this 31 day of January, 2020



*Juanita M. Hendricksen*  
(Notary Public)

My Commission Expires: \_\_\_\_\_

County of Residence: \_\_\_\_\_