

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

SPECIAL INVESTIGATION REPORT
OF

RIVERVIEW ELEMENTARY SCHOOL
FOOD SERVICE PROGRAM
ELKHART COMMUNITY SCHOOL CORPORATION
ELKHART COUNTY, INDIANA

August 1, 2015 to October 16, 2019



FILED
03/17/2022

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STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE ELKHART COMMUNITY SCHOOL
CORPORATION, ELKHART COUNTY, INDIANA

This is a special investigation report for the Elkhart Community School Corporation (School Corporation), for the period August 1, 2015 to October 16, 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/.

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 Elkhart Community School Corporation Food Service program, with a concentration on Riverview Elementary 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.

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

November 30, 2021

RIVERVIEW ELEMENTARY SCHOOL FOOD SERVICE PROGRAM
ELKHART COMMUNITY SCHOOL CORPORATION
RESULTS AND COMMENTS

BACKGROUND

Nichole Houser (Houser) was hired on August 20, 2012, as a food service worker at Riverview Elementary School (Riverview), a member school of the School Corporation. Houser served as the Food Service Manager for Riverview from December 2, 2013 to October 16, 2019. As the Riverview Food Service Manager, Houser's duties included:

- Receiving and posting collections for meals and snacks to student/adult food service accounts;
- Posting meal and ala carte purchases to the student/adult food service accounts;
- Voiding incorrectly posted transactions to the student/adult food service accounts;
- Preparing the daily deposit tickets;
- Taking the deposit tickets and money collected to the school office to be placed in the safe; and
- Preparing weekly reports of receipts and collections.

The weekly reports of receipts and collections were provided each month to the School Corporation Director of Food Services (Director) to be used for the monthly bank reconciliation.

On October 7, 2019, Houser notified the Director of her intention to resign her position effective October 23, 2019; however, her resignation took place on October 16, 2019.

On October 16, 2019, the Director became aware of a Riverview parent's concerns regarding their student's food service account balance. Additionally, a Riverview employee complained that her food service account balance was inaccurate. The Director and her staff reviewed the activity on the student and teacher's food service accounts and noted multiple voided transactions posted by Houser. This voided activity appeared unusual to the Director so additional reports for voided activity for all accounts were accessed and reviewed. Houser was then notified that her resignation would take effect immediately. Houser's office was inspected, and evidence of student payments were recovered in the trash, some of which were posted as collections, then voided by Houser.

The School Corporation filed a report with the Elkhart Police Department on October 30, 2019. The School Corporation notified the Indiana State Board of Accounts on November 1, 2019, in accordance with Indiana Code 5-11-1-27.

COLLECTIONS NOT DEPOSITED

Parents, teachers, or students completed "Elementary Cafeteria Deposit Slips" (student payment tickets) to include the name(s) of the student(s) and the dollar amount(s) of the funds remitted for deposit and receipting to the student's lunch account. The collections and student tickets could be collected and remitted to Riverview school lunch through the classroom, or the student could pay directly at the school lunch point of service. The student payment tickets were required regardless of where the money was collected.

RIVERVIEW ELEMENTARY SCHOOL FOOD SERVICE PROGRAM
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 RESULTS AND COMMENTS
 (Continued)

When Houser was terminated, completed student payment tickets were found in a trash can in Houser's office. We analyzed the food service accounts for the students with tickets located in the trash can, and determined the following from the tickets and food service accounts:

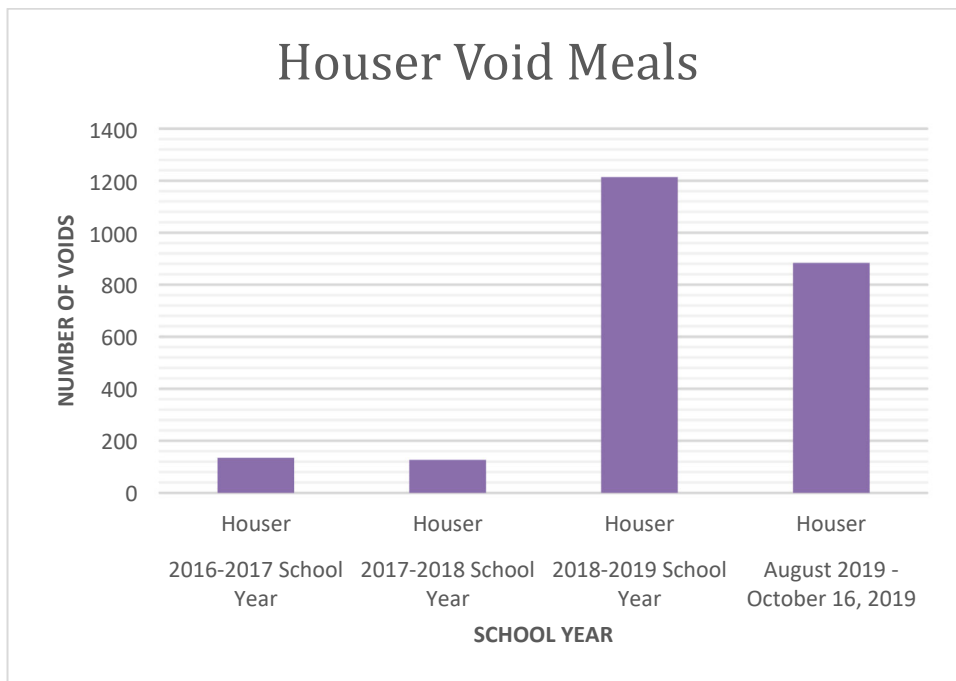
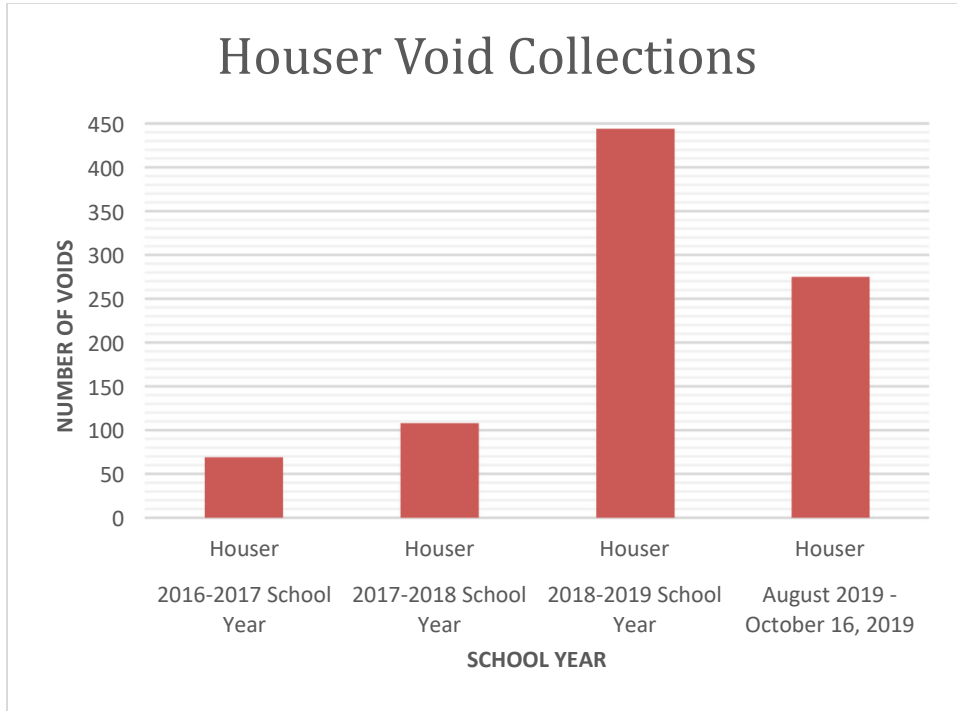
- Money was collected from the students as indicated on the student payment tickets.
- Money collected per the student payment tickets was posted to the student food service account.
- The money posted as collected, was subsequently voided from the student's food service account.
- Meal purchases were also voided following the voided payments, so that student accounts would not have a deficit balance.

Using recorded activity for student accounts, we determined the collections not deposited to be collections receipted to student accounts which were subsequently voided by Houser as well as voids of meals purchased. Collections not deposited by school year were as follows:

<u>School Year</u>	<u>Amount</u>
2018-2019	\$ 3,995.61
2019-2020	<u>3,112.65</u>
Total	<u>\$ 7,108.26</u>

We performed an analysis of all transactions voided by Houser for the 2016-2017 school year through her date of resignation. We noted that collections were receipted then voided, and the associated meals were voided as shown below.

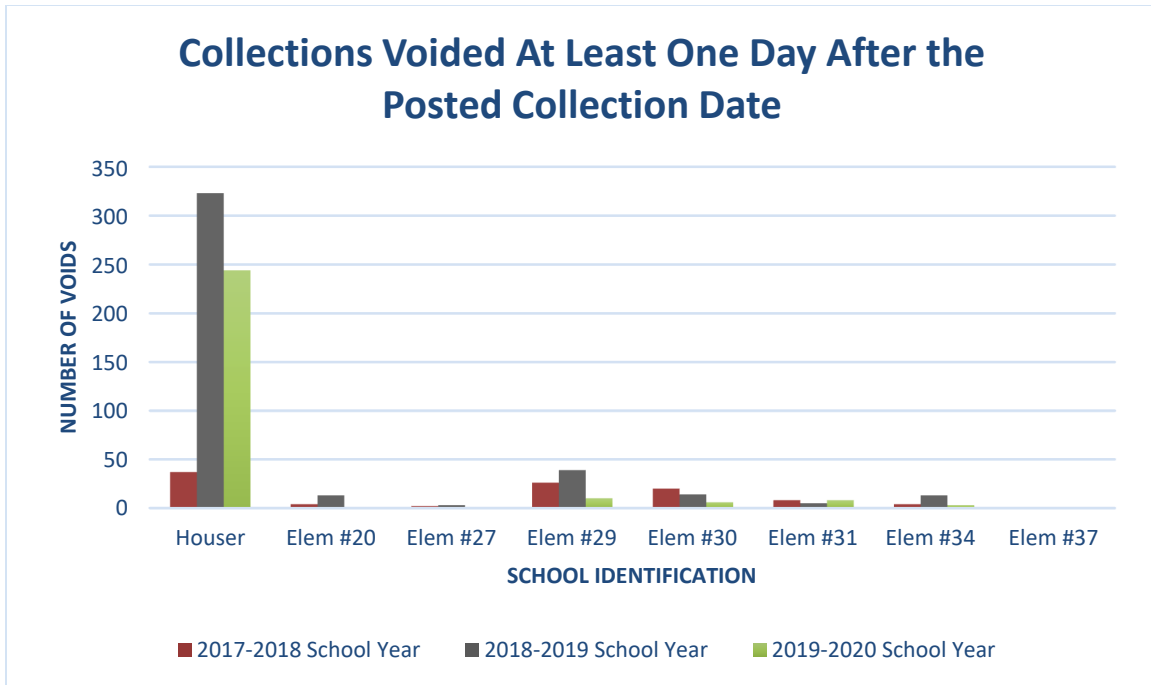
RIVERVIEW ELEMENTARY SCHOOL FOOD SERVICE PROGRAM
 ELKHART COMMUNITY SCHOOL CORPORATION
 RESULTS AND COMMENTS
 (Continued)



When we compared the number of voided transactions (voided collections and voided meals) made by Houser with that of seven other School Corporation elementary schools, we noted that Houser's rate of voided activity was greater than six times that of the combined total of the other seven schools in our analysis.

RIVERVIEW ELEMENTARY SCHOOL FOOD SERVICE PROGRAM
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 RESULTS AND COMMENTS
 (Continued)

Employees at each of the schools can void collections either on the same date the collection was posted or after the date of collection. We compared Houser's collection transactions voided at least one day after the initial transaction was posted with that of seven other School Corporation elementary schools whose collection transactions were also voided at least one day after the initial transaction was posted. The results are shown in the graph below:



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 unit. The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes, at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

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 are requesting that Houser repay \$7,108.26 for collections not deposited. (See Summary of Charges, page 12)

RIVERVIEW ELEMENTARY SCHOOL FOOD SERVICE PROGRAM
 ELKHART COMMUNITY SCHOOL CORPORATION
 RESULTS AND COMMENTS
 (Continued)

HOUSER SUBMITTED INCORRECT FREE AND REDUCED LUNCH APPLICATIONS

Houser had two children enrolled at the School Corporation during the period of our investigation. The household income reported on the Applications for Free and Reduced Priced Meals submitted by Houser for her dependent children were compared with household earning records.

We determined that both Houser and her husband were employed consistently by the same employers for the entire period of our investigation; however, the household income reported was not reflective of the household earnings records obtained for Houser. This incorrect reporting of income allowed the Houser household to receive benefits for which they did not qualify for school years 2015-2016, 2016-2017, and 2019-2020. The underpayment for meals totaled \$882.60.

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 are requesting that Houser repay \$882.60 for underpayment for meals. (See Summary of Charges, page 12)

INSURANCE COVERAGE

The School Corporation obtained the following Government Crime Policy coverage for employee theft:

<u>Term</u>	<u>Amount of Coverage</u>
05-01-15 to 05-01-16	\$ 100,000
05-01-16 to 05-01-17	100,000
05-01-17 to 05-01-18	100,000
05-01-18 to 05-01-19	100,000
05-01-19 to 05-01-20	100,000

SPECIAL INVESTIGATION COSTS

The State of Indiana incurred costs in the amount of \$14,935.20 due to the special investigation of the Riverview Elementary School Food Service program and Houser, Food Service Manager.

Indiana Code 5-11-1-27(m) states in part:

"If the attorney general institutes civil proceedings related to this section or under IC 5-11-5-1, the attorney general shall seek, in addition to the recovery of any funds misappropriated, diverted, or unaccounted for, restitution of:

- (1) Costs incurred by the state board of accounts; . . .

in connection with the civil proceedings."

RIVERVIEW ELEMENTARY SCHOOL FOOD SERVICE PROGRAM
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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 Indiana Public School Corporations, Chapter 1)

Any audit costs paid without the prior approval of the SBOA when the SBOA has the statutory requirement to perform the audit of the unit may be considered a duplication of service and an unnecessary expense. These payments 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 Houser reimburse the State of Indiana for the special investigation costs in the amount of \$14,935.20. (See Summary of Charges, page 12)

RETENTION OF RECORDS

Student payment tickets were the original source documents used to support collections for meal purchases. The School Corporation policy required the Food Service Department to retain the student payment tickets for two years. Houser did not retain tickets in her custody in accordance with this policy.

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

INTERNAL CONTROL DEFICIENCIES

There were several deficiencies in internal controls related to food service collection procedures:

- School Payment Tickets:
 - Tickets were not prenumbered; therefore, there was not any accountability over the tickets.
 - Tickets were not always properly completed. Omitted information included dates, method of payment (cash or check), and totals.
 - Tickets, which are accountable items, were required to be retained for audit. However, no one was validating that the tickets were retained.
 - Tickets were not marked to indicate if the collections were posted to the student's food service account.

RIVERVIEW ELEMENTARY SCHOOL FOOD SERVICE PROGRAM
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RESULTS AND COMMENTS
(Continued)

- Since there were not ticket numbers, posted transactions could not be traced to a ticket.
- Remittance of Collections:
 - Money could be collected either in the classroom by a teacher, or in the meal service line by a food service employee.
 - Collections received by a teacher were not counted and verified by the teacher to the amount on the ticket.
 - Routine procedures for transport of the collections and tickets were not established. Either a student could transport the collections and tickets, or the food service manager could pick up the collections and tickets.
 - Collections transported were not properly secured in a locked bag.
 - There was not a system for counting and validating collections received from the classrooms by the food service manager.
- Posting transactions:
 - A daily report of posted transactions was not reconciled to the daily deposit ticket.
- Lack of Segregation of Duties:
 - The Food Service Manager received collections, posted collections, prepared the deposit ticket, voided collections, voided meal purchases and prepared reports of collections. No one verified or reviewed these processes.

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. These 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. . . ."

RIVERVIEW ELEMENTARY SCHOOL FOOD SERVICE PROGRAM
ELKHART COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 26, 2022, with Kevin Scott, Chief Financial Officer; Anthony J. Gianesi, Chief Operating Officer; Valerie Moore, Supervisor of Accounting, Audits, and Investments; Pamela J. Melcher, Director of Food Services; Dacey Davis, President of the School Board; Troy E. Scott, Vice President of the School Board; Douglas K. Weaver, Secretary of the School Board; and Kellie Mullins, School Board member.



ELKHART COMMUNITY SCHOOLS



J.C. RICE EDUCATIONAL SERVICES CENTER
2720 CALIFORNIA ROAD • ELKHART, IN 46514
PHONE: 574-262-5500

OFFICIAL RESPONSE

January 28, 2022

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765
Re: Riverview Elementary School / Food Service Program

To address issues identified, internal control improvements were implemented quickly.

On October 19, 2019 voids for secondary schools were processed by the Food Service Department Assistant to the Director for Secondary Schools (ADSS) and voids for elementary buildings were completed by the Food Service Department Assistant to the Director for Elementary Schools (ADES).

Going forward, the Food Service Bookkeeper or Food Service Secretary will generate void reports from the point of sale system for all schools on a monthly basis. Reports are given to ADSS and ADES to compare with the request for voids from their Cafeteria Managers. Following verification, each report is initialed and dated by the appropriate ADSS or ADES, and given to the Food Service Director for review and signature.

As the investigation progressed, additional controls were identified by District Administration in conjunction with the SBOA staff on site. The following procedures were added or enhanced and put into place for the receipt and deposit of cash and checks at the Elementary level.

- Students are to bring their own account payment to the cafeteria or designated point of sale station.
- Each site will have a designated person (other than the manager) to verify all money received. The manager will then generate the bank deposit slip, and then both the designated person and the manager initial and date the deposit slip.
- On a daily basis, money is placed into a secure location and deposit forms are given to the Cafeteria Manager to enter into the student's account in the ECS Point of Sale system.
- After entering deposits in the POS system, the Manager and designated person will verify that daily bank deposit matches the student completed deposit forms received, which represents a second point of control. The form has the date, student's name, classroom number, whether the payment was in cash or by check, and the amount. These are generally filled out by the parent, but will be filled out by student and/or food service personnel if no slip accompanies the payment.
- Manager will take the deposit to the bank daily.

Kevin Scott
Chief Financial Officer

RIVERVIEW ELEMENTARY SCHOOL FOOD SERVICE PROGRAM
 ELKHART COMMUNITY SCHOOL CORPORATION
 SUMMARY OF CHARGES
 (Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance</u>
Nichole Houser, former Riverview Elementary Food Service Manager:			
Collections Not Deposited, pages 3 thru 6	\$ 7,108.26	\$ -	\$ 7,108.26
Houser Submitted Incorrect Free and Reduced Lunch Applications, page 7	882.60	-	882.60
Special Investigation Costs, pages 7 and 8	<u>14,935.20</u>	<u>-</u>	<u>14,935.20</u>
Totals	<u>\$ 22,926.06</u>	<u>\$ -</u>	<u>\$ 22,926.06</u>

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

AFFIDAVIT

STATE OF INDIANA)
Cass)
COUNTY)

I, Emily VanCuren, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Elkhart Community School Corporation, Elkhart County, Indiana, for the period from August 1, 2015 to October 16, 2019, is true and correct to the best of my knowledge and belief.

Emily VanCuren
Field Examiner

Subscribed and sworn to before me this 22nd day of February, 2020.

Stephanie D Kay
Notary Public

My Commission Expires: May 9 2021
County of Residence: Cass Co

Stephanie D Kay
Resident of Cass County, IN
Commission Expires: May 9 2021