

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

EXAMINATION REPORT
OF
UNION SCHOOL CORPORATION
RANDOLPH COUNTY, INDIANA
July 1, 2006 to July 31, 2009



FILED
12/02/2011

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SCHOOL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sharon Lankford	07-01-06 to 06-30-09
	Brandy Warren	07-01-09 to 06-30-12
Superintendent of Schools	Phil Dubbs	07-01-06 to 06-30-07
	Zach Rozell	07-01-07 to 06-30-08
	Phil Wray	07-01-08 to 06-30-11
	Fred Heron	07-01-11 to 06-30-12
President of the School Board	Scott Houser	07-01-06 to 06-30-07
	Alan McCormick	07-01-07 to 06-30-08
	Greg Beumer	07-01-08 to 06-30-09
	Garth Jenkins	07-01-09 to 06-30-10
	Scott Houser	07-01-10 to 06-30-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE UNION SCHOOL CORPORATION, RANDOLPH COUNTY, INDIANA

We have examined the records of the Union School Corporation for the period from July 1, 2006 to July 31, 2009, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Examination Results and Comments. The financial transactions of this office are reflected in the Annual Report of Union School Corporation for the years 2006 to 2009.

STATE BOARD OF ACCOUNTS

September 14, 2011

UNION SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS

MALFEASANCE

Sharon Lankford, former Treasurer, disbursed funds for personal use and failed to properly pay her salary and employee benefits.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance 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 Indiana Public School Corporations, Chapter 9)

PERSONAL DISBURSEMENTS PAID WITH DEBIT CARD AND FRAUDULENT CHECKS

Seven checks were written in June 2006, two checks were written in June 2009, and a debit card charge was made in July 2007 for personal expenses of Sharon Lankford, former Treasurer. The following schedule indicates personal expenses of the former Treasurer paid by the School Corporation totaling \$19,753.16.

Payee Per Records	Actual Payee	Check Number	Check Amount	Date
Water Treatment Processes	WAMU	credit card	\$ 1,541.21	07-31-07
Weaver Auto	Payment Center	5810	2,012.54	06-29-07
Stanley Steamer	Washington Mutual Card Services	5812	1,120.83	06-29-07
Sports Imports	GE Money Bank	5813	4,549.11	06-29-07
Ricoh America Corporation	Bank of America	5814	2,670.06	06-29-07
Reliable Office Supplies	Capital One Bank	5815	395.42	06-29-07
The Paper Corporation	Zales Credit Plan	5816	758.09	06-29-07
Pearson Education	GE Money Bank	5818	3,505.90	06-29-07
Smith Communications Inc	Citi Cards	7452	1,100.00	01-26-09
Borenson & Associates	Payment Center	7456	2,100.00	01-26-09
Total			<u>\$ 19,753.16</u>	

A comparison of cancelled checks to record postings indicated the payee noted on the cancelled checks did not agree with the vendor posted to the records for the charges noted above although the amounts did agree. A business account number was documented on the cancelled checks reviewed. There were no claims to support the disbursements made.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

UNION SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Sharon Lankford, former Treasurer, was requested to repay \$19,753.16 for personal disbursements made. (See Summary, page 13)

PERSONAL DISBURSEMENTS PAID

A purchase was made for an update to a Quicken 2007 accounting system on October 4, 2007, in the amount of \$31.80. The School Corporation does not use Quicken to maintain their records. The claim did not contain the original invoice but a packing slip signed by Sharon Lankford, former Treasurer, was attached. The entire claim was blank except for the voucher number and the warrant number. No signatures were noted.

A claim was prepared showing a table saw and blades on February 6, 2009, in the amount of \$1,567.54. The supporting documentation attached to the claim included a printed screen image of a listing of items added to a Shopping Cart for an apparent internet purchase. However an internet purchase would have required a credit card payment rather than a check written later. The standard shipping costs were changed on the printed screen image from \$390.95 to \$9.62 so that the claim totaled \$1,567.54. The claim was completed and signed by Sharon Lankford, former Treasurer. The description on the claim stated, "Ind. Tech supplies." The claim was signed by the former Treasurer. A corporation check was subsequently written and paid to Sears. Inquiry with the Industrial Tech teacher indicated the table saw and blades were not ordered nor received by him. The assets could not be located.

Personal phone charges, which were paid by debit card, were paid by the School Corporation in the amount of \$1,232.98. Detailed itemized phone bills were not attached to the claim. An "Electronic payment Confirmation" was attached to each claim which noted payment information such as payment date, account number, credit card information, amount paid, etc. All of the claims were signed by Sharon Lankford, former Treasurer.

UNION SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Sharon Lankford, former Treasurer, was requested to repay \$2,832.32 for personal disbursements made. (See Summary, page 13)

SALARY AND EMPLOYEE BENEFITS

A comparison was made of salary payments disbursed to Sharon Lankford, former Treasurer, to approved contract amounts.

The following schedule indicates Sharon Lankford, former Treasurer, was overpaid in the amount of \$7,097.22 and received additional employee benefits in the amount of \$844.57, for a total of \$7,941.79.

UNION SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

School Year	Contract Amount	Amount Paid	Difference Overpayment (Underpayment)
October 2004 to June 2005	\$ 23,380.67	\$ 23,380.67	\$ -
FY 2005-2006	32,000.00	32,000.00	-
FY 2006-2007	39,500.00	39,499.98	(0.02)
FY 2007-2008	42,000.00	47,043.79	5,043.79
FY 2008-2009	44,500.00	44,500.00	-
July 2009	3,936.45	5,989.90	<u>2,053.45</u>
Total salary overpayments			7,097.22
Employee benefits paid on salary overpayment			<u>844.57</u>
Overpayment of salaries and benefits			<u>\$ 7,941.79</u>

In March 2008, Sharon Lankford, former Treasurer, received a payroll check in the amount of \$5,043.79, dated March 3, 2008. A worksheet, which was completed by her and found in the files of the School Corporation, attempted to support this salary payment. The worksheet, titled "Administration Charges" detailed various grants, gross pay to be paid from each fund, etc. The grants noted on the worksheet were related to grants as far back as school year 2004-2005.

This particular payroll, which records indicated was for the payroll period ending March 3, 2008, was prepared and generated by Sharon Lankford, former Treasurer. The Deputy Treasurer, whose duties included payroll functions, did not generate the payroll for the period ending March 3, 2008, although she attended work on the day the payroll was generated. The payroll period also included retroactive salary of a certified employee. A review of the Board minutes for the period January 1, 2008 to March 17, 2008, indicated approval of the retroactive pay for the certified employee. However, there was no evidence the School Board approved the salary payment of \$5,043.79 to Sharon Lankford, former Treasurer.

UNION SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

The following schedule details the amount charged to each fund for this salary payment:

Grant	Grant Years	Amount Paid	Fund Paid From
Gifted and Talented	2006-2007	\$ 340.29	Gifted and Talented 2007-2008
Title II, Part A	2007-2008	815.49	Title II A 2007-2008
Title II, Part D	2004-2008	532.42	Title II D 2007-2008
Title VI, Part A	2007-2008	70.55	Title VI A 2007-2008
Title I, Part A	2007-2008	3,285.04	Title I 2007-2008
Total		<u>\$ 5,043.79</u>	

In July 2009, Sharon Lankford, former Treasurer, received a salary overpayment in the amount of \$2,053.45. A worksheet, which was completed by the former Treasurer and found in the files of the School Corporation, attempted to support this salary payment. The worksheet listed a payment due of \$1,711.15, which was disbursed July 3, 2009, for the payroll period ending June 28, 2009. The worksheet also listed payment due of \$342.30 for the final two days worked in June 2009. As noted in the schedule above, salary payments through June 30, 2009, agreed with the approved contracts meaning that no additional money was due to fulfill the 2008-2009 contract. The contract term for School Year 2008-2009 was for the period July 1, 2008 through June 30, 2009. Any disbursements after June 30, 2009, for the period July 1, 2008 through June 30, 2009 would constitute an overpayment of the approved contract.

The School Corporation contributed a monthly premium for health insurance costs. The remaining costs were to be contributed by employees through a mandatory payroll deduction. A comparison was made of the amount due from Sharon Lankford, former Treasurer, for health insurance costs to the actual amount of the payroll deduction withheld from her gross pay for health insurance costs.

The following schedule indicates the former Treasurer underwithheld \$4,680.38 for her health insurance costs for the period January 2007 through July 2009. This amount represents the difference between what should have been withheld for the family plan, which the former Treasurer had during this time, and the single rate she was having withheld from her payroll.

UNION SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

	<u>01-01-07 to 06-30-07</u>	<u>07-01-07 to 06-30-08</u>	<u>07-01-08 to 06-30-09</u>	<u>07-01-09 to 07-31-09</u>	<u>Total Underwithheld</u>
Total cost of insurance					
total monthly cost	\$ 629.00	\$ 516.00	\$ 911.00	\$ 984.00	
number of months	<u>6.00</u>	<u>12.00</u>	<u>12.00</u>	<u>1.00</u>	
Total cost of insurance	3,774.00	6,192.00	10,932.00	984.00	
Corporation contribution	<u>2,700.00</u>	<u>5,400.00</u>	<u>5,556.00</u>	<u>483.50</u>	
Amount due by employee	1,074.00	792.00	5,376.00	500.50	
Amount paid by employee	<u>1,074.06</u>	<u>945.58</u>	<u>941.98</u>	<u>100.50</u>	
Difference	<u>\$ (0.06)</u>	<u>\$ (153.58)</u>	<u>\$ 4,434.02</u>	<u>\$ 400.00</u>	<u>\$ 4,680.38</u>

The approved employer's insurance contribution was posted to the General Fund insurance appropriation line item for the Superintendent's office. The unallowable excess insurance charges, which should have been deducted from Sharon Lankford, former Treasurer's, gross pay, were posted to the General Fund insurance appropriation line item for the Elementary school. In June 2008, \$7,246.25 was posted to Title I Certified Insurance appropriation line item and a negative disbursement was posted to the General Fund insurance appropriation line item for the Elementary hence decreasing the Title I cash balance and increasing the General Fund cash balance. In school year 2007-2008, the one certified employee paid from Title I funds declined insurance and has never been part of the health insurance plan of the School Corporation.

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 statute. Compensation should be made 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 13)

Sharon Lankford, former Treasurer, was requested to repay \$7,941.79 for overpayment of salaries and \$4,680.38 for excess health insurance costs paid by the School Corporation on behalf of Sharon Lankford, former Treasurer. (See Summary, page 13)

HEALTH CARE SPENDING ACCOUNT – SECTION 125

The School Corporation provides their employees participation in a Health Care Spending Plan. Contributions are withheld from the employees. Employees submit claims to receive reimbursement from their health care spending account for medical costs incurred. Sharon Lankford, former Treasurer, received \$528.86 more from the Plan than what she contributed in school year 2007-2008 as noted below:

UNION SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

Employee contribution amount \$ 1,799.98
Amount reimbursed:

Check Number	Check Date	Check Amount
6116	10-23-07	\$ 564.14
6228	11-26-07	1,000.00
6467	02-12-08	764.70

Total amount reimbursed 2,328.84

Overpayment \$ (528.86)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Sharon Lankford, former Treasurer, was requested to repay \$528.86 for excess reimbursements received from her Health Care Spending Account. (See Summary, page 13)

EXAMINATION COSTS – MISSING FUNDS

The State of Indiana incurred additional examination fees in the investigation of the missing funds. The State of Indiana is requesting reimbursement of examination fees incurred in the amount of \$3,476.88. Sharon Lankford, former Treasurer, was requested to repay \$3,476.88. (See Summary, page 13)

OFFICIAL BOND

Sharon Lankford, former Treasurer, was covered under an official bond in the amount of \$200,000 for the year 2005-2006. Sharon Lankford, former Treasurer, was covered under yearly official bonds in the amount of \$50,000 each for the years 2006-2007, 2007-2008, and 2008-2009.

UNION SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on September 14, 2011, with Brandy Warren, Treasurer; Fred Heron, Superintendent of Schools; Scott Houser, President of the School Board; and Diana Grubbs, School Board member. The Official Response has been made a part of this report and may be found on page 12.

Sharon Lankford, former Treasurer, was invited to discuss the contents of the report but declined to attend.

Response to the inquiry concerning missing funds at Union School Corporation,

As a follow up to our conversation, I have concluded that there ar inherent risk due to the size of our finance department; we have relied on segration of duties, a voucher system, review of the disbursement ledger by the board, SBA Audit and other internal control functions that have been in place for several years. I believe Union High School can improve on the internal control functions with a few modifications of the procedure that are currently be used and some new proposed procedures without incurring a great deal of cost. I have outline below a list of procedures that may enhance the IC functions.

- Department heads review monthly disbursement ledgers concerning their departments.
- Superintendent review bank statements and review check detail from the bank statement
- Checks written to Treasurer or assistant Treasurer should be approved by superintendent
- All credit and debit card payments must have a voucher attached and receipts needs to be stapled to the voucher
- For any cash movements between departments, there will need to be a receipt issued.
- For all ECA accounts a transaction detail needs to be printed monthly for the treasurer review
- Principals will need to have an accounting and a recapitulation of all enterprise accounts under their control, the superintendent should have final review of the accounting of any enterprise fund.
- Stronger procedures for accountability should be established for the cafeteria fund, book rental funds and other student funds, these funds should reconciled to the deposit with separate deposits for each funds. Credits to student accounts will need be reconciled back to the deposits.
- A finance committee will be establish to review procedures annually.

I would like to thank the SBA for there assistance with the above issues.

Scott Houser
President
Union School Corporation

UNION SCHOOL CORPORATION
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Sharon Lankford, former Treasurer:			
Personal Disbursements Paid With Debit Card and Fraudulent Checks, pages 4 and 5	\$ 19,753.16	\$ -	\$ 19,753.16
Personal Disbursements Paid, pages 5 and 6	2,832.32	-	2,832.32
Salary and Employee Benefits, pages 6 through 9	12,622.17	-	12,622.17
Health Care Spending Account - Section 125, pages 9 and 10	528.86	-	528.86
Examination Costs - Missing Funds, page 10	<u>3,476.88</u>	<u>-</u>	<u>3,476.88</u>
Totals	<u>\$ 39,213.39</u>	<u>\$ -</u>	<u>\$ 39,213.39</u>

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AFFIDAVIT

STATE OF INDIANA)
)
Delaware COUNTY)

I, Stephanie Heath, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Union School Corporation, Randolph County, Indiana, for the period from July 1, 2006 to July 31, 2009, is true and correct to the best of my knowledge and belief.

Stephanie Heath
Field Examiner

Subscribed and sworn to before me this 21st day of November, 2011.

Lorei A. Brown
Notary Public

My Commission Expires: 10/14/2017

County of Residence: Delaware