

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

SPECIAL INVESTIGATION REPORT  
OF  
FORT WAYNE COMMUNITY SCHOOLS  
ALLEN COUNTY, INDIANA  
January 1, 2012 to December 31, 2014



**FILED**  
09/10/2015



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#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sherry Nidlinger	07-01-11 to 06-30-16
Superintendent of Schools	Dr. Wendy Robinson	07-01-11 to 06-30-16
President of the School Board	Mark GiaQuinta	01-01-12 to 12-31-15



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE FORT WAYNE COMMUNITY SCHOOLS

We have conducted a special investigation of the records of the Fort Wayne Community Schools for the period from January 1, 2012 to December 31, 2014. Our investigation was limited to the following records: procurement card statements and supporting documents; general ledger account key 0A2514PA0 object 287100 including journal entries and supporting documents; documentation prepared by the internal audit department related to purchasing irregularities; and third party documents related to the sale of scrap. The purpose of our investigation was to determine if the accountability for cash and other assets were satisfactory and that the transactions related thereto were in compliance with the laws and regulations of the State of Indiana. The results of our investigation are fully described in the Special Investigation Results and Comments and Summary of Charges as listed in the Table of Contents. This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney

Any Official Response included in this report has not been examined or verified for its accuracy.

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

July 22, 2015

FORT WAYNE COMMUNITY SCHOOLS  
SPECIAL INVESTIGATION RESULTS AND COMMENTS

***UNAUTHORIZED CREDIT CARD PURCHASES***

Fort Wayne Community Schools (School Corporation) utilized procurement cards (procards) which were issued by a bank and were used in the same manner as a credit card. At any one time there were approximately 165 active cards assigned to various employees of the School Corporation. Although billed and paid at the same time, the cards all bear different account numbers and the charges were shown on separate statements. Patty Coffelt, former Purchasing Agent for Fort Wayne Community Schools, used her procurement card from January 2012 through October 2014 for thirty unauthorized purchases totaling \$13,729.37. These purchases included groceries, electronics merchandise, and utility services.

While Ms. Coffelt was absent from work, another Purchasing Department employee processed her procurement card statement for October 2014. This employee found two purchases totaling \$1,063.59 made at local retail stores for which there were no receipts, requisitions, or other supporting documents on file. Further investigation revealed that these purchases were unauthorized and prompted the School Corporation to expand their investigation and contact the Indiana State Board of Accounts. Subsequent investigation revealed \$12,665.78 of additional unauthorized purchases by Ms. Coffelt that she had posted and documented in a variety of ways designed to conceal their nature, described as follows:

- Ms. Coffelt was a purchasing agent of items from local special education funds. Eleven purchases totaling \$9,335.21 were charged to those funds. The Special Education Department of the School Corporation had no record of these purchases. Additionally, the schools, for which the items were allegedly purchased, had no record of requesting or receiving the items purchased, and did not have the items in their possession.
- One purchase involved five notebook computers requisitioned by a school at \$349.99 each. Ms. Coffelt purchased six notebook computers and had them shipped to her attention, then she only delivered the five requisitioned computers to the school, overrode the required approval by the unit head in the accounting software, and kept the additional notebook computer for her own personal use.
- Ms. Coffelt reported twelve of the unauthorized purchases totaling \$2,286.41 on internal documents as fraudulent charges. She posted these amounts to an expense account used to temporarily hold expenses until they are reimbursed or credited. None of the twelve charges were ever credited on Ms. Coffelt's procard account statements and they were never cleared from the temporary hold expense account. Four of these charges totaling \$1,302.96 were payments applied to Ms. Coffelt's personal electric utility and telecommunications company accounts.
- Ms. Coffelt reported that one unauthorized purchase for \$44.74 was due to inadvertent personal use of her procard. She posted the purchase to the temporary hold expense account and noted on internal documents that she had repaid the School Corporation. A receipt for the purchase amount could not be located, and the amount was never cleared from the temporary hold expense account.
- Ms. Coffelt charged one unauthorized purchase for \$ 235.96 to the High School Area Office. That office did not request the items and never received them. The only supporting documentation Ms. Coffelt attached to her procard statement was a printout of the transaction detail from the procard website.

FORT WAYNE COMMUNITY SCHOOLS  
SPECIAL INVESTIGATION RESULTS AND COMMENTS  
(Continued)

- One unauthorized purchase for \$78.95 appeared on Ms. Coffelt's procard statement as a charge from the local electric utility. Ms. Coffelt noted on an internal document that the charge was due to a billing error by the utility, and that it would be credited on the next statement. Her procard account was never credited. This charge was actually a payment applied to Ms. Coffelt's personal electric utility account.
- One unauthorized purchase for \$334.52 appeared on Ms. Coffelt's procard as a charge from a local telecommunications service provider on May 5, 2014. There was no supporting documentation with the accounting department copy of the procard statement. Ms. Coffelt added a purchase order number as a memo on her procard expense report; however, that purchase order had been fulfilled and paid in full in February. A fictitious invoice for \$334.32 associating this payment with the purchase order was found in the Purchasing Department records. This charge was actually a payment applied to Ms. Coffelt's personal telecommunications company account.

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 unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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 Indiana Public School Corporations, Chapter 9)

We are requesting Patty Coffelt, former Purchasing Agent, reimburse the School Corporation for unauthorized purchases in the amount of \$13,729.37. (See Summary of Charges, page 12)

### ***INTERNAL CONTROLS***

Internal controls over procurement card (procard) transactions, expenditures for the Special Education Department, and reconciling clearing accounts were insufficient.

- The School Corporation did not separate incompatible activities related to procard purchases. Purchasing agents had the ability to create a requisition, override unit head approvals, purchase goods, take delivery of merchandise, and reconcile their procard statements. In addition, one purchasing agent was responsible for administering the procards (including her own), reporting fraudulent charges to the card issuer, and following up to ensure credits were received.

FORT WAYNE COMMUNITY SCHOOLS  
SPECIAL INVESTIGATION RESULTS AND COMMENTS  
(Continued)

- The Special Education Department of the School Corporation did not regularly reconcile their orders placed with the Purchasing Department to the charges recorded in their expenditure accounts within the School Corporation's accounting system.
- The School Corporation had revenue and expenditure accounts used as clearing accounts to which certain receipts and disbursement are posted and later reclassified or otherwise offset through journal entries. Among the items posted to the expenditure clearing account were fraudulent charges on compromised procards and the subsequent credits. The School Corporation did not have procedures in place to reconcile these accounts to ensure that each item posted to them was subsequently offset.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Based on their internal review and recommendations from the Indiana State Board of Accounts, the School Corporation has designed and implemented additional internal controls within the Purchasing, Special Education, and Accounting Departments to address these deficiencies. Among these new controls are required second party reviews and signoffs whenever unit head approvals are overridden; assigning the responsibility for following up on fraudulent procard charges to the Accounting Department; and requiring the Accounting Department to reconcile all accounts used as clearing accounts.

**EMPLOYEE DISHONESTY INSURANCE COVERAGE**

The School Corporation had insurance coverage for employee dishonesty as follows:

Insurance Company	Policy Number	Coverage Period	Coverage Amount	Charges
Fidelity & Deposit Co of Maryland	CCP0008838 16	07-01-11 to 07-01-12	\$ 500,000	\$ 890.58
Fidelity & Deposit Co of Maryland	CCP0008838 17	07-01-12 to 07-01-13	500,000	1,525.27
Fidelity & Deposit Co of Maryland	CCP0008838 18	07-01-13 to 07-01-14	500,000	2,977.11
Catlin Indemnity Company	CND-IN-EPP-10334-001	09-01-13 to 09-01-14	1,000	7,794.96
Catlin Indemnity Company	CND-IN-EPP-10334-002	09-01-14 to 09-01-15	500,000	<u>3,518.56</u>
Subtotal				16,706.48
Less overlapping coverage *				<u>(2,977.11)</u>
Total losses				<u>\$ 13,729.37</u>

\* In the process of switching insurance companies, the School Corporation had overlapping coverage from September 1, 2013 to July 1, 2014.

FORT WAYNE COMMUNITY SCHOOLS  
SPECIAL INVESTIGATION RESULTS AND COMMENTS  
(Continued)

**ADDITIONAL INVESTIGATION COSTS**

The State of Indiana incurred additional costs in the investigation of unauthorized purchases charged to the School Corporation procurement cards. We are requesting Patty Coffelt, former Purchasing Agent, reimburse the State of Indiana \$13,729.37 of the additional costs incurred in the investigation of unauthorized expenses charged to School Corporation procurement cards. (See Summary of Charges, page 12)

Audit costs incurred because of theft or 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 9)

**UNDEPOSITED AND UNACCOUNTED FOR RECEIPTS**

Early in 2015, the School Corporation received an anonymous tip on their "Let's talk" website that the warehouse supervisor was selling the School Corporation's pallets and not remitting the proceeds to the School Corporation for deposit. School Corporation officials investigated these allegations, interviewing Roger D. Mitchell, former Warehouse Supervisor, and other warehouse employees. Mr. Mitchell admitted that he had retained the proceeds from the sale of pallets and scrap metal. He stated that he had used the proceeds to purchase food for staff luncheons and parties to boost and maintain employee morale. Mr. Mitchell also stated that he did not maintain any record of the amounts received or disbursed, and did not retain any of the receipts for his food purchases. He further admitted that he had, on at least one occasion, used the funds to pay for his own lunch.

The School Corporation made inquiries to the business that purchased the pallets and received a vendor report from their records that shows 27 disbursements totaling \$4,655 to Fort Wayne Community Schools from September 19, 2007 through December 15, 2014. A local scrap dealer provided reports of "Customer Scale Purchases by Commodity" showing six payments totaling \$788.53 to School Corporation warehouse employees from July 23, 2009 through June 20, 2014.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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 Indiana Public School Corporations, Chapter 9)

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 unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Roger D. Mitchell, former Warehouse Supervisor, reimbursed the School Corporation \$5,443.53 on February 25, 2015, for undeposited receipts.

FORT WAYNE COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on July 22, 2015, with Sherry Nidlinger, Treasurer; Kathy Friend, Chief Financial Officer; Stefan Pittenger, Director of Fiscal Affairs; Rodney Rathge, Director of Purchasing; Beverly Stier, Internal Auditor; and Mark GiaQuinta, President of the School Board.



WE ARE YOUR SCHOOLS

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FORT WAYNE COMMUNITY SCHOOLS

July 29, 2015

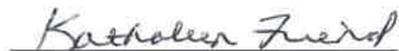
OFFICIAL RESPONSE

State Board of Accounts  
302 West Washington St., Room E418  
Indianapolis, IN 46204-2765

RE: Special Investigation Results and Comments Exit Conference July 22, 2015

Thank you for the opportunity to respond to the results and comments in the report we received on July 22, 2015. We believe improvements in internal controls will help to prevent and detect similar issues in the future. Attached is a chart outlining the internal control weaknesses and the plan to correct each deficiency.

We appreciate the efforts and recommendations of the field examiners during this audit. They conducted themselves in a professional manner and provided valuable input.

  
Kathaleen A. Friend  
Chief Financial Officer

  
Wendy Robinson, Ed.D.  
Superintendent

*Chief Financial Officer*

1200 South Clinton Street • Fort Wayne, IN 46802 • Phone: 260.467.2000 • Fax: 260.467.1981

Unauthorized Action	Internal Control Weakness	Improved Control
<p>Purchasing Agent had the ability to enter requisitions for procurement card purchases and override approvals without proper accountability.</p> <p>Requisitions for procurement card purchases could be canceled before reaching approval by Director of Fiscal Affairs.</p> <p>Purchasing Agent in store purchases or had merchandise delivered directly to her that was not authorized.</p>	<p>1. The district had not separated incompatible activities related to procard transactions.</p> <ul style="list-style-type: none"> <li>a. Create a requisition</li> <li>b. Override unit head approvals</li> <li>c. Purchase goods</li> <li>d. Reconcile procard statements</li> <li>e. Take delivery of merchandise</li> </ul>	<ul style="list-style-type: none"> <li>a. Creating a requisition is an appropriate action for a Purchasing Agent but all rules must be followed.</li> <li>b. Unit head approvals are required with subsequent approval by the Director of Fiscal Affairs. Evidence of these approvals will be documented as described in item d.</li> <li>c. Purchasing goods is an appropriate action for a Purchasing Agent but all rules must be followed.</li> <li>d. For Purchasing procard transactions, a print out of the IFAS approval workflow for each transaction must be attached to the receipts before submitting to Accounting for payment. The Accounting Department is responsible for verifying its existence. Exceptions will be brought to the attention of the Director of Fiscal Affairs for investigation.</li> <li>e. All procurement card purchases must be shipped directly to the unit or the FWCS warehouse. The Purchasing Director and the Accounting Department will audit the ship to address on all receipts.</li> </ul> <p>Shipped and in store purchases require a proper signature on the receipt by the receiving unit, not the Purchasing Agent.</p>
<p>Unauthorized purchases were made using the account of an FWCS department.</p>	<p>2. A department did not regularly reconcile their orders placed with the purchasing department to the charges recorded in their expenditure accounts.</p>	<p>The department established a monthly procedure of reconciling the charges in their account to assure validity and accountability of the expenditures.</p>

<p>Unauthorized procard charges were reported by the Purchasing Agent for purchases that were instead for her personal benefit.</p> <p>The established control for tracking outstanding credits was not consistently followed by the Accounting department.</p>	<p>3. The district uses clearing accounts that are later reclassified. Among the items posted were fraudulent charges on compromised procards and the subsequent credits. No procedures were in place to ensure that each posted was subsequently reclassified.</p>	<p>Procard Procedures, Appendix G-ProCard Cardholder Dispute Form, was revised to require the signature of the Purchasing Director.</p> <p>The Purchasing Director or the Fiscal Affairs Director is responsible for investigating fraudulent charges and resolving with the bank.</p> <p>The Accounting department has established a log to record outstanding credits and their resolution.</p>
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FORT WAYNE COMMUNITY SCHOOLS  
SUMMARY OF CHARGES

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Patty Coffelt, former Purchasing Agent:			
Unauthorized Credit Card Purchasing, pages 4 and 5	\$ 13,729.37	\$ -	\$ 13,729.37
Additional Investigation Costs, page 7	13,729.37	-	13,729.37
Total for Patty Coffelt	<u>27,458.74</u>	-	<u>27,458.74</u>
Roger D. Mitchell, former Warehouse Manager:			
Undeposited and Unaccounted for receipts, page 7:			
Undeposited proceeds from sale of pallets	4,655.00		
Undeposited proceeds from sale of scrap metal	788.53		
Repaid by Roger D. Mitchell, receipt number CR029773, on February 25, 2015	-	5,443.53	-
Total for Roger D. Mitchell	<u>5,443.53</u>	<u>5,443.53</u>	-
Totals	<u>\$ 32,902.27</u>	<u>\$ 5,443.53</u>	<u>\$ 27,458.74</u>

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

AFFIDAVIT

STATE OF INDIANA )  
Kosciusko COUNTY )

I, Stanley W. Willmert, Special Investigator, being duly sworn on my oath, state that the foregoing report based on the official records as described in our letter to the officials of the Fort Wayne Community Schools, Allen County, Indiana, for the period from January 1, 2012 to December 31, 2014, is true and correct to the best of my knowledge and belief.

Stanley W. Willmert  
Special Investigator

Subscribed and sworn to before me this 25<sup>th</sup> day of August, 2015.

Kelly A Geiger  
Notary Public

My Commission Expires: 10/26/2022  
County of Residence: Kosciusko

