

State Board of Accounts Special Investigations



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North Supervisor:
Michelle Janosky

Special Investigators:

- Kristin Campbell
- Matthew Stone
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- Thomas (TJ) Larney

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Special Investigators:

- Gina Gambianni
- Chris Sedam
- Cole Wesley
- Cody Morgan
- James Donahoe

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What you need to know about IC 5-11-1-27(j) and (k)(1)

Investigation Case examples

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We Investigate Allegations of Misappropriations of Funds – Why?



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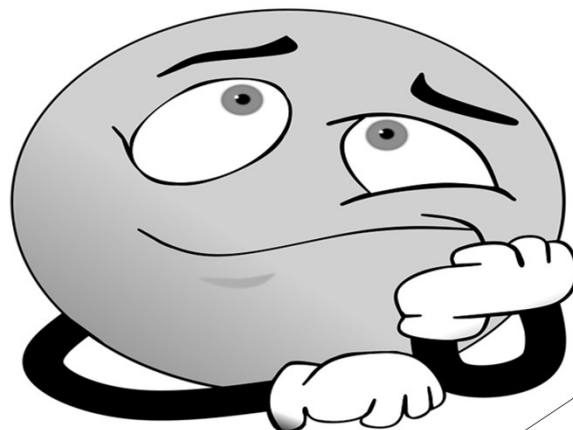
Because of Indiana Code 5-11-1-27(j) which states, in part:

... For all material variances, losses, shortages, or thefts, the state board of accounts shall:

- (1) determine the amount of funds involved and report the amount to the appropriate government and law enforcement officials; . . .

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What Else We do to Comply with Indiana Code?



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SBOA Special Investigations Role – Further Compliance with IC 5-11-1-27(j)

- ▶ Per Indiana Code 5-11-1-27(j):
 - (1) determine the amount of funds involved and report the amount to the appropriate government and law enforcement officials;
 - (2) determine the internal control weaknesses that contributed to or caused the condition; and
 - (3) make written recommendations to the appropriate legislative body or appropriate official overseeing the internal control system addressing:
 - A. the method of correcting the condition; and
 - B. the necessary internal control policies and internal control procedures that must be modified to prevent a recurrence of the condition.

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WHAT IS AN INTERNAL CONTROL?

SBOA defines internal control as follows: □

- Internal control is a **process** executed by officials and employees that is designed to provide reasonable assurance that the objectives of the political subdivision will be achieved;
- It is a basic element fundamental to the organization, rather than a list of added on tasks;
- It is an **adaptable** process that is a means to an end, not an end in itself;
- It is focused on the achievement of objectives; and
- It is dependent on officials and employees for effective implementation.

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Per the Internal Control Manual:

Five Components:

- **Control Environment** – Sets the tone of the unit; Integrity and ethical values of the unit; set by the governing board and management; Think of Written Policies - Travel Policies , Credit Card Policies, Employee Reimbursement Policies, Ordinances, Contracts, etc; How are these communicated to employees? Does Management ensure compliance?
- **Risk Assessment** – Determining how the possibility that an event will occur that could adversely affect an objective – Think of What's the "risk" I could overpay on a Contract, or An employee is overpaid
- **Control Activities** - Think of Processes – Is there a system of checks and balances (Segregation of Duties) - Reconciling the Bank, Auditing and Approving Account Payable Vouchers, etc. (Actions)
- **Information and Communication** – Sharing and Obtaining Information Related to Internal Controls – Both internal (departments, management, and governing board and external (banks, credit card companies, etc)
- **Monitoring** - Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. Think of - Making Sure Controls are still applicable and functioning. Adapting and updating with new personnel and accounting systems

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Let's Look at Some Recently Issued Reports with Shortages and Control Deficiencies

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

SPECIAL INVESTIGATION REPORT
OF
HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
HUNTINGTON COUNTY, INDIANA
August 6, 2018 to February 28, 2022

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

SPECIAL INVESTIGATION REPORT
OF
CLARK COUNTY SHERIFF'S DEPARTMENT
JAIL COMMISSARY
CLARK COUNTY, INDIANA
January 1, 2015 to December 31, 2022

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Huntington County Community School Corporation

- ▶ Asst Superintendent purchased \$460,000 of non-school gift cards
- ▶ School Corporation had a form for tracking who was given credit cards – no verification that forms were used
- ▶ School Corporation Superintendent received email from credit union regarding potential fraud – spoke to Asst Superintendent but didn't evaluate the risk that the person he received an explanation from could have been lying. Did not verify what he was told.
- ▶ Asst Superintendent by-passed Accounts Payable Department by using Coca Cola Fund; Were there written rules for the use of the Coca Cola Fund? Who was to approve usage of funds?
- ▶ Asst Superintendent left this School Corporation and was hired at another School Corporation where he resigned for misusing the Procurement Card; After his misappropriations were reported we went to Huntington Schools to investigation.

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Huntington Community School Corporation

NON-SCHOOL RELATED GIFT CARD PURCHASES

VISA Gift Cards

On April 9, 2020, Bumgardner purchased sixty-eight (68) Visa gift cards with values of \$300, \$200, and \$100 as a direct debit from the School Corporation's Teachers Credit Union (TCU) bank account in the amount of \$15,002, which included bank fees totaling \$102. After approval by Bumgardner, Edette Eckert (Eckert), former Treasurer, recorded this transaction in the School Corporation's financial ledger as a disbursement from the School Lunch fund.

Twenty-seven (27) days later, on May 6, 2020, Bumgardner ordered an additional thirty (30) Visa gift cards from the TCU account. Twenty-five (25) of the Visa gift cards had values of \$500 each, and the remaining five (5) Visa gift cards had values of \$100 each for a total of \$13,045 including a \$45 bank fee. After approval by Bumgardner, Eckert recorded this transaction as a disbursement from the Coca Cola fund.

Over the course of five hundred and sixty-one (561) days, from the date that Bumgardner made his first purchase on April 9, 2020, until his last purchase on October 22, 2021, Bumgardner purchased Visa gift cards from the School Corporation's TCU Operating Account totaling \$462,350, plus bank fees totaling \$927.

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Huntington Community School Corporation

COCA COLA FUND, BUILDING CORPORATION, AND GIFT CARDS

Coca Cola Fund and Bypassing the Accounts Payable Department

The Coca Cola fund was typically used for the purchase and sale of Coca-Cola products due to a contract with the Coca-Cola Company. Purchases from this Coca Cola fund also included small miscellaneous purchases of promotional items and bereavement memorials. Prior to Bumgardner's use of the Coca Cola fund for purchasing Visa gift cards, all disbursements were processed through the accounts payable department.

The Coca Cola fund was accounted for in the School Corporation's records, but is an extracurricular fund, in that the sources of receipts were collections from the sales of cola products, not collection of local, state, or federal tax distributions or transactions associated with construction projects.

According to Eckert, Bumgardner was the one who chose to use the Coca Cola fund to record the purchases of the Visa gift cards. Except for the first order of Visa gift cards, all purchases of Visa gift cards were recorded as disbursements in the Coca Cola fund by Eckert after approval by Bumgardner. These purchases of the Visa gift cards by-passed being processed through the accounts payable department.

Per an interview, Christina Voght (Voght), Accounts Payable Clerk, all purchases processed through the accounts payable department would require a completed requisition form, and the approval of a supervisor. All purchases would also require itemized invoices, which would be mailed or emailed to the accounts payable department to be attached to an accounts payable voucher, scanned into the financial accounting software and paid, after receipt of the goods or services. The purchases of the gift cards did not follow this process.

For all of the Visa gift cards, Eckert recorded the purchases in the system, and Bumgardner approved the purchases. There were not any requisition forms completed, and not any vendor invoices attached to the accounts payable vouchers or scanned into the financial accounting software. Furthermore, documents were not retained to validate receipt of the Visa gift cards by any contractors or employees of the contractors. For the investigation, Eckert provided the invoices for the Visa gift card purchases from her files.

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Huntington Community School Corporation

INTERNAL CONTROLS AND DUE DILIGENCE

Missed Cues, Red Flags, and Due Diligence

On June 17, 2021, the District Manager of the Teacher's Credit Union (TCU) emailed Daugherty requesting "the purpose behind the purchases of several Gift Cards from the Operations account for HCCSC over the past several months?" The email further stated: "Due to the frequency and the dollar amounts of the purchases we need to provide an explanation to our Deposit Operations department. TCU makes every attempt to ensure that we are good stewards for the members and partners that entrust us with their deposited funds and this type of transaction from time to time comes under scrutiny only due to the potential of fraudulent use. . . ."

Daugherty's response to the District Manager on June 17, 2021, stated the following:

"Thank you for reaching out on this topic. Unfortunately, we have had to make some modifications from our current practices to get through this pandemic.

1. We have used gift cards for our employees. They have been very valuable in our ability to stay open . . . We have valid documentation to all these transactions.
2. The wage hearing for our Roanoke project took place prior to the pandemic. We came up with an agreement with many of our contractors to help supplement with gas cards and such to make sure we maintained our time schedule. We received this money back within our retainage of the project.
3. We recently completed a State Board of Accounts audit in which our internal controls and documentation were on point.

We have completed this project and feel confident that this practice is behind us. . . ."

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Huntington Community School Corporation

We interviewed Daugherty by phone on December 12, 2023, regarding his email response to the District Manager at the TCU. Daugherty stated that he called Bumgardner into his office, and what Bumgardner told Daugherty is what Daugherty typed into the email response. Daugherty further stated he did not see the agreement with the contractors for the Roanoke project as he **trusted** Bumgardner. In an interview with Daugherty on December 8, 2023, Daugherty stated that Bumgardner informed the School Board about the gift cards and that they were for the mechanics and the cafeteria staff. When asked during the December 12, 2023 phone interview about the School Board approval of the gift cards, Daugherty stated the approval may have been through an executive session or Bumgardner may have emailed the School Board.

Daugherty failed to validate if the gift cards were being properly accounted for and/or approved by the School Board. Daugherty conducted no substantiation of the frequency or volume of the gift cards purchased, but relied solely upon the word of Bumgardner, the person making those purchases.

Daugherty stated in the email to the District Manager: "We have completed this project and feel confident that this practice is behind us. . . ." yet failed to follow up to determine if any gift cards were purchased after his response. Bumgardner continued to purchase gift cards after June 17, 2021. Bumgardner purchased Visa gift cards through October 22, 2021. Bumgardner purchased ninety-one (91) Visa gift cards totaling \$96,907.50 from June 22, 2021 through October 22, 2021.

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Huntington Community School Corporation

Failure to Establish Gift Card Policy

The School Corporation failed to establish proper procedures or a policy to account for the issuance of gift cards to employees and/or vendors.

Gift Card Acknowledgement forms were provided dating back to August 28, 2012. The gift card acknowledgement forms dated back to August 28, 2012, were for a student recognition program based upon the context of the form. A Gift Card Acknowledgement Form dated April 15, 2020, was for an employee of the School Corporation, specifically designating the gift card as a Visa Gift Card.

Based upon the Gift Card Acknowledgement Forms presented for this investigation, this form was only used between April 21, 2020, and August 19, 2020. The School Corporation did not retain any signed forms for gift cards purchased by other employees for employee appreciation and for the holiday season gift cards issued.

When the Gift Card Acknowledgment Forms were used, the School Corporation did not have controls in place to ensure proper accountability of the gift cards. A log as to the values and number of cards purchased, distributed, and on hand was not developed or maintained. No one at the School Corporation requested to see any of the signed gift card acknowledgment forms, and there was not a system in place to ensure that the gift cards that were distributed had a signed gift card acknowledgment form.

The School Corporation failed to follow the staff gift policy in giving gift cards at Christmas time. The policy specifically stated that "It is the policy of the Board that no professional staff member should expect or accept gifts for carrying out the terms of his/her teaching contract." The policy also stated that while gift-giving fits the spirit of the season, "**gifts other than money may be accepted.**" Gift cards are cash equivalents and typically used in place of money for making purchases. Gift cards could be defined as pre-loaded debit cards and used as cash.

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Huntington Community School Corporation

Board Approved Dockets

Per interviews with two School Board members, they stated that approvals of the accounts payable vouchers were performed based upon items listed on dockets, which were subsequently signed by the School Board members to document School Board approval of the accounts payable vouchers for payment. The dockets were provided to the School Board members electronically. The Visa gift card purchases were listed on the dockets for approval; however, School Board members stated when they approved the purchases listed on the dockets, they were mostly interested in large dollar values such as insurance. The School Board members stated they did not recall looking at any of the purchases from the Coca Cola fund or asking to see the actual accounts payable vouchers and/or invoices.

School Board Members interviewed stated they did not recall seeing any gift card purchases; however, the gift cards were listed on the dockets as "Misc. - Gift Cards" and "Coca Cola - Office of The Superintendent - Huntington County Comm Schools Supplies - Nontechnology Related Under Capitalized". The quantity purchased and total dollar amounts were listed as well.

| Item Description | QTY | UNIT PRICE | TOTAL PRICE | Account Number | Contract Number | Amount |
|--|-----|------------|-------------|----------------|-----------------|----------|
| Misc - Gift Cards | 3 | 2,000.00 | 6,000.00 | | | 6,000.00 |
| Coca Cola | | | | | | |
| 1795-2200-902 411 (Coca Cola Office of The Superintendent Huntington County Comm Schools Supplies - Nontechnology Related Under Capitalized) | | | | | | |
| Misc - Gift Cards | 3 | 2,000.00 | 6,000.00 | | | 6,000.00 |
| Coca Cola | | | | | | |
| 1795-2200-902 411 (Coca Cola Office of The Superintendent Huntington County Comm Schools Supplies - Nontechnology Related Under Capitalized) | | | | | | |
| Total: 12,000.00 | | | | | | |

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Clark County Sheriff's Office

- Falsified Invoices –How well do you know your vendors? Control Activity – what are you looking at on an invoice prior to approval?

What type of controls could you have when you see a new vendor?

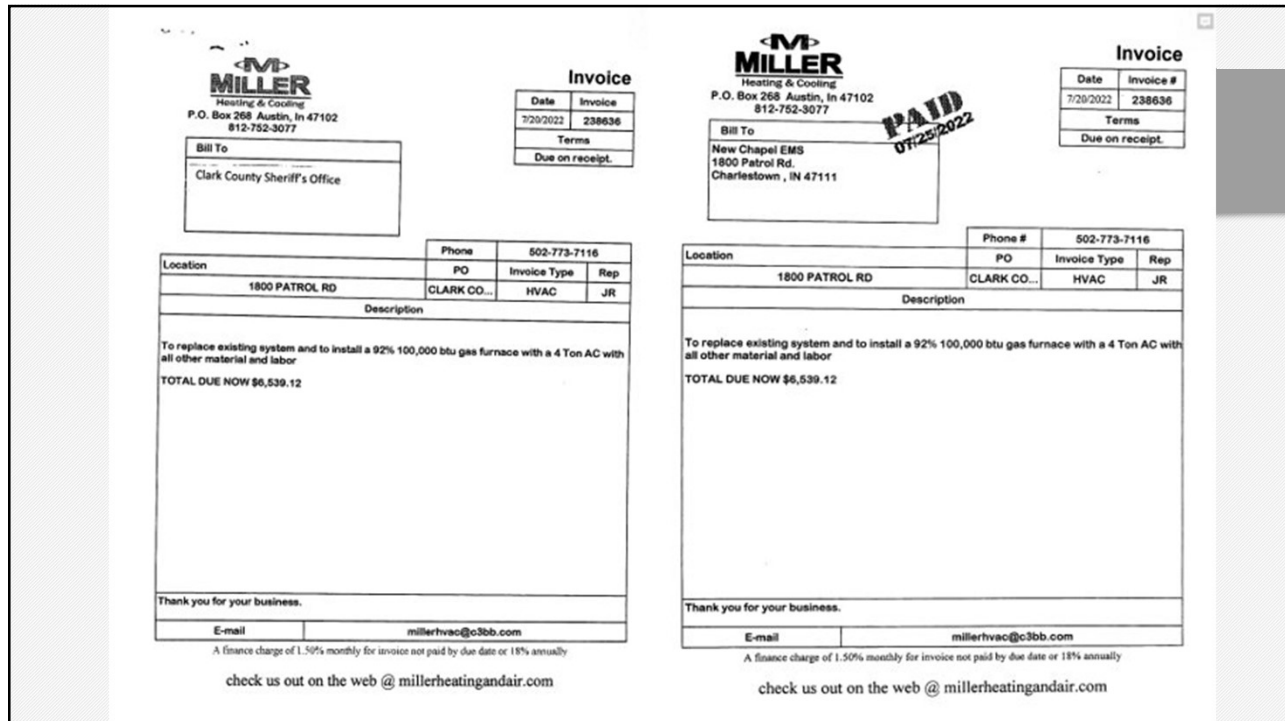
Does the vendor exist?

- Look up company on Google
- Look up company on Secretary of State's Website
- Does address, phone #, and email match the invoice
- Does the company perform the services or sell the product on the invoice

Is the invoice submitted an original or photocopy?

Does the invoice appear to be altered?

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Clark County Sheriff's Office

- ▶ Payments made to an individual without itemized invoice
 - How well do you review vendor invoices? Control Activity – what are you looking at on an invoice prior to approval?
 - What type of controls do you have to verify vendor contract payments?
 - Does a contract exist?
 - ▶ Is the invoice in agreement to the contract amount
 - ▶ Is the invoice adequately itemized to determine work performed
 - ▶ Does the individual/company perform the services or sell the product on the invoice
 - ▶ If an individual, is the individual also an employee of the unit

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| Quantity | | Description | U/M | Rate | Amount |
|----------|------------|-------------|-----|------------------------------|-------------------|
| 1 | April 2021 | | | 3,300.00 | 3,300.00 |
| | | | | <i>Handwritten signature</i> | |
| | | | | Total | \$3,300.00 |

An administrative charge of \$5.00 or 2% per month, whichever is greater, will be imposed on all accounts not paid by the first (1st) of the month after the due date of this invoice.

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Internal Control Summary

- ▶ Establish Policies and Procedures – Employee Reimbursements, Travel, Credit Cards, Work schedules, On Call Pay
- ▶ Policies need to be written in a concise and clear manner.
- ▶ Verify that follow policies and procedures established
- ▶ Review and revise policies if needed
- ▶ Communicate policies to employees
- ▶ Have employees sign that they have read policies
- ▶ Review vendors and claims for validity
- ▶ Follow-up if something seems wrong

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