



**Auditor of State
Betty Montgomery**

TABLE OF CONTENTS

TITLE	PAGE
Schedule of Elected Board Members and Relevant Personnel	1
Independent Accountants' Report	3
Background Information	7
Supplement to the Special Audit Report	
Issue No. 1 Credit Card Purchases	8
Issue No. 2 Leave Usage	10
Issue No. 3 Travel Reimbursement	11
Issue No. 4 Landscaping Expenses	13
Issue No. 5 Deposits of District Revenues	14
Issue No. 6 Other Purchases	15

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**NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

SCHEDULE OF ELECTED BOARD MEMBERS AND OTHER RELEVANT PERSONNEL

As of March 31, 2003

BOARD OF EDUCATION

Timothy Schiltz	President
Nancy Bundy	Vice President
Christopher Goldthorpe	Board Member
Vincent Marion	Board Member
Stephanie Smith	Board Member

RELEVANT PERSONNEL

Thomas Shoup	Superintendent
Todd Tolson	Treasurer
Ray Nist	Director of Business

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
North Canton City School District
525 Seventh Street, NE
North Canton, Ohio 44720

To the Board of Education:

Based upon the request of your Superintendent, Thomas Shoup, we have conducted a special audit by performing the procedures described in the attached Supplement to the Special Audit Report for the period July 1, 1998, through March 31, 2003 (the Period), solely to determine whether certain expenditures for credit cards, landscaping, employee leave usage and travel reimbursements were made in accordance with North Canton City School District (District) policies, and to determine whether District revenues were misappropriated.

This engagement was conducted in accordance with consulting standards established by the American Institute of Certified Public Accountants. The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and significant results is as follows:

1. We determined whether credit card purchases were authorized, in accordance with District policy, and for a purpose related to the District.

Significant Results: We issued a Finding for Recovery totaling \$27,383 against the former Treasurer, Diane Flad, for expenditures made by Ms. Flad for personal purchases including computer items, meals, airfare, hotel accommodations and children's items. We also issued a Management Comment suggesting the District establish a formal credit card policy.

2. We determined if the former Treasurer's leave usage was authorized, in accordance with District policy, and accurately deducted from her leave balances.

Significant Results: Ms. Flad's leave balances were overstated by 16 days, or \$5,019. We issued a Management Comment recommending the District deduct 16 days from Ms. Flad's accumulated leave balances prior to issuing a final payout of unused leave time. We also issued a Noncompliance Citation for violations of the District's leave approval process.

3. We determined whether travel reimbursements issued to the former Treasurer were authorized, in accordance with District policy, and for a purpose related to the District.

Significant Results: We issued a Finding for Recovery totaling \$529 against Ms. Flad for travel reimbursements that were unsupported (\$454) and reimbursement for a business meeting that had been canceled (\$75). We also issued 2 Noncompliance Citations for failure to maintain public records and failure to authorize travel reimbursements in accordance with District policy.

4. We determined whether landscaping expenses were authorized and for a purpose related to the District.

Significant Results: Original voucher packets supporting landscaping expenses were approved; however, Ms. Flad manually increased the amounts of the purchase orders without documented approval. Based on a walk-through of school property, landscaping work was received by the District.

We issued a Noncompliance Citation for the District to appropriate additional funds in accordance with the Ohio Rev. Code, when purchase orders are increased.

5. We determined if District revenues were deposited into the former Treasurer's personal bank accounts.

Significant Results: We issued a Finding for Recovery totaling \$115,236 against Ms. Flad for District revenues that were improperly deposited into her personal bank account. We also issued a Management Comment regarding the implementation of a billing system for external billings initiated by the District.

6. We determined if purchases made by the former Treasurer were authorized, in accordance with District policy, and for a purpose related to the District.

Significant Results: We issued a Finding for Recovery against the former Treasurer for \$12,697 for personal purchases paid for by the District.

7. On November 21, 2003 we held an Exit Conference with the following individuals:

Thomas Shoup, Superintendent
Ray Nist, Business Manager
Todd Tolson, Treasurer
Vincent Marion, Board Member

The attendees were informed that they had five business days to respond to this Special Audit Report; however, they indicated to us that they did not intend to provide a formal written response to the report. As such, no response was received.

This report is intended solely for the information and use of the District and is not intended to be and should not be used by anyone other than these specified parties. However, reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 25, 2003

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Supplement to the Special Audit Report

Background

On March 21, 2003, we were contacted by Tom Shoup, Superintendent of North Canton City School District, regarding allegations that the former Treasurer used District credit cards for personal purchases. The alleged misuse of District credit cards was discovered after the Treasurer was repeatedly absent from work and, in her absence, Mr. Shoup reviewed and identified the unusual purchasing documents. In addition to contacting our office, Mr. Shoup filed a report with the North Canton Police Department and a police investigation was initiated.

Diane Flad, who had been the District's Treasurer for 15 years, was charged with theft in office after District officials discovered over \$5,300 of inappropriate charges, including several digital cameras and televisions. Ms. Flad admitted to using the District's credit card for personal purchases, repaid \$6,990 to the District, and resigned on March 20, 2003.

The above information was presented to the Auditor of State's Special Audit Task Force and on March 27, 2003, a Special Audit of the District was initiated.

On July 23, 2003, Ms. Flad pled guilty to theft in office, a felony of the third degree. On August 25, 2003, Ms. Flad was sentenced to a 4-year prison term and ordered to pay restitution in the amount identified by our final audit report. Additionally, Ms. Flad was fined \$10,000 and ordered to pay the costs associated with our performance of this Special Audit.

Supplement to the Special Audit Report

ISSUE 1: Credit Card Purchases

We determined whether credit card purchases were authorized, in accordance with District policy, and for a purpose related to the District.

PROCEDURES

1. We obtained and reviewed computerized expenditure ledgers and vendor history reports to identify all payments to credit card companies.
2. We obtained canceled checks, purchase orders, vouchers and other supporting documentation for all payments made to the credit card company and determined whether these payments were authorized in accordance with the District's policies and that they were for a purpose related to the District. Where necessary, we interviewed the Superintendent and the Business Manager concerning questionable or unsupported expenditures.

RESULTS

1. The District had 4 credit cards at Key Bank and charges were incurred as follows:

<u>Year Ended</u>	<u>Amount Paid</u>
December 31, 1998 ¹	\$8,292
December 31, 1999	30,610
December 31, 2000	39,608
December 31, 2001	36,849
December 31, 2002	35,804
March 31, 2003	4,623
Total	<u>\$155,786</u>

2. The District provided all but 2 credit card statements and 3 voucher packets to support credit card expenditures during the Period. We will issue a Noncompliance Citation for failure to maintain public documents. (See Issue No. 3.)

Our review identified payments of \$32,933, for computer items, meals, airfare, hotel accommodations, and children's items which were purchased by Diane Flad and were unrelated to District operations. On March 20, 2003, Ms. Flad repaid the District \$5,550. Therefore, we will issue a Finding for Recovery against Ms. Flad for the remaining \$27,383.

FINDINGS FOR RECOVERY

During the Period, Diane Flad used District credit cards to purchase personal items including computer items, meals, airfare, hotel accommodations and children's items totaling \$32,933. These purchases were unrelated to District operations. On March 20, 2003, Ms. Flad repaid the District \$5,550.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a Finding for Recovery for public money converted or misappropriated is hereby issued against Diane Flad, former Treasurer of North Canton City School District, Nationwide Mutual Insurance Company, Wausau Insurance Company and the Travelers Casualty and Surety Company of America, her bonding companies, jointly and severally, in the amount of \$27,383, and in favor the District's General Fund.

¹ This amount represents purchases from January 1, 1998.

Supplement to the Special Audit Report

MANAGEMENT COMMENT

The District did not have a formal written credit card policy. Failure to have a specific, written policy governing the use of credit cards can lead to a lack of accountability for purchases and the possibility of incurring purchases which are unrelated to District operations.

We recommend the District consider terminating or limiting the use of credit cards to make various purchases. In addition, the District should adopt a formal written credit card policy, as evidenced in the Minute Record, which outlines the following:

- Specific number of credit cards to be issued and used for a particular vendor
- Maximum credit limit to be obtained on each card
- Authorized individuals to make credit card purchases
- Procedures to safeguard credit cards when not in use
- Individuals required to monitor and review credit card purchases for propriety

Additionally, the District should require each purchaser to sign the individual store receipt, acknowledging his or her use of the credit card for business-related purchases. The District should require a detailed receipt be provided by the purchaser, rather than just the credit card summary receipt. This will help ensure that District credit cards are not used for personal gain.

Supplement to the Special Audit Report

ISSUE 2: Leave Usage

We determined if the former Treasurer's leave usage was authorized, in accordance with District policy, and accurately deducted from her leave balances.

PROCEDURES

1. We obtained computerized payroll ledgers to identify dates on which leave time was used.
2. We obtained the leave usage forms in the former Treasurer's file to determine if the leave was in accordance with the District's policies and was approved.
3. We obtained the calendar used by the Business Manager to document the absence of the former Treasurer and compared it to the leave usage that was deducted from her balances.

RESULTS

1. According to the District's payroll system, Ms. Flad used 67.25 days of leave from December 1, 2001 through March 18, 2003. Additionally, Ms. Flad was absent for 10.5 professional days which were confirmed by District's Director of Curriculum.
2. Twelve of 76 leave forms on file lacked required approval.
3. From December 2001 through March 2003, Business Manager Ray Nist tracked Ms. Flad's absences. Our comparison of Mr. Nist's schedule of Ms. Flad's leave time, Ms. Flad's personal planner, and what was recorded in the District's payroll system identified 16 days on which Ms. Flad was absent but no leave was posted in the system. As a result, Ms. Flad's leave balances were overstated by \$5,019, which was calculated as the 16 unaccounted days, multiplied by her daily rate of \$313.68. We will issue a Management Comment recommending the District adjust Ms. Flad's leave balances prior to issuing a final payment for earned but unused leave time.

NONCOMPLIANCE CITATION

The District's Absence Report forms required approval by the employee's supervisor; however 12 of 76 leave forms on file for the former Treasurer lacked approval. In order to verify that requested leave time is permitted, and to maintain an accurate supporting document for the use of leave time, the District should improve its control structure to ensure all leave time request forms are completed, including all required approvals. Further, we recommend the District perform an occasional review of leave forms, to ensure approval, and to determine whether usages were accurately deducted from an employee's leave balance.

MANAGEMENT COMMENT

We compared Diane Flad's leave usage that was deducted from the District's Leave History Report to leave usage forms, Ms. Flad's personal planner and copies of the Business Manager's desk calendar where he kept track of Ms. Flad's absences from work for the period of December 1, 2001 through March 18, 2003. We determined that Ms. Flad's leave balances were overstated by 16 days, or \$5,019. We recommend the District deduct 16 days from Ms. Flad's leave balances prior to issuing a final payment of unused leave time.

Supplement to the Special Audit Report

ISSUE 3: Travel Reimbursement

We determined whether travel reimbursements issued to the former Treasurer were authorized, in accordance with District policy, and for a purpose related to the District.

PROCEDURES

1. We obtained computerized expenditure ledgers and vendor history reports to identify all travel payments made to the former Treasurer.
2. We obtained the District policy regarding travel reimbursement, and we obtained canceled checks, purchase orders, vouchers and other supporting documentation (including receipts and mileage logs) for reimbursements made to the former Treasurer to determine whether these payments were in accordance with the District's policies and that they were for a purpose related to the District.

RESULTS

1. Ms. Flad received travel reimbursements of \$7,488 during the Period. None of these reimbursements were approved by District administration. We will issue a Noncompliance Citation for failure to receive approval of travel expenses, in accordance with District policy.
2. The District's Expense Reimbursement policy allowed for payment of job-related travel expenses upon the completion of a "Reimbursement for Job-Related Travel" form. However, the District did not maintain documentation to support reimbursements issued in October 2000 through December 2000, December 2001 through February 2002, and May 2002 through March 2003. We will issue a Noncompliance Citation for not maintaining these records.

On December 21, 2000, Ms. Flad issued herself a check for \$454. There was no documentation to support the check (e.g., no voucher packet, purchase order, or invoice), and no description on the remittance advice portion of the check stub to explain the purpose of this payment. Additionally, on October 13, 2000, Ms. Flad was reimbursed \$75 for a meeting that we confirmed with the sponsor had been canceled. We will issue a Finding for Recovery against Ms. Flad for \$529, for public monies converted or misappropriated.

FINDINGS FOR RECOVERY

We obtained travel reimbursement vouchers identified through review of computerized expenditure ledgers and vendor history reports related to travel reimbursements issued to Diane Flad for the Period, along with supporting documentation. Our review identified 2 questionable reimbursements totaling \$529, for one in which no support existed, and a second wherein the scheduled meeting had been canceled.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a Finding for Recovery for public money converted or misappropriated is hereby issued against Diane Flad, former Treasurer of North Canton City School District, Nationwide Mutual Insurance Company, Wausau Insurance Company and the Travelers Casualty and Surety Company of America, the bonding companies, jointly and severally, in the amount of \$529, and in favor the District's General Fund.

Supplement to the Special Audit Report

NONCOMPLIANCE CITATIONS

Maintenance of Documents

Ohio Rev. Code Section 149.351(A) requires, in part, that public records not be removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Sections 149.38 to 149.42 of the Rev. Code.

Support for 2 credit card statements, 3 voucher packets (see Issue No. 1), and travel reimbursement forms for 17 months of the Period could not be located. Missing documents may raise suspicion of wrongdoing and make it difficult for management to support that their actions complied with applicable laws, regulations, policies and procedures.

The District should establish procedures to ensure that all records which support expenditures are maintained.

Travel Reimbursements

The Reimbursement for Job-Related Travel form required approval from an employee's supervisor, director, or the Superintendent. None of the travel reimbursements submitted by and paid to Diane Flad were approved. Lack of approval may lead to unauthorized reimbursements. We recommend the District ensure all travel forms are approved by an appropriate member of administration.

Supplement to the Special Audit Report

ISSUE 4: Landscaping Expenses

We determined whether landscaping expenses were authorized and for a purpose related to the District.

PROCEDURES

1. We obtained computerized expenditure ledgers and vendor history reports and manually reviewed available documents to identify payments made to the landscaping vendor.
2. We obtained canceled checks, purchase orders, vouchers and other supporting documentation for all payments made to the landscaping company and determined whether these payments were authorized and for a purpose related to the District.

RESULTS

1. There were 2 payments totaling \$47,790, to Rice's Nursery during the Period.
2. Ms. Flad increased the amount of the 2 purchase orders for landscaping expenses from \$6,000 to \$36,326, and from \$1,000 to \$11,464, without approval; however, based on a walk-through of the District's property, we confirmed that landscaping work had been provided.

NONCOMPLIANCE CITATION

Ohio Rev. Code Section 5705.41 outlines restrictions on the appropriation and expenditure of money by the District. Subsection B provides that no subdivision or taxing unit is to expend money unless it has been appropriated. During the Period, Ms. Flad increased 2 purchase orders without approval and without certifying an increase in appropriations totaling \$40,790.

To comply with this requirement and prevent possible deficit spending, we recommend the District develop procedures to ensure that additional funds are appropriated when purchase orders are increased.

Supplement to the Special Audit Report

ISSUE 5: Deposits of District Revenues

We determined if District revenues were deposited into the former Treasurer's personal bank accounts.

PROCEDURES

1. We issued subpoenas to Key Bank and the Canton School Employees Credit Union for Diane Flad's account information. We reviewed documentation supporting the deposits made by the former Treasurer into her personal account to verify that funds deposited were not District revenues.
2. Additionally, we issued a subpoena to Key Bank, requesting all information related to the District's Educational Endowment account.

RESULTS

1. Ms. Flad deposited District revenues, including tuition, building rental payments, workers compensation refunds and insurance checks totaling \$116,676, into her personal bank account. Ms. Flad was solely responsible for invoicing and receipting these types of revenues.

In April 2003, Ms. Flad repaid \$1,440, of these funds to the District. We will issue a Finding for Recovery against Ms. Flad for the remaining \$115,236.

2. Our review of the District's Educational Endowment account revealed no unusual transactions.

FINDINGS FOR RECOVERY

We obtained the bank records of Diane Flad from her financial institutions, Key Bank and Canton School Employees Credit Union. These records included checking and savings account statements, deposit information and canceled checks. Our review of bank records revealed deposits totaling \$115,484 which belonged to the District, yet were deposited into Ms. Flad's account. In April 2003, Ms. Flad repaid the District \$1,440.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a Finding for Recovery for public money converted or misappropriated is hereby issued against Diane Flad, former Treasurer of North Canton City School District, Nationwide Mutual Insurance Company, Wausau Insurance Company and the Travelers Casualty and Surety Company of America, her bonding companies, jointly and severally, in the amount of \$114,044, and in favor the District's General Fund.

MANAGEMENT COMMENT

Diane Flad manually prepared billings for building rentals and school usage without processing such entries through the District's on-line computer system. Additionally, there was no oversight of these transactions by management. Documentation was not maintained on what entities were being billed by the District or how much had been received. This lack of oversight could result in District revenues being misappropriated.

To establish accountability over these types of billings, the District should monitor the distribution of invoices and the corresponding receipt of revenues. The duties of invoicing, opening mail, and posting receipts to the District's computer system should be segregated, with oversight provided by members of District management who are not already involved with the process.

Supplement to the Special Audit Report

ISSUE 6: Other Purchases

We determined whether purchases made by the former Treasurer were authorized, in accordance with District policy, and for a purpose related to the District.

PROCEDURES

1. We obtained computerized expenditure ledgers and/or vendor history reports to identify payments to specified vendors.
2. We obtained canceled checks, purchase orders, vouchers and other supporting documentation for payments made to these vendors and determined whether these payments were authorized in accordance with the District's policies and that they were for a purpose related to the District.
3. We interviewed the Superintendent and Business Manager regarding questionable or unsupported expenditures.

RESULTS

1. During the Period, the District paid \$11,256 to Verizon Wireless, \$1,165 to Sunoco, and \$88,701 to ACY Communications. Additionally, the District reimbursed Ms. Flad for annual physical examinations, as provided by her employment contract.
2. Ms. Flad processed payments totaling \$364 to Verizon Wireless for a cellular phone which she obtained for her babysitter. We will issue a Finding for Recovery against Ms. Flad for these payments.

Our review of payments to Sunoco and ACY Communications did not reveal unusual expenditures. We determined all Sunoco credit cards were used by the bus garage.

Ms. Flad's employment contract allowed for one comprehensive medical examination per year at the District's expense. However, our review of medical claim reimbursements submitted by Ms. Flad included outpatient visits for her granddaughter and physical examinations for her spouse. These are not valid expenses of the District, and, accordingly, we will issue a Finding for Recovery against Ms. Flad for \$387.

3. Our interviews with District personnel brought to our attention certain other expenditures which were not previously reviewed as part of our audit procedures. These included direct expenditures to certain vendors (as opposed to credit card expenditures) for 5 laptop computers, 3-night hotel accommodations for a basketball tournament, and flowers. These purchases were initiated by Ms. Flad. Accordingly, we will issue a Finding for Recovery against Ms. Flad for \$11,946.

FINDINGS FOR RECOVERY

During the Period, Diane Flad processed payments on a cellular phone used by her babysitter (\$364), received reimbursements for unauthorized medical claims (\$387), and used District funds to pay for personal purchases (\$11,946).

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a Finding for Recovery for public money converted or misappropriated is hereby issued against Diane Flad, former Treasurer of North Canton City School District, Nationwide Mutual Insurance Company, Wausau Insurance Company and the Travelers Casualty and Surety Company of America, the bonding companies, jointly and severally, in the amount of \$12,697, and in favor the District's General Fund.



**Auditor of State
Betty Montgomery**

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NORTH CANTON CITY SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 30, 2003**