



**Auditor of State
Betty Montgomery**

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FAIRBORN CITY SCHOOL DISTRICT

SCHEDULE OF DISTRICT OFFICIALS AND RELATED INDIVIDUALS

As of December 31, 2002

Board Members

Gary Bays

Steve Reichard

Don Pugh

Linda Riffle

Stephanie Webb

Relevant Individuals

Herb Young, Superintendent¹

Randy Scherf, Treasurer²

¹ Mr. Young resigned on July 2, 2002 and was replaced by David Scarberry on December 29, 2002.

² Mr. Scherf resigned on July 31, 2002 and was replaced by Tammy Emrick on May 1, 2003.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Don Pugh, Board President
David Scarberry, Superintendent,
and
Tammy Emrick, Treasurer
Fairborn City School District
306 E. Whittier Avenue
Fairborn, Ohio 45324

At your request, and at the request of Greene County Prosecutor William Schenk, we have conducted a special audit of the Fairborn City School District's (the "District") expenditures by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period January 1, 1997 through December 31, 2002 (the "Period"), solely to:

- Verify the former superintendent and treasurer were compensated in accordance with Board-approved contracts.
- Determine whether petty cash expenditures, selected travel reimbursements, payments to certain vendors, and Principals Fund transactions were supported by documentation, in accordance with District policies and/or Ohio Rev. Code, and were for school-related business.
- Determine whether services for selected contracts were performed, the contract was awarded in accordance with the Ohio Rev. Code and whether payments were in accordance with the contract provisions and/or District policies.
- Review the self insurance contract during the Period to verify whether the contract was awarded in accordance with the Ohio Rev. Code and the payments were made in accordance with contract provisions.

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 reviewed documentation supporting payments to Herb Young, former superintendent, and Randy Scherf, former treasurer, during the Period to determine whether they were compensated in accordance with their respective contracts.

Significant Results – We issued findings for recovery against Randy Scherf totaling \$35,398, for overcompensation, family memberships, and incorrect investment incentives. In addition, we proposed findings for recovery against Herb Young totaling \$1,195 also for overcompensation and family memberships. In response to the Notice of Proposed Findings, Herb Young reimbursed the District \$1,195. We issued a noncompliance citation for Mr. Scherf failing to obtain required training for investment activities. Additionally, we issued a noncompliance citation and a referral to the Internal Revenue Service for not including taxable fringe benefits on Forms W-2 and/or 1099.

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We also issued two management comments regarding the posting of interest income and the payment of an investment incentive.

2. We reviewed documentation supporting petty cash disbursements during July 1, 2000 through June 30, 2002 to determine whether petty cash expenditures were supported by documentation, in accordance with District policies and for school-related business.

Significant Results – We issued one noncompliance citation for multiple violations of the District's Petty Cash policy.

3. We reviewed selected meeting and mileage reimbursements made during January 1, 1997 through June 30, 2003 and determined whether expenditures were supported by documentation, in accordance with District policies and for school-related business.

Significant Results – We issued findings for recovery against multiple District employees for illegal payments as follows: Randy Scherf, \$2,177, for reimbursement of tips and unconfirmed mileage claims; Mark Shilito, \$141, for exceeding meal per diems; and Marla Gamble, \$326, for reimbursement of personal tax penalties. In responses to Notices of Proposed Findings, Herb Young, Stephanie Webb, Robert Cotter, Gary Walker, and Gene Bennington reimbursed the District for \$390 in reimbursed tips; \$559 for an extended stay after a conference, \$762 for meal reimbursements, \$371 for duplicate hotel reimbursement and \$226 for a consultant overpayment, respectively.

Additionally, we issued three noncompliance citations and one management comment related to the District's travel policy, mileage reimbursements and the acceptance of frequent-flyer miles. We will be referring the frequent-flyer issue to the Ohio Ethics Commission for further review.

4. We reviewed documentation supporting expenditures to selected vendors during July 1, 2000 through June 30, 2002 and selected transactions recorded in the Principals Fund from July 1, 1999 through June 30, 2002. We determined whether the selected transactions were supported by documentation, for school-related business and were in accordance with the Ohio Rev. Code.

Significant Results – We proposed a finding for recovery against Herb Young totaling \$867 for costs incurred on a District cell phone after his resignation. Mr. Young has reimbursed the District the \$867 which we consider as a finding for recovery repaid under audit. We also issued federal questioned costs totaling \$9,947, for undocumented expenditures, and findings for adjustment totaling \$57,979, for expenditures posted to incorrect funds.

We issued two noncompliance citations for improperly using blanket purchase orders and improper awarding of a contract. Four management comments were issued for various internal control weaknesses.

5. We reviewed expenditures for selected contracts awarded by the District during January 1, 1997 through June 30, 2003 and verified whether the services were provided, the contract was awarded in accordance with the Ohio Rev. Code and whether the payments were in accordance with the contract provisions and/or District policies.

Significant Results – We issued two noncompliance citations for entering into a contract prior to receiving approval from the Ohio School Facilities Commission in accordance with House Bill 264, and for paying invoices outside of the time frame established within a contract. We also issued two management comments related to contracting and reimbursing expenses.

6. We reviewed the self insurance contract during the Period and verified whether the contract was awarded in accordance with the Ohio Rev. Code and the payments issued were in accordance with contract provisions.

Significant Results – We issued three noncompliance citations for not obtaining Board approval of a contract, destroying records, and not following required encumbrance procedures. We also issued one management comment related to obtaining insurance quotes from third-party administrators.

7. In addition to the noncompliance and internal control weaknesses noted in Issues No. 1 through 6, above, we issued three management comments. These items should be considered to ensure that employees are compensated at authorized rates, procedures are implemented for District credit card usage, and personal use of District assets is prohibited.
8. On September 16, 2004, we held an exit conference with the following individuals representing the District:

Donald Pugh, Board President
Gregory Spahr, Board Member
Tammy Emrick, Treasurer
John Podgurski, Legal Counsel

Linda Riffle, Vice President
Stephen J. Reichard, Board Member
David Scarberry, Superintendent

The attendees were informed that they had five business days to respond to this Special Audit Report. We received a response from the District dated September 24, 2004. This response was evaluated and modifications were made to the attached Supplement to the Special Audit Report as we deemed appropriate.

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.



Betty Montgomery
Auditor of State

July 20, 2004

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Supplement to the Special Audit Report

Background

On April 1, 2003, William Schenk, Greene County Prosecutor, sent a letter requesting assistance to Craig Mayton, Auditor of State Chief Legal Counsel. Mr. Schenk indicated he received numerous complaints from Linda Riffle, a current board member; Dave Scarberry, the current superintendent; and a few concerned citizens. The allegations related to false mileage reimbursements, steering of construction, architectural, and self insurance contracts to either the Superintendent's or Treasurer's friends; and potential overcompensation to the Treasurer for investment incentives.

In May and June 2003, we performed a preliminary investigation to substantiate the allegations forwarded by Mr. Schenk. Based on conversations with District officials, we identified other unusual transactions in the Principals Fund and potential unallowable meeting reimbursements. A review of petty cash indicated travel expenditures were paid with petty cash instead of reimbursing the District employee.

The above information was presented to the Auditor of State's Special Audit Task Force and on June 16, 2003, the Auditor of State initiated a special audit of this matter.

Supplement to the Special Audit Report

Issue No. 1 – Review of Selected Employment Contracts

We reviewed documentation supporting payments to Herb Young, former superintendent, and Randy Scherf, former treasurer, during the Period to determine whether they were compensated in accordance with their respective contracts.

Procedures

1. We compared salary and fringe benefit payments to Herb Young, former superintendent, to the Board-approved employment contract and determined whether Mr. Young was compensated in accordance with his approved contract.
2. We compared salary and fringe benefit payments to Randy Scherf, former treasurer, to the Board-approved employment contracts and amendments and determined whether Mr. Scherf was compensated in accordance with his contracts and amendments.

Results

1. We noted the following during a review of Herb Young's contract:

Annual Salary

Section IV of the former superintendent's contract provided Mr. Young would be compensated \$118,500 per year (\$4,558 bi-weekly) beginning August 1, 2001. Mr. Young retired on July 2, 2002. His final paycheck issued July 12, 2002 included a gross payroll of \$4,958. The District could not provide documentation supporting the additional \$400 in excess of the \$4,558 authorized gross pay. We proposed a finding for recovery against Herb Young in the amount of \$400. In his September 10, 2004 response to our September 8, 2004 Notice of Proposed Findings letter, Mr. Young provided a copy of a cashier's check reimbursing the District the \$400. We will consider this a finding for recovery repaid under audit.

Severance Pay

Upon retirement, Mr. Young was eligible for payment of 28.125 sick days, 17.5 vacation days, and seven non-contract days at his daily rate. Based upon the compensation contained in Mr. Young's contract for annual salary of \$118,500, mileage stipend of \$6,000 per year, and health insurance coverage of \$6,900 per year, Mr. Young's daily rate for 184 days worked was \$714.13 per day. Based on his daily rate and the 52.625 severance days, Mr. Young's calculated severance pay was \$37,582. On July 26, 2002, Mr. Young was paid \$37,764 in severance pay resulting in a \$182 overpayment. We proposed a finding for recovery against Herb Young in the amount of \$182. In his September 10, 2004 response to our September 8, 2004 Notice of Proposed Findings letter, Mr. Young provided a copy of a cashier's check reimbursing the District the \$182. We will consider this a finding for recovery repaid under audit.

Membership Reimbursement

During the Period, the Board reimbursed the superintendent for a family membership to Greene Country Club, which included a spouse membership for \$35 per month. The spouse membership totaling \$315 was not included in his employment contract and was unrelated to District business. We proposed a finding for recovery against Herb Young in the amount of \$315. In his September 10, 2004 response to our September 8, 2004 Notice of Proposed Findings letter, Mr. Young provided a copy of a cashier's check reimbursing the District the \$315. We will consider this a finding for recovery repaid under audit.

Mr. Young's Greene Country Club membership reimbursements totaling \$1,989 were not included on his W-2 or a 1099. A noncompliance citation will be issued for failure to include the taxable fringe benefit as income. Additionally, this matter will be referred to the Internal Revenue Service for further review.

Supplement to the Special Audit Report

Mileage Reimbursement

While employed as interim superintendent for April 1, 2001 through July 31, 2001, Herb Young was compensated for the dates he worked and for the related miles driven to the District. We compared the dates worked to the dates traveled and identified six days that Mr. Young was reimbursed for mileage totaling \$298 for which no evidence existed that Mr. Young worked those six days. We proposed a finding for recovery against Herb Young in the amount of \$298. In his September 10, 2004 response to our September 8, 2004 Notice of Proposed Findings letter, Mr. Young provided a copy of a cashier's check reimbursing the District the \$298. We will consider this a finding for recovery repaid under audit.

2. We noted the following during a review of Randy Scherf's contracts:

Annual Salary

Periodically throughout the Period, Mr. Scherf gave the payroll clerk written instructions to increase his biweekly pay. His written payroll changes were not approved by the Board, nor were they in accordance with his employment contract. The following table summarizes Mr. Scherf's authorized salary, the amount paid, and the variance resulting in overpayments totaling \$22,079:

	<u>Authorized Salary</u>	<u>Amount Paid</u>	<u>Variance</u>
1997	\$ 59,134	\$ 59,134	\$ -
1998	61,500	63,865	2,365
1999	78,247	79,288	1,041
2000	80,000	90,662	10,662
2001	88,654	92,425	3,771
2002	68,000	72,240	4,240
	<u>\$ 435,535</u>	<u>\$ 457,614</u>	<u>\$ 22,079</u>

A finding for recovery will be issued against Randy Scherf for \$22,079.

Severance Pay

At the time of Mr. Scherf's July 31, 2002 resignation, his Board-approved daily rate was \$454.73. Mr. Scherf was entitled to severance pay for 60 days or \$27,283. Mr. Scherf was paid \$36,807 in severance on August 13, 2002, resulting in an overpayment of \$9,524. A finding for recovery will be issued against Randy Scherf in the amount of \$9,524.

Investment Incentive

The treasurer's contract effective January 20, 1997 provided for an investment incentive of a minimum of \$2,000 and a maximum of \$4,000 to be awarded every six months based upon superior rate of return on investments. The Second Amendment to the Contract of Treasurer, entered into on August 1, 2001, adjusted the reporting period from every six months to every two months and increased the limits to \$2,500 and \$5,000 effective January 1, 2002.

We confirmed interest income recorded in the District's books and recalculated Mr. Scherf's investment incentive each time the calculation changed. We noted the following:

- The District recorded \$5,517,755 in interest income during the Period. Of that amount, we confirmed \$4,601,267 with the appropriate financial institutions and \$916,488 was unconfirmed. Of the \$4,601,267 confirmed by the bank, \$433,591 could not be directly traced to the District's ledgers because it appeared the District posted these interest items in several parts over the course of multiple days. A management comment will be issued that the District record interest income at the time of receipt, and in its totality, in accordance with cash basis accounting and only interest received should be recorded as interest income.

Supplement to the Special Audit Report

- Mr. Scherf invested in Star Ohio, money market accounts, banker's acceptances, commercial paper, treasury securities and other types of investments permissible as identified in the Board's September 23, 1996 Investment Policy. Ohio Rev. Code Section 135.22 provides for continuing education requirements for entities choosing to purchase investments other than interim deposits, Star Ohio, or no-load money market mutual funds. The Ohio Treasurer of State's office confirmed for calendar years 2000 and 2001 that Mr. Scherf did not obtain the required continuing education hours. A noncompliance citation will be issued for failure to obtain the required number of training hours to invest in instruments other than interim funds.
- Based on the ratio and the large number of investments held by the District, Mr. Scherf easily obtained the maximum incentive which is contrary to the Board's strategy of awarding incentives for exceptional performance. A management comment will be issued for the Board to contact other districts to identify types and calculations of incentives used to reward exceptional investment performance, restructure the contract to increase the ratio required to obtain the incentive, and periodically review the results to determine whether the thresholds set are reasonable.
- On July 31, 2002, Mr. Scherf resigned as treasurer. Included in his August 13, 2002 final pay was a \$2,500 investment incentive award. Mr. Scherf's contract did not provide for a mid-term calculation or awarding of a mid-term incentive. Since Mr. Scherf's resignation was in the middle of an investment incentive reporting period, he should not have received the \$2,500 incentive. A finding for recovery will be issued against Randy Scherf in the amount of \$2,500.

Moving Allowance

On December 19, 1997, Mr. Scherf was issued a check for \$3,000 as reimbursement for moving expenses from Columbus to Fairborn. We confirmed Mr. Scherf moved to Fairborn in November 1997 and was entitled to this payment. However, the payment was not included on his W-2 or a 1099 as a taxable fringe benefit. A noncompliance citation will be issued for failure to include this taxable fringe benefit on his W-2 and we will refer this to the Internal Revenue Service for further review.

Membership Reimbursement

During the Period, the Board reimbursed Mr. Scherf for a family membership to Greene Country Club which included \$35 per month for his spouse. The spouse membership totaling \$1,295 was not included in the Board-approved contract and was unrelated to District business. A finding for recovery will be issued against Randy Scherf in the amount of \$1,295.

None of Mr. Scherf's total reimbursements for all memberships totaling \$10,981 were included on his W-2 or a 1099. A noncompliance citation will be issued for failure to include the taxable fringe benefit as taxable income. This matter will be referred to the Internal Revenue Service for further review.

Findings for Recovery Repaid Under Audit

We proposed the following findings for recovery against Herb Young, former superintendent:

- The superintendent's contract, effective from August 1, 2001 through July 31, 2005, was approved by the Board of Education. According to the contract, Herb Young was to receive an annual salary of \$118,500 or a gross pay of \$4,558 per pay period. The superintendent resigned effective July 2, 2002 and received a final gross pay of \$4,958, which is \$400 higher than the Board-approved rate.
- Upon retirement, Herb Young received a payout of his sick and vacation leave balances. When the District calculated the leave payout, they calculated his daily rate incorrectly, and also paid him for an extra ½ day of sick leave. These two errors caused an overpayment of \$182.

Supplement to the Special Audit Report

- Beginning in August 2001, the Board reimbursed Herb Young for a family membership to the Greene Country Club, which included a spouse membership for \$35 per month. The spouse membership was not included in the employment contract entered into with the Board and was not related to District business. Mr. Young was reimbursed a total of \$315 for his spouse's membership to the Country Club.
- While employed as interim superintendent for April 1, 2001 through July 31, 2001, Herb Young was compensated for the dates he worked and for the miles driven to the District. We compared the dates worked to the dates traveled and identified six days that Mr. Young was reimbursed for mileage totaling \$298 for which there was no evidence indicating Mr. Young worked.

In Herb Young's September 10, 2004 response to our September 8, 2004 Notice of Proposed Findings letter, Mr. Young provided a copy of a cashier's check reimbursing the District \$1,195. We will consider these as findings for recovery repaid under audit.

Findings for Recovery

Treasurer Overcompensation

The Board of Education approved contracts which set the amounts of compensation for the former treasurer, Randy Scherf. The Board approved a contract for a two-year period commencing January 20, 1997, a contract for a four-year period commencing January 20, 1999, a contract amendment on August 10, 1999 which was effective January 20, 1999, and a second contract amendment on August 1, 2001 which was effective January 1, 2001.

The following table reflects overcompensation to the former treasurer based on a comparison of the amounts paid to Mr. Scherf and the amount approved in the contract by the District Board of Education from January 1997 to December 2002:

<u>Year</u>	<u>Overpayment</u>
1998	\$ 2,365
1999	1,041
2000	10,662
2001	3,771
2002	4,240
	<u>\$ 22,079</u>

In addition, Mr. Scherf was issued severance pay of \$36,807 for his accumulated leave. Article XIV Section 14.03 of the Compensation and Benefits manual provides in part "for any twelve (12) month certified employee and treasurer, who terminates their employment with the Board, the Board of Education shall compensate said employee at his/her current daily rate of pay for all lawfully accrued and unused vacation leave to his/her credit at the time of separation not to exceed the amount accrued during the last three (3) years of employment." The maximum payout for vacation leave would have been 20 days for each of three years of employment or 60 days in total. The Board-approved daily rate at the time of payout was \$454.73. At the Board-approved rate of \$454.73 at 60 days, Mr. Scherf should have been compensated \$27,283 resulting in an overpayment of \$9,524.

Based on the foregoing facts pursuant to Ohio Rev. Code Section 117.28, we hereby issue a finding for recovery against Randy Scherf, and his bonding company, The Cincinnati Insurance Company, jointly and severally, for \$31,603 for public monies illegally expended, in favor of the District's General Fund.

Supplement to the Special Audit Report

Investment Incentive

On August 1, 2001, the Board signed an amendment to the contract for former treasurer, Randy Scherf. Section 2 of the amended contract provided "(d)uring each two month period of this contract, the Board will set aside a sum not less than two thousand dollars (\$2,000) nor more than four thousand dollars (\$4,000) as a bonus for the treasurer based upon superior results of return on investments...." Section 3 of the amended contract provided "(e)ffective January 1, 2002, the above amounts will be increased from two thousand dollars (\$2,000) to two thousand five hundred dollars (\$2,500) and four thousand dollars (\$4,000) to five thousand dollars (\$5,000)."

On July 31, 2002, Mr. Scherf resigned as treasurer and received his last paycheck on August 13, 2002. Included in this paycheck was \$2,500 for a one month investment incentive. The Board did not state in its contract that the treasurer be paid for a partial incentive upon leaving employment.

Based on the foregoing facts pursuant to Ohio Rev. Code Section 117.28, we hereby issue a finding for recovery against Randy Scherf, and his bonding company, The Cincinnati Insurance Company, jointly and severally, for \$2,500 for public monies illegally expended, in favor of the District's General Fund.

Reimbursement of Treasurer's Spouse Country Club Membership

Section 6 of the Treasurer's Contract dated January 20, 1999 provided that the "Board shall pay for the reasonable and necessary membership dues, registration fees, and subscription costs... for the treasurer to participate in professional growth activities and civic and community organizations including but not limited to Greene Country Club..."

Beginning with the July 30, 1999 reimbursement, the Board reimbursed the treasurer for a family membership which included a spouse membership for \$35 per month. The spouse membership was not included in the contract entered into with the Board and was not related to District business. Mr. Scherf was reimbursed a total of \$1,295 for his spouse's membership to the Country Club.

Based on the foregoing facts pursuant to Ohio Rev. Code Section 117.28, we hereby issue a finding for recovery against Randy Scherf and his bonding company, The Cincinnati Insurance Company, jointly and severally, in the amount of \$1,295 for public monies illegally expended, in favor of the District's General Fund.

Noncompliance Citations

Taxable Fringe Benefits

26 C.F.R. Section 1.6041-2 provides that wages, as defined in 26 U.S.C. Section 3401, are to be reported on a form W-2, and all other payments of compensation are to be reported on a form 1099. In addition to his annual compensation, Randy Scherf received a \$3,000 stipend to cover moving expenses from his former residence in Columbus to Fairborn which was not included on his 1099 or W-2. Randy Scherf and Herb Young were both reimbursed for various memberships including Greene Country Club dues of \$10,981 and \$1,989, respectively. These amounts were not included on the W-2 issued to each individual or a 1099.

We recommend all taxable fringe benefits be included on W-2's issued by the District, and that the District reissue Mr. Scherf's and Mr. Young's W-2 to include this taxable fringe benefit. The District should also review prior years, identify any employees with taxable fringe benefits previously excluded from their W-2's or 1099's, and reissue the W-2's or 1099's as needed.

Supplement to the Special Audit Report

Investment Training

Ohio Rev. Code Section 135.22 requires subdivision treasurers to complete annual continuing education programs provided by the Treasurer of State. The Treasurer of State issues a certificate indicating that the treasurer has successfully completed the continuing education program. The continuing education requirement does not apply to a subdivision treasurer who annually provides a notice of exemption to the Auditor of State. The notice shall be certified by the Treasurer of State and must provide that the treasurer is not subject to the continuing education requirements because the treasurer invests or deposits public funds only in the following investments:

- (1) Interim deposits pursuant to § 135.14 (B)(3);
- (2) STAR Ohio pursuant to § 135.14(B)(6);
- (3) No-load money market mutual funds pursuant to § 135.14 (B)(5)

The District did not provide notice of exemption to the Auditor of State and purchased investments permissible per the District's Investment Policy which under this Section required the treasurer to complete continuing education on an annual basis. According to the Treasurer of State, Mr. Scherf failed to obtain the required continuing education for calendar years 2000 and 2001. Without the required continuing education, the treasurer could subject District funds to unnecessary risk and loss by investing in securities outside the scope of Ohio Rev. Code Section 135. We recommend that the board adopt procedures to ensure that the treasurer completes the required training if the District is going to invest in something other than interim deposits, STAR Ohio, and no-load money market mutual funds.

Management Comments

Interest Income

Although the District posted \$5,517,755 of interest income during the Period, the bank only confirmed \$4,601,267. The remaining \$916,488 was unconfirmed and possibly reported incorrectly by the District as interest income. Additionally, of the \$4,610,267 which the bank confirmed, we were unable to trace \$433,591 to the District's ledgers. District personnel occasionally posted interest income to the ledgers through multiple postings of smaller amounts over a series of days, which added up to the total.

We recommend the District determine the source of the \$916,488 which was incorrectly posted as interest, and make the appropriate adjusting entry to correct the revenue ledger. Additionally, we recommend the District post interest as one entry upon receipt of the income.

Investment Incentives

The District included in the treasurer's contract an incentive for earning exceptional returns on the District's investments. The ratio utilized to determine exceptional performance resulted in an easily obtainable rate of return, generating incentives paid totaling \$24,000 in one year. By setting the threshold low, tying performance to all receipts instead of those being invested, and the numerous investments held by the District, the District consistently awarded the maximum incentive.

We recommend the Board contact surrounding districts to determine whether this type of incentive is awarded; how it is awarded; and whether additional ways to reward the treasurer for exceptional investment performance exist. In addition, the District should review the calculation of the investment incentive and the thresholds for awarding the incentive to restructure the contract ensuring the thresholds represent exceptional and not average performance.

Supplement to the Special Audit Report

Issue No. 2 – Review of Petty Cash

We reviewed documentation supporting petty cash disbursements during July 1, 2000 through June 30, 2002³ to determine whether petty cash expenditures were supported by documentation, in accordance with District policies, and for school-related business.

Procedures

1. We obtained a listing of petty cash expenditures from the treasurer and identified the amount expended for the period July 1, 2000 through June 30, 2002.
2. We reviewed supporting documentation for the petty cash disbursements and determined whether each expense was supported, was for school-related business, and was in accordance with District policies.

Results

1. During July 1, 2000 through June 30, 2002, the District issued 65 checks totaling \$76,546 for petty cash expenditures.
2. The District's Petty Cash policy prohibited reimbursement in excess of \$40, payment of sales tax, and required the signature of the person making the purchase on the receipt. During the Period, there were 16 reimbursements which exceeded \$40, 13 instances in which sales tax was reimbursed and 296 of 702 receipts were not signed by the purchaser. Additionally, the District reimbursed employees for 20 receipts which were up to four years old. A noncompliance citation will be issued for failure to comply with the District's Petty Cash policy.

The District's budget included appropriations for food purchases. However, 190 expenditures totaling \$3,667 were reimbursed with petty cash instead of following the District's normal purchasing procedures.

Noncompliance Citation

Reimbursing Petty Cash

The District's February 22, 1999 Petty Cash policy stated that there is a \$40 maximum limit for each receipt, sales tax will not be reimbursed, and the purchaser's name must appear on the back of the receipt. During the Period, the District issued 16 reimbursements which exceeded the \$40 maximum, paid sales tax on 13 receipts, and reimbursed 296 receipts which were not signed by the person who incurred the expense.

Ohio Revised Code 3313.291 provides guidance to Districts who utilize petty cash, and addresses the establishment, approval of maximum limits, and the implementation of policies and procedures for operating petty cash. During each fiscal year of the Period, the Board did not approve the limits of the District's petty cash funds.

Additionally, the high school principal personally reimbursed District employees for expenses then submitted those expenses as his own petty cash reimbursement; two vouchers issued in fiscal year 2002 included a total of 20 receipts which were dated in calendar years 1997 through 2001; and 190 instances in which an employee was reimbursed for food totaling \$3,667, even though the District has appropriations available for this type of expenditure.

We recommend each year the District review the petty cash funds established, identify those which are necessary, and establish via a Board resolution which funds are to exist. Additionally, the Board should clarify its existing procedures for usage and replenishment of the fund to address documentation requirements and identify the types of expenditures permitted. Expenses which are routine should flow through the normal purchasing process and not through petty cash.

³ The period of July 1, 2000 through June 30, 2002 was selected based on concerns presented during conversations with current District personnel.

Supplement to the Special Audit Report

Issue No. 3 – Review of Travel Expenses

We reviewed selected meeting and mileage reimbursements from January 1, 1997 through June 30, 2003⁴ and determined whether the expenditures were supported by documentation, made in accordance with District policies and for school-related business.

Procedures

1. We reviewed the expenditures recorded in object code 400, selected funds to review, and obtained the meeting and mileage reimbursements from the selected funds to identify the amount of monies expended by the District.
2. We confirmed the selected expenditures were for approved school-related trips and/or school-related business, were supported by documentation, and were in accordance with District policies.

Results

1. We selected 1,834 expenditures totaling of \$553,705⁵ from the following fiscal years to be reviewed in Procedure No. 2:

<u>Fiscal Year</u>	<u>Amount</u>
1997	\$ 6,603
1998	14,828
1999	29,065
2000	157,142
2001	137,505
2002	190,668
2003	17,894
	<u>\$ 553,705</u>

2. The District reimbursed a total of \$3,277 for movies, laundry, phone calls, taxis, and limousine services; however, the District's travel policy did not provide guidance on allowable reimbursements. A management comment will be issued for the District to update and qualify its policy.

Additionally, reimbursements totaling \$24,430 were not supported by itemized detail and \$44,598 did not indicate a purpose. A management comment will be included in Issue No. 5 related to these weaknesses. Noncompliance citations will be issued for the following:

- Seven checks included copies of receipts totaling \$1,568 and 14 transactions totaling \$3,631 were supported only by a personal credit card statement.
- The FCS-99 form was required to be completed to obtain reimbursement for travel expenses incurred. The January 2002 version of the form indicated a per diem limit of \$25 per day for meal reimbursement. Older versions of the form and the District's travel policy did not include a per diem limit. We identified three employees who exceeded the per diem limit for meals totaling \$150.
- The District was unable to locate documentation supporting three expenditures totaling \$240. A noncompliance citation will be included in Issue No. 6.

⁴ The Letter of Arrangement dated August 14, 2003 indicated we would review these expenditures through December 31, 2002. At a meeting on November 7, 2003 with Board President Steve Reichard, Superintendent David Scarberry, and Treasurer Tammy Emrick, it was decided this period would be expanded to June 30, 2003 for selected employees.

⁵ Of this amount, we reviewed all of the checks issued to Randy Scherf, totaling \$48,895; to Herb Young, totaling \$11,135; to Gary Walker, totaling \$14,523; and to Robert Cotter, totaling \$13,640.

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- One employee did not submit quarterly mileage reimbursement requests as required, and instead submitted a reimbursement request for 15 months of travel. In 18 instances, the wrong IRS mileage rate was used to reimburse employees.
- The former superintendent and former treasurer did not submit required forms for approval to attend professional meetings or to obtain reimbursement for those meetings. The high school principal also did not complete forms for two of his trips as required, nor did one employee complete a request to attend training.
- Four employees and Mr. Scherf earned personal frequent-flyer miles and hotel frequent-traveler credits for expenses which were either paid directly by the District or were reimbursed to the employee by the District. The Ohio Ethics Commission Advisory Opinion 91-010 prohibits an employee from accepting frequent-flyer miles while traveling on District business. This matter will be referred to the Ohio Ethics Commission for further review.

Findings for recovery were proposed and will be issued for the following:

- Randy Scherf and Herb Young were reimbursed \$231 and \$390, respectively, for gratuities while traveling on District business. Seven other employees were reimbursed a total of \$219 for gratuities. In his response to a September 8, 2004 Notice of Proposed Findings letter, Mr. Young reimbursed the District with a cashier's check dated September 10, 2004 for \$390. We consider this a finding for recovery repaid under audit. In addition to the finding for recovery which will be issued against Mr. Scherf, a noncompliance citation will be issued for violating the District's policy against paying tips.
- An employee, Mark Shilito, exceeded the \$25 meal reimbursement rate for two days totaling \$141.
- The District reimbursed high school teacher Marla Gamble \$326 for personal federal and state income tax penalties.
- Eugene Bennington was paid for 145.5 hours of consulting services provided at a rate of \$45.93 per hour; however, our calculation of his hourly rate based on the Board-approved contract indicated Mr. Bennington was to be compensated at \$44.37 per hour. As a result, Mr. Bennington was overpaid \$1.56 per hour, or \$226. In response to a September 8, 2004 Notice of Proposed Finding letter, Mr. Bennington reimbursed the District the \$226 on September 28, 2004. We consider this a finding for recovery repaid under audit.
- Stephanie Webb, former board member, attended a conference in San Diego, California held March 23 through March 27, 2001; however, she was reimbursed for expenses incurred through March 31, 2001 which were unrelated to District business. In response to a September 8, 2004 Notice of Proposed Finding letter, Ms. Webb reimbursed the District \$559 on September 14, 2004. We consider this a finding for recovery repaid under audit.
- Randy Scherf was reimbursed \$1,946 for 5,816 miles traveled for 16 trips to Acciarri, Draeger & Associates (ADA) in Lakewood, Ohio. The mileage logs did not indicate the reason for these trips. Marty Streleau, ADA Principal Architect, was provided with specific months and years in which these 16 trips occurred and indicated meetings were held in Fairborn on 15 of the 16 trips. On the date of the remaining trip, Mr. Scherf submitted reimbursements for meals in Fairborn, not in Lakewood. We interviewed Brian Quinn and Mike Kotansky, ADA Associate Architects, who confirmed that meetings were routinely held in Fairborn and not in Lakewood.
- Robert Cotter was paid twice for a \$504 travel reimbursement. In addition, Mr. Cotter was reimbursed \$258 for four meals over several weekends in Columbus. In response to a September 8, 2004 Notice of Proposed Finding letter, Mr. Cotter reimbursed the District \$762 on September 20, 2004. We consider this a finding for recovery repaid under audit.
- Gary Walker was reimbursed twice for a \$371 advance hotel deposit. On April 1, 2004, Mr. Walker reimbursed the District the \$371. We consider this a finding for recovery repaid under audit.

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Findings for Recovery Repaid Under Audit

Duplicate Reimbursement of Hotel Charges

A check was issued to Gary Walker on January 31, 2001 for reimbursement of a \$371 advance hotel deposit to attend a national conference on special education legal issues. Mr. Walker was reimbursed a second time for the same advanced deposit of \$371 on May 31, 2001. On April 1, 2004, Mr. Walker reimbursed the District \$371. We consider this a finding for recovery repaid under audit.

Reimbursement of Tips

The Fairborn City Schools Board Policy entitled Expense Reimbursement for District personnel and officials refers to the Compensation and Benefit Provisions manual. Article 8.04 B states "to claim reimbursement after a conference, submit to the Treasurer's Office a completed FCS-99, Mileage and Other Reimbursement Claims for Meetings and Conferences, with supporting receipts..." On the back of the FCS-99 were reimbursement guidelines which stated tips were not an allowable reimbursable expense. During the Period, Herb Young, former superintendent, was reimbursed \$390 in tips in violation of the District's policy. In response to a Notice of Proposed Findings letter dated September 8, 2004, Mr. Young reimbursed the District with a cashier's check dated September 10, 2004 for \$390. We consider this a finding for recovery repaid under audit.

Conference Reimbursement

Stephanie Webb, former board member, attended the National School Board Associations annual conference in San Diego, California held March 23 through March 27, 2001. Ms. Webb was reimbursed for expenses incurred for the period March 23 through March 31, 2001. No evidence existed that Ms. Webb remained in San Diego March 28 through March 31, 2001 on District business. Ms. Webb was reimbursed for expenses totaling \$559 which were unrelated to the conference or District business. In response to a Notice of Proposed Findings letter dated September 8, 2004, Ms. Webb reimbursed the District \$559 on September 14, 2004. We consider this a finding for recovery repaid under audit.

Duplicate Reimbursement of Meal

A check was issued to Robert Cotter on January 31, 2003 for \$504 in meal reimbursement. Mr. Cotter was reimbursed a second time for the same \$504 meal on May 29, 2003. In addition, Mr. Cotter was reimbursed for four meals in Columbus over several weekends, totaling \$258. We were unable to determine why Mr. Cotter would be on school-related business in Columbus, on those weekends, per his mileage logs. In response to a Notice of Proposed Findings letter dated September 8, 2004, Mr. Cotter reimbursed the District \$762 on September 20, 2004. We consider this a finding for recovery repaid under audit.

Consultant Overpayment

Eugene Bennington was paid \$6,682 for 145.5 hours of consulting services provided at a rate of \$45.93 per hour. A review of the Board-approved employment contract indicated Mr. Bennington was to be compensated at \$74,224 for 223 days or \$44.37 per hour. As a result, Mr. Bennington was overpaid \$1.56 per hour or \$226. In response to a Notice of Proposed Findings letter dated September 8, 2004, Mr. Bennington reimbursed the District \$226 on September 28, 2004. We consider this a finding for recovery repaid under audit.

Findings for Recovery

Reimbursement of Tips

The Fairborn City Schools Board Policy entitled Expense Reimbursement for District personnel and officials refers to the Compensation and Benefit Provisions manual. Article 8.04 B states "to claim reimbursement after a conference, submit to the Treasurer's Office a completed FCS-99, Mileage and Other Reimbursement Claims for Meetings and Conferences, with supporting receipts..." On the back of the FCS-99 were reimbursement guidelines which states tips were not an allowable reimbursable expense. During the Period, Randy Scherf, former treasurer, was reimbursed \$231 in tips in violation of the District's policy.

Based on the foregoing facts pursuant to Ohio Rev. Code Section 117.28, we hereby issue a finding for recovery against Randy Scherf and his bonding company, The Cincinnati Insurance Company, jointly and severally, in the amount of \$231 for public monies illegally expended, in favor of the District's General Fund.

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Exceeding Meals Per Diem

Mark Shilito was reimbursed \$511 for expenses incurred to attend the National Physical Education Day Kickoff in Washington D.C. The FCS-99 Reimbursement Form submitted by Mr. Shilito indicated that "(m)eals will be reimbursed up to \$25 per day." The receipts submitted by Mr. Shilito exceeded the \$25 per diem rate for two days totaling \$141.

Based on the foregoing facts pursuant to Ohio Rev. Code Section 117.28, we hereby issue a finding for recovery against Mark Shilito in the amount of \$141 for public monies illegally expended, in favor of the District's General Fund.

Reimbursement of Personal Tax Penalties

On April 28, 2000, a check was issued for \$326 to Marla Gamble to reimburse her for federal and state income tax penalties incurred. The Ohio Supreme Court Case of State ex rel. McClure v. Hagerman (1951), 155 Ohio St. 320, provides guidance as to what may be construed as a public purpose. There are two criteria that demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants. Second, the primary objective of the expenditure is to further a public purpose. We were unable to obtain an explanation from the District as to why this individual was reimbursed for personal penalties and how the payment was related to school business.

Based on the foregoing facts pursuant to Ohio Rev. Code Section 117.28, we hereby issue a finding for recovery against Marla Gamble in the amount of \$326 for public monies illegally expended, in favor of the District's General Fund.

Mileage Reimbursement

Randy Scherf was paid mileage for 16 trips to Cleveland with the notation "ADA". We contacted Marty Streleau, an architect with ADA, provided him with the dates of trips for specific months and years, and requested whether any meetings were held during the identified dates. Mr. Streleau responded that the meetings were held in Fairborn or there were no meetings based on his records. We also interviewed Brian Quinn and Mike Kotansky, ADA Associate Architects, who confirmed that meetings were routinely held in Fairborn and not in Lakewood. No evidence was provided by either ADA or Mr. Scherf supporting that meetings were held in ADA's Lakewood offices. Therefore, we were unable to confirm the mileage reimbursed to Mr. Scherf was for school-related business.

Based on the foregoing facts pursuant to Ohio Rev. Code Section 117.28, we hereby issue a finding for recovery against Randy Scherf, and his bonding company, The Cincinnati Insurance Company, jointly and severally, for \$1,946 for public monies illegally expended, in favor of the District's General Fund.

Noncompliance Citations

Travel Reimbursements

The Fairborn City Schools Employee Expense Reimbursement policy ("the Policy") states that "actual receipts for food, hotel, parking, taxis, and car rentals" must be submitted and credit card statements are not to be used as a receipt. Gratuities are not an allowable expense. The Policy further states the FCS-99 form must be completed with the actual receipts to be reimbursed. In January 2002, the FCS-99 form was revised to establish limits on allowable reimbursements for meals up to \$25 per day; however, the Policy was never updated.

During the Period, seven checks with copies of receipts totaling \$1,568 were reimbursed. Additionally, we identified 175 vouchers totaling \$24,430 which did not include an itemized receipt but included the credit card receipt. We identified 14 transactions totaling \$3,631 where expenses were supported by a personal credit card statement instead of the actual receipt. Gratuities totaling \$840 were reimbursed. We also identified five vouchers containing instances in which the employee exceeded the \$25 per day for meals totaling \$291.

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We recommend the District only issue travel reimbursements upon the submission of original, detailed receipts. Credit card receipts and statements should not be reimbursed without specific documentation of the purpose for the expense. Further, the District should revise the Policy to include the established per diem limits for meals, and not reimburse employees in excess of the established maximum.

The District is currently in the process of amending the Policy to reimburse gratuities up to 15%. We recommend the Treasurer's Office staff review future reimbursement requests and reimburse in accordance with the District-approved policy which is in place at that time.

Mileage and Meeting Reimbursements

The District's Compensation and Benefits Provisions Manual ("the Manual") Article 8 Section 8.01 states "the superintendent and treasurer will be reimbursed for use of their personal car for school business at the current IRS rate as published July 1 of each year." We noted two instances in which Mr. Young, 12 instances in which Mr. Scherf, and four instances in which other District employees were reimbursed mileage utilizing an incorrect mileage rate.

Article 8 Section 8.04 (B) states for those covered under Article I of the Manual, which includes the superintendent and treasurer, "to claim reimbursement after a conference, submit to the treasurer's office a completed FCS-99, Mileage and Other Reimbursement Claims for Meetings and Conferences, with supporting receipts and the signed yellow copy of the purchase order." The superintendent and treasurer did not submit forms for approval to attend or be reimbursed for professional meetings. The high school principal and one employee also did not complete forms for three conferences.

Article 8 Section 8.03 (B) states "(c)laims for reimbursement shall be submitted to the treasurer's office at the end of the quarter using FCS-4, Quarterly Mileage Report, with supporting parking receipts..." Joy Paolo, former administrator and former acting superintendent, did not submit a quarterly mileage reimbursement request and instead submitted a reimbursement request for 15 months of travel.

We recommend the District require its employees to submit the mileage reimbursement requests on a quarterly basis, compare the reimbursement rate to the IRS regulations, and confirm the mileage logs have been fully completed prior to issuing a travel reimbursement. Additionally, the District should verify the purpose of the travel was school related, and review the mileage for reasonableness to ensure the District is only reimbursing school-related mileage. If it was the Board's intention not to require the superintendent and treasurer's compliance with the policy, the Compensation and Benefits Provisions Manual should be revised to reflect that these two positions are exempt.

Acceptance of Frequent-flyer Miles/ Hotel Points

Ohio Rev. Code Section 102.03 (D) states "(n)o public official or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties. Ohio Rev. Code Section 102.03 (E) states "(n)o public official or employee shall solicit or accept anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties."

The Ohio Ethics Commission issued Advisory Opinion 91-010 regarding the acceptance of frequent-flyer miles which states in part:

"Divisions (D) and (E) of R.C. 102.03 prohibit a state official or employee from accepting, soliciting, or using the authority or influence of her position to secure, for personal travel, a discounted or free "frequent flyer" airline ticket or other benefit from an airline if she has obtained the ticket or other benefit from the purchase of airline tickets, for use in official travel, by the department, division, agency, institution, or other entity which she serves, or by which she is employed;"

"Although this opinion is written in response to your question concerning state officials and employees, it should be noted that the conclusions in the opinion also apply to all public officials and employees connected with any other governmental agency or political subdivision in the state."

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Four of the District's employees earned personal frequent-flyer miles based on District purchases or reimbursement from the District for expenses incurred while traveling on school business. The four employees earned a total of 27,082 personal frequent-flyer miles from Delta Airlines and 7,214 personal frequent-flyer miles from Continental Airlines.

In addition, Mr. Scherf utilized his personal Hyatt Points account on District trips to obtain points towards free stays at the Hyatt hotels.

The District's reimbursement policies do not address the earning of personal frequent-flyer miles or hotel points. We recommend the District work with these individuals to transfer the frequent-flyer miles and hotel points to a District account for its use, or make other arrangements to utilize the earned points and miles for District travel. The District should amend its travel policy to specifically prohibit this practice, and monitor travel expenses for any violations of the policy. We also suggest the District review submitted travel forms for evidence of frequent-flyer miles and/or hotel points. This matter will be forwarded to the Ohio Ethics Commission for further review.

Management Comment

Travel Policy

The District's expense reimbursement policies contained in the Board's policy manual, Fairborn Education Association (FEA) contracts, and the Compensation and Benefits Provision Manual provided for reimbursement of expenses incurred while traveling on District business. The policies in place were general in nature and did not provide guidance regarding taxi cab and limousine usage, telephone usage, nor specifically identify what constituted an unallowable expense.

The District reimbursed \$2,639 in taxi cab and limousine expenses, \$468 for phone calls and \$1,056 in unallowable expenses such as tips, alcohol, movies, and laundry charges.

We recommend the District revise its travel policy to address documentation requirements, approvals required, taxi cab and limousine usage, and whether to reimburse for meals provided at conferences, overnight stays prior to and after a conference, phone calls, valet parking, rental cars, movies, laundry and alcohol. Additionally, the treasurer's office staff should review reimbursement requests for compliance with District policies prior to payment.

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Issue No. 4 – Review of Selected Vendor Payments

We reviewed documentation supporting expenditures to selected vendors during the period July 1, 2000 through June 30, 2002 and selected transactions recorded in the Principals Fund during the period July 1, 1999 through June 30, 2002. We determined whether the selected transactions were supported by documentation, for school-related business, and were in accordance with the Ohio Rev. Code.

Procedures

1. We obtained vouchers for selected vendors and determined the amount of District funds expended during the period July 1, 2000 through June 30, 2002.
2. We reviewed supporting documentation and determined whether expenditures were for school-related business and in accordance with Ohio Rev. Code.
3. For payments to other contractors identified in Procedure No. 2 which were required to be bid per the Ohio Rev. Code, we verified the contract payments were made for work performed based on supporting documentation and observations and that no improprieties were noted.
4. We reviewed selected transactions posted to the Principals Fund for fiscal years 2000 through 2002 and verified the transactions were supported by documentation, for school-related business, and in accordance with the Ohio Rev. Code.
5. For assets purchased for the former superintendent and treasurer's use, we determined whether the assets were returned to the District at the time of their resignation.

Results

1. The District issued 497 checks in fiscal year 2001 and 586⁶ checks in fiscal year 2002 to selected vendors totaling \$7,241,899 and \$9,969,607, respectively.
2. Federal questioned costs will be issued as follows:
 - In fiscal year 2001, the Goals 2000 Fund issued a check for \$2,013 to the East Elementary Parent Teacher Organization for the purpose of purchasing books for Reads Night. There was no documentation to support how the Goals 2000 grant was spent and whether books were purchased.
 - In fiscal year 2001, a check for \$2,310 was issued from the Title I Fund as reimbursement for repairs to the District. No documentation was available to identify the repairs performed or to support the cost of repairs.
 - The District received \$4,000 for a fiscal year 2002 preschool grant that was posted to the General Fund instead of the District's established Preschool Fund.
 - Utilizing fiscal year 2000's "Raising the Bar" grant, the District reimbursed employees for unsupported expenses including \$61 for a meal, \$317 for airfare, \$237 for a rental car, and \$9 for an in-room movie.

Noncompliance citations will be issued for the following:

- Invoices were issued prior to the purchase order date for 67 checks. A noncompliance citation will be reported in Issue No. 6.
- 32 checks included invoices encumbered against a blanket purchase order that had expired.

⁶ Of the 586 checks, 39 were reviewed further and any results were reported in Issue No. 6.

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- The District was unable to locate three vouchers, totaling \$6,955, and 23 vouchers, totaling \$327,576, issued in fiscal years 2001 and 2002, respectively. A noncompliance citation will be reported in Issue No. 6 for failure to maintain District records in accordance with the District's records retention schedule.
- The District paid Service Supply Ltd. \$29,980 to purchase bleachers for the Baker Junior High School gymnasium. A review of the Board minutes indicated this contract was not competitively bid. A noncompliance citation will be issued for failure to bid a contract in excess of \$25,000.

Management comments will be issued for the following weaknesses:

- During fiscal year 2003, the District remitted payments for consulting services to the former treasurer as a consultant and to his company, RAS Enterprises. Mr. Scherf indicated these amounts were negotiated with District representatives; however, no documentation was provided to support the negotiations, the agreed upon rate, and the work to be performed. A management comment will be reported in Issue No. 5 for the District to enter into a formal, written agreement specifying the scope of the services to be provided and the associated fees.
 - During the Period, the District purchased flowers totaling \$201, which was not directly related to school activities. The District currently does not have a policy regarding the purchases of flowers for non-school events.
 - We identified 28 instances in which a check was written to another District fund but it was not deposited into the bank within 24 hours. A management comment will be issued to utilize the memo receipt and expenditure options in the Uniform Accounting System when writing checks from one fund to another instead of issuing an actual check.
3. The District entered into 36 construction contracts during fiscal years 2001 and 2002. Based on observations and interviews with District personnel, the projects have been completed. We noted the following:
- The District did not maintain 12 of the 36 signed construction contracts. A noncompliance citation will be reported in Issue No. 6 for failure to maintain the contracts in accordance with the District's records retention schedule.
 - A review of the invoices submitted by Chapel Electric indicated the 2nd and 3rd payment requests were submitted twice by Chapel Electric for payment from the Construction Fund resulting in an overpayment of \$56,454. In June 2002, Chapel Electric refunded the second payment of \$56,454 to the District. The District receipted this into the General Fund instead of the Construction Fund where the expense originated. On January 9, 2003, the Board authorized a transfer from the General Fund to the Construction Fund to correct the receipting error. To date, no transfer has occurred. A finding for adjustment will be issued against the General Fund for \$56,454 in favor of the Construction Fund.
4. We selected the following receipts and expenditures from the Principals Fund for review:

Fiscal Year	Receipts	Expenditures
2000	\$ 3,836	\$ 1,956
2001	7,749	92,423
2002	39,965	26,223
	\$ 51,550	\$ 120,602

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Receipts

Of the 14 receipts reviewed totaling \$51,550, we noted the following:

- Eight of the 14 receipts of local grant monies were commingled with Principals Fund receipts. A management comment will be issued for local grants to be maintained in a separate fund or cost center to readily identify how the grant funds were spent.
- In fiscal year 2002, \$1,000 received for the Federal Eisenhower grant was recorded in the Black Lane Principals Fund along with other local grant monies instead of the Eisenhower Fund specifically established by the District for this grant. We were unable to identify how the federal grant revenues were expended in the Principals Fund. A federal questioned cost will be issued for \$1,000.
- The District issued a check for \$100 from the Principals Fund to the Volunteer Breakfast Fund as a donation. However, the check was receipted into the Principals Fund instead of the Volunteer Breakfast Fund. A finding for adjustment will be issued against the Principals Fund in favor of the Volunteer Breakfast Fund for \$100.

Expenditures

Of the 45 vouchers reviewed totaling \$120,602, we identified five instances in which the invoice date was prior to the purchase order date. A noncompliance citation will be reported in Issue No. 6 for failure to encumber funds prior to the purchase. We also identified the following transactions which were recorded incorrectly and a finding for adjustment will be issued against the General Fund for \$1,389 and the School Net Fund for \$36 in favor of the Principals Fund for \$1,425:

- A \$36 expense was recorded in the Principals Fund for an East Elementary employee attending the Ohio School Net State Conference in Columbus. This expense should have been paid from the School Net Fund instead of the Principals Fund.
 - The Principals Fund included an expense of \$100 for a Sam's Club membership administrative fee which benefited the entire District. The expense should have been recorded in the General Fund since it benefited the District as a whole.
 - A \$567 expense was recorded in the Principals Fund as reimbursement for a teacher to attend a conference in Las Vegas entitled Legal Issues of Educating Individuals with Disabilities. Since the General Fund included appropriations for teachers' travel expenses, this should have been paid from the General Fund.
 - A \$792 expense recorded in the Principals Fund included travel reimbursement of \$362 for a teacher's airfare to attend a conference in Boulder, Colorado. A second check for \$360 was recorded as an expense in the Principals Fund for another teacher's airfare for the same conference. The \$722 for the two airfares should have been recorded in the General Fund's travel line item, as budgeted, instead of the Principals Fund.
5. The District purchased personal digital assistants (PDA's) and cellular phones for the former superintendent and treasurer's use. At Mr. Scherf's resignation, he left the PDA on his desk and returned the cellular phone shortly thereafter. At Mr. Young's resignation, he returned his PDA; however, the District was unable to identify the date returned. A management comment will be issued for the District to maintain an inventory of small electronics, such as cellular phones and PDA's, provided to its employees to identify who has these items and ensure the items are returned when the employee leaves the District.

Mr. Young maintained his cellular phone after his July 2, 2002 resignation until December 27, 2002. A July 29, 2002 memo from Board President Gary Bays authorized Mr. Young to continue the use of the District's cell phone for consultation purposes. The memo stated the "authorization is for the time period not to extend beyond August 25, 2002." Yet, the District continued to pay for Mr. Young's cell phone bills after August 25, 2002 until December 27, 2002, totaling \$867, without any subsequent Board authorization.

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We proposed a finding for recovery against Mr. Young for \$867. In a September 10, 2004 response to our September 8, 2004 Notice of Proposed Findings letter, Herb Young provided a copy of a cashier's check issued to Fairborn City School District to reimburse the District \$867. We consider this a finding for recovery repaid under audit.

Findings for Recovery Repaid Under Audit

Herb Young Cell Phone Usage

The Board minutes indicated Herb Young resigned as superintendent effective July 2, 2002. A July 29, 2002 memo from Board President Gary Bays authorized Mr. Young to continue the use of the District's cell phone and the "authorization is for the time period not to extend beyond August 25, 2002." David Scarberry, superintendent, stated he received Mr. Young's cell phone on December 27, 2002. The District continued to pay for Mr. Young's cell phone bills after August 25, 2002 until December 27, 2002, totaling \$867, without any subsequent authorization by the Board. In a September 10, 2004 response to our September 8, 2004 Notice of Findings letter, Herb Young provided a copy of a cashier's check reimbursing the District \$867. We consider this a finding for recovery repaid under audit.

Federal Questioned Costs

The Office of Management and Budget Circular A-87, *Cost Principals for State, Local, and Indian Tribal Governments*, requires grantees and sub-grantees to maintain records which adequately identify the source and application of federal funds expended. Circular A-87 also provides guidelines for identifying costs for federal grants. Attachment A Section C (1) (j) of this Circular provides that for a cost to be allowable, the expenditure must be adequately documented.

Goals 2000 Grant

In fiscal year 2001, the Goals 2000 Fund issued a check for \$2,013 to the East Elementary PTO for the purpose of purchasing books for Reads Night. There was no documentation to support how the Goals 2000 grant funds were spent and whether books were purchased.

We are issuing a federal questioned cost for the Goals 2000 grant in the amount of \$2,013.

Title I Grant

In fiscal year 2001, a check for \$2,310 was issued from the Title 1 Fund as reimbursement for repairs to Fairborn City Schools. No documentation was available to identify the repairs performed or to support the cost of repairs.

We are issuing federal questioned costs for the Title I grant in the amount of \$2,310.

Preschool Grant

The District received \$4,000 for a preschool grant that was posted to the General Fund instead of the District's established Preschool Fund. We were unable to determine what the monies were used for since the funds were commingled with the other monies received by the District in the General Fund.

We are issuing federal questioned costs for the 2002 preschool grant in the amount of \$4,000.

Raising the Bar Grant

The District reimbursed an employee \$61 for a meal that was unallowable because it was not supported by a detailed receipt. The District reimbursed an employee \$317 for airfare and \$237 for a rental car, which were unallowable because they were not supported by receipts. In addition, the District paid for an in-room movie of \$9 which is not an allowable expense.

We are issuing federal questioned costs for the 2000 Raising the Bar grant in the amount of \$624.

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Eisenhower Grant

In fiscal year 2002, a \$1,000 Eisenhower grant was recorded in the Black Lane Principals Fund along with other local grant monies, instead of the Eisenhower Fund, specifically established by the District for this grant. We were unable to identify how the federal grant revenues were expended in the Principals Fund.

We are issuing a federal questioned cost in the amount of \$1,000.

Findings for Adjustment

Principals Fund

Ohio Rev. Code Section 5705.10 states “money paid into any fund shall be used only for the purposes for which such fund is established.” Uniform School Accounting System Manual defines the Principals Fund as “a fund provided to account for specific local revenue sources, other than taxes or expendable trusts (i.e., profits from vending machines, sales of pictures, etc.), that are restricted to expenditures for specified purposes approved by Board resolution. Such expenditures may include curricular and extra-curricular related purchases.”

During the Period, the District used the Principals Fund to account for donations and fundraisers held by each building to provide various services to the students. We noted the following expenses and/or receipts recorded in the Principals Fund which were not related directly or indirectly related to services provided to the students of that building:

- An expense for \$36 was recorded in the Principals Fund for an East Elementary employee attending the Ohio School Net State Conference in Columbus. This expense should have been paid from the School Net Fund instead of the Principals Fund.
- The Principals Fund included an expense of \$100 for a Sam’s Club membership administrative fee which benefited the entire District. The expense should have been recorded in the General Fund since it benefited the District as a whole.
- An expense for \$567 was recorded in the Principals Fund as reimbursement for a teacher to attend a conference in Las Vegas. Since the General Fund included appropriations for teachers’ travel expenses, this should have been paid from the General Fund.
- An expense for \$792 recorded in the Principals Fund included travel reimbursement of \$362 for a teacher’s airfare to attend a conference in Boulder, Colorado. A second check for \$360 was recorded as an expense in the Principals Fund for another teacher’s airfare for the same conference. The \$722 for the two airfares should have been recorded in the General Fund’s travel line item, as budgeted, instead of the Principals Fund.
- The District issued a check for \$100 from the Principals Fund to the Volunteer Breakfast Fund as a donation. However, the check was receipted into the Principals Fund instead of the Volunteer Breakfast Fund.

Based on the above expenses and revenues being recorded incorrectly in the Principals Fund, we are issuing a finding for adjustment against the General Fund for \$1,389; the School Net Fund for \$36; and the Principals Fund for \$100 in favor of the Principals Fund for \$1,425 and the Volunteer Breakfast Fund for \$100.

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Construction Fund

A review of the invoices submitted by Chapel Electric indicated the 2nd and 3rd payment requests were submitted twice by Chapel Electric for payment from the Construction Fund resulting in an overpayment of \$56,454. In June 2002, Chapel Electric refunded the second payment of \$56,454 to the District. The District receipted this into the General Fund instead of the Construction Fund where the expense originated. On January 9, 2003, the Board authorized a transfer from the General Fund to the Construction Fund to correct the receipting error. To date, no transfer has occurred.

We are issuing a finding for adjustment against the General Fund for \$56,454 in favor of the Construction Fund.

Noncompliance Citations

Improper Use of Blanket and Super Blanket Certificates

Ohio Rev. Code Section 5705.41 (D) states that a fiscal officer may prepare so-called "blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current fiscal year⁷. The blanket certificates may, but need not be, limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

In addition to regular blanket certificates, a subdivision's fiscal officer may also issue so-called "super blanket" certificates for any amount for expenditures and contracts from a specific line-item appropriation account in a specified fund for most professional services and for purchases of items including but not limited to fuel, oil, food items and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the fiscal year. More than one super blanket certificate may be outstanding at one particular time for a particular line-item appropriation account.

The District had 32 vouchers paid from blanket purchase orders that were open more than three months during fiscal year 2002, and four vouchers used super blanket purchase orders that had been open for more than one fiscal year or 365 days.

The District should review the Ohio Rev. Code for the current blanket purchase order requirements, revise its Requisition/Purchase Order Reference Manual to include these provisions, and the treasurer's office staff should monitor the blanket purchase orders to ensure the permissible timeframe is not exceeded.

Improper Awarding of Contract

Ohio Rev. Code Section 3313.46(A) requires the District to advertise for bids and follow the remaining provisions of Ohio Rev. Code 3313.46 when the "board determines to build, repair, enlarge, improve, or demolish any school building, the cost of which will exceed twenty-five thousand dollars, except in the case of urgent necessity."

A check was issued for \$29,980 to Service Supply Ltd. Inc on October 31, 2001 for replacement bleachers at Baker Junior High. We reviewed the minutes and could not locate approval of or acceptance of a bid for this project. In addition, the project was not identified in the minutes as an emergency which would not require bids. Therefore, this project was not bid in accordance with the Ohio Rev. Code.

The District should implement controls to ensure when projects are going to exceed \$25,000 that the District follows the bidding process to ensure the District pays the lowest and best price for the work performed.

⁷ Effective September 26, 2003, this section was revised to permit a fiscal officer to open a blanket purchase order "for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year."

Supplement to the Special Audit Report

Management Comments

Commingling Grant Monies

The District received five local grants during fiscal years 2000 through 2001 of which the monies awarded were receipted into the Principals Fund. In addition, funds awarded for the Eisenhower grant were also receipted into the Principals Fund. Commingling this grant money with local donations received and fundraisers held by the building principals prohibits the District from identifying how the grant money was expended.

We recommend the District account for each grant received in either a separate fund or cost center to allow the tracking of how grant monies were expended and to identify the expenses to be used in preparing year end grant reports. In addition, District personnel should review grant requirements to identify allowable expenditures and the supporting documentation to be maintained.

Flower Purchases

During fiscal years 2001 and 2002, the District expended public monies to purchase flowers for funerals for students, former employees, and local businessmen. The current policy adopted by the Board permits, when approved by the superintendent, to purchase amenities but does not specifically address the purchase of flowers and how the purchase would be school-related.

We recommend the District institute a policy providing guidelines of when flowers can be purchased, any limits, and document how the expenditures would be an allowable expenditure of taxpayer monies.

Cell Phone Inventory

The District did not maintain a listing of cellular phones and personal digital assistants (PDAs) provided to its employees. In addition, the District did not track the reassignment of these items when an employee discontinued service with the District. Not maintaining and updating an inventory of these items periodically could result in a loss or misappropriation of District assets without management's detection.

We recommend the District inventory all of its cellular phones and PDAs, update the inventory on a periodic basis and verify all items have been returned to the District when an employee leaves.

Memo Receipts and Expenditures

In 28 instances, the District issued a check from one fund to reimburse another fund. The Uniform School Accounting System (USAS) includes a module allowing a District to issue memo expenditure and receipts. This permits amounts to be transferred among funds without physically issuing a check, minimizing the risk of loss and resulting in immediate availability of those funds for expenditure.

We recommend the District utilize the memo receipts and expenditures USAS module to reimburse funds for expenses incurred by other funds.

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Issue No. 5 – Review of Selected Contracts

We reviewed expenditures for selected contracts awarded by the District during January 1, 1997 through June 30, 2003⁸ and verified whether the services were provided, the contract was awarded in accordance with the Ohio Rev. Code and whether the payments were in accordance with the contract provisions and/or District policies.

Procedures

1. We reviewed payments issued to Acciarri Draeger & Associates (ADA) during April 1, 1997 through June 30, 2003 and determined whether the contractual services were provided; the contracts were awarded in accordance with the Ohio Rev. Code and whether payments were in accordance with the contract provisions and/or District policies.
2. We reviewed payments issued to contractors for the House Bill (HB) 264 project and confirmed the services per the contract were provided, the contract was awarded in accordance with the Ohio Rev. Code and the payments were issued in accordance with the contract provisions and/or District policies.

Results

1. On April 1, 1997 the Board hired ADA to provide architectural services. The District issued the following payments to ADA, related to 17 different projects:

Fiscal Year	No. of Checks	Amount
1997	2	\$ 60,123
1998	5	33,992
1999	10	83,530
2000	20	475,244
2001	16	550,547
2002	13	556,960
2003	12	368,180
	<u>78</u>	<u>\$ 2,128,576</u>

Of the 17 projects, only three were approved by the Board and only three contract documents were maintained by the District. A management comment will be issued to obtain Board approval of contracts, and a noncompliance citation (included in Issue No. 6) will be issued for not maintaining contract documents.

Due to a lack of description on the invoices, supporting documentation, and in some cases, the contract or addendum itself, we were unable to confirm the contracted services were performed by ADA. A management comment will be issued for the District to obtain detailed documentation prior to issuing payment.

The invoices submitted by ADA supporting the 78 checks listed hours worked by employees, payments to subcontractors, and reimbursements for reproduction and delivery. We noted the following:

- The reproduction and delivery charges category included expenses such as such as meals, gasoline, telephone service, and office supplies.

⁸ The Letter of Arrangement dated August 14, 2003 indicated we would review ADA expenditures through December 31, 2002. At a meeting on November 7, 2003 with Board President Steve Reichard, Superintendent David Scarberry, and Treasurer Tammy Emrick, it was decided this period would be expanded through June 30, 2003.

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- ADA was unable to provide documentation supporting \$9,465 of reimbursable expenses included in 15 checks and a \$482 subcontractor reimbursement. We were unable to determine whether expenses totaling \$7,051 included on three checks were project-related since both ADA and the District were unable to locate a contract documenting the services to be provided. Two invoices for a specific project included hours billed to another project totaling \$9,592.

The District never requested to review these supporting records nor did the District request copies of the documentation supporting the invoices to monitor whether the expenditures were permissible under the contract. A management comment will be issued for the District to obtain sufficient, detailed documentation to support expenses prior to payment to ensure the expenses are school-related and in accordance with the contract.

2. On December 18, 2001, Randy Scherf, former treasurer, signed two contracts with the Trane Company (Trane) for a \$790,000 retrofit project at East Elementary and a \$914,251 retrofit project at the High School, Baker Junior High, and Palmer South Elementary. On January 14, 2002, the Ohio School Facilities Commission (OSFC) sent a letter approving the District's HB 264 project. A noncompliance citation will be issued for failure to obtain OSFC project approval prior to entering into the HB 264 contract.

The District issued a February 28, 2002 check to Trane for \$1,210,477 as payment for invoices dated December 26, 2001. The District did not encumber the funds at the time of the contract and instead encumbered them on February 22, 2002. A noncompliance citation will be reported in Issue No. 6 for failure to encumber funds at the time the contract was entered.

The Trane contract provisions stated payments were to be made within net 30 days of invoice date. The first payment by the District on February 28, 2002 was 64 days after the December 26, 2001 invoice date. A noncompliance citation will be issued for failure to comply with contract payment provisions.

The District issued two checks totaling \$1,556,328 during the Period for these two projects. None of the invoices submitted included details of the work performed or how the amount due was calculated. A management comment will be issued for the District to obtain supporting documentation to allow the District to identify what products were delivered or what services were rendered.

Noncompliance Citations

House Bill 264 Contract

Resolution 160-01 approved by the Board on November 8, 2001 authorized the superintendent and/or treasurer to enter into an agreement with Trane for House Bill 264, provided that the final scope and financial analysis was approved by the superintendent, and the program was approved by the Ohio School Facilities Commission ("OSFC").

Ohio Rev. Code Section 3313.372 (E) states in part "(n)o school district board shall enter into an installment payment contract under division (B) of this section unless it first obtains a report of the cost of the energy conservation measures ... and the Ohio school facilities commission determines that the district board's findings are reasonable and approves the contract as described in that division."

The former District treasurer signed a contract with Trane for House Bill 264 work on December 18, 2001; however, the OSFC indicated the first written approval of the District's project was not until January 14, 2002.

We recommend when the Board adopts a resolution with provisions that certain events must occur, these guidelines be distributed to all involved parties to ensure compliance with the Board's direction. In addition, the Board should monitor the project to ensure compliance with the approved conditions.

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Payments not in Accordance with Contract

The contract between Trane and the District states that the District “shall pay Trane’s invoices within net thirty (30) days of invoice date.”

The District issued two payments on this contract during the Period. The February 28, 2002 payment was issued 64 days after the invoices dated December 26, 2001.

We recommend each time the District enters into a contract, the payment provisions are read, a list documenting payment due dates is created, and the provisions and listing are reviewed prior to issuing payment. In addition, the District official managing the project should monitor the invoices to ensure all terms of the contract are met to avoid incurring unnecessary penalties and/or late fees.

Management Comments

Professional Service Contracts

Of 17 projects with ADA, 14 were not approved by the Board and two did not have contracts. In addition, no evidence was presented that the Board was monitoring the agreements entered into by the former treasurer. The District should have a written Board-approved agreement documenting the services to be provided, requiring itemized documentation, and the cost of those services to ensure only school-related projects are being paid by the District.

We recommend the District enter into Board-approved formal, written agreements when contracting for professional services detailing the scope of services to be provided, the time period for which the services are to be rendered, and the associated fees.

Reimbursable Expenses

Section 1.3.9.3 of the November 9, 1999 contract between the District and ADA provided “(r)ecords of reimbursable expenses, of expenses pertaining to a Change in Services, and of services performed on the basis of hourly rates or a multiple of Direct Personnel Expense shall be available to the Owner or the Owner’s authorized representative at mutually convenient times.”

The audit identified instances in which expenses were not supported, and the invoices did not provide a clear description of what expenses were being reimbursed. In addition, the District did not request documentation supporting the expenses billed. As a result, the District did not verify the services were provided and the expenses were in accordance with the contract.

Additionally in Issue No. 3, we identified 175 of 1,834 checks totaling \$24,430 did not contain itemized detail and 83 checks totaling \$44,598 did not provide sufficient explanations of how the expenses were school-related. This could have resulted in the District remitting payment for non-school related expenses.

We recommend the District obtain sufficient, detailed documentation to support the work performed and expenses incurred to confirm the amount billed was for school-related expenses. In addition, the treasurer’s office staff should review the contract payment provisions, District policies and supporting documentation prior to payment to ensure the expenses are in accordance with the contract and/or District policies.

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Issue No. 6 – Review of Self Insurance

We reviewed the self insurance contract during the Period and verified whether the contract was awarded in accordance with the Ohio Rev. Code and the payments issued were in accordance with contract provisions.

Procedures

We reviewed the contract awarded and payments issued to Bridgestone Claims Services (formerly known as Bridgestone-Firestone Information Services) (“BCS”), verified the contract was awarded in accordance with the Ohio Rev. Code and confirmed whether payments were in accordance with the approved contract.

Results

Randy Scherf, former treasurer, entered into a contract with BCS on October 1, 2001 to provide third-party administrator services for the District’s self insurance plan. Board approval of the contract with BCS was not documented in the Board’s minutes. A noncompliance citation will be issued for failure to obtain Board approval prior to entering into the contract.

Vince Osgood, BCS manager, stated the health care package was based on incomplete information provided by United Healthcare, the District’s former health insurance provider. A management comment will be issued recommending the District set aside sufficient time to analyze in detail the coverage to be provided by the third-party administrator and ensure the District is obtaining the best rates for the coverage identified.

We reviewed payments issued to BCS for the period October 1, 2001 through December 31, 2002. Of the 39 payments to BCS, two voucher packets totaling \$216,420 could not be located and five invoices were dated prior to the purchase order date. For the remaining payments, the administrative fees paid were in accordance with the contract and the claims payments were supported by claims registers. Noncompliance citations will be issued for failure to maintain documentation in accordance with the District’s records retention schedule and failure to encumber funds prior to the invoice date.

Noncompliance Citations

Approval of Third-Party Administrator Contract

Ohio Rev. Code Section 9.833 (C) (3) states in part, “(a) contract may be awarded, without the necessity of competitive bidding ... for purposes of administration of an individual or joint self-insurance program. No such contract shall be entered into without full, prior, public disclosure of all terms and conditions. ... The proposed contract and statement shall be disclosed and presented at a meeting of the political subdivision not less than one week prior to the meeting at which the political subdivision authorizes the contract.”

On October 1, 2001, former Treasurer Randy Scherf signed a contract with BCS to provide third-party administration services for the District’s self insurance plan. The Board’s minutes revealed this contract was not approved by the Board of Education.

We recommend in the future that any contract entered into by the District with a third-party administrator be reviewed by the Board ensuring the provisions of the contract are within the parameters established by Ohio Rev. Code Section 9.833 and that the contract is in the best interests of the District and its personnel and the contract be approved by the Board.

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Destruction of Records

Ohio Rev. Code Section 149.351 states in part that all records are the property of the public office concerned and shall 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 Revised Code.

Section 6211 of the District's records retention schedule required vouchers, invoices, and purchase orders to be maintained for a period of 10 years, provided audited. The District failed to provide the required documents for the following items:

- Issue No. 3: Three expenditures totaling \$240
- Issue No. 4: Twenty-six vouchers totaling \$334,531
- Issue No. 6: Two voucher packets totaling \$216,420

Section 6206 of the District's records retention schedule required contracts to be maintained by the treasurer for "15 years after expiration" and Section 6317 required service contracts to be maintained by the treasurer for a period of four years, provided audited. The District was unable to provide 14 of the 17 contracts with Acciarri Draeger & Associates as reported in Issue No. 5. Additionally, the District was unable to locate 12 of 36 other construction contracts for our review as reported in Issue No. 4.

Failure to maintain the appropriate records could result in problems when documents are needed to support actions taken by the District. We recommend the District retain all pertinent information in accordance with the District's records retention policy.

Improper Encumbrance Procedures

Ohio Rev. Code Section 5705.41 (D) states that "no order or contracts involving the expenditure of money is to be made unless there is attached thereto a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances."

Ohio Rev. Code 5705.41 (D)(1) provides that if prior certification of funds by the fiscal officer was not obtained before the contract or order involving the expenditure of money was made, as described above, then the fiscal officer may instead certify that there was at the time of the making of such a contract or order and at the time of the execution of such certificate a sufficient sum appropriated for the purpose of such contract and in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances. When the fiscal officer is using a then and now certificate and the amount certified exceeds \$1,000 (\$3,000 as of April 7, 2003), the fiscal officer must obtain the legislative authority's approval by resolution or ordinance. This approval must be obtained within 30 days of the legislative authority's receipt of the certificate.

We noted the following instances of noncompliance:

- In Issue No. 4, 67 of 1,044 vouchers included invoices dated prior to the purchase order date. In addition, five vouchers were paid from incorrect purchase orders, five vouchers were paid with purchase orders which had been fully expended, and two vouchers were paid with a purchase order previously closed. Additionally, five of the 45 expenditures issued from the Principals Fund included invoices dated prior to the purchase order date.
- In Issue No. 5, the Trane contracts were dated December 18, 2001, yet the funds were not encumbered until February 22, 2002.
- In Issue No. 6, five of 39 vouchers included invoices dated prior to the purchase order date.

Not following proper encumbering procedures may cause improper monitoring of the budget which could lead to overspending of the District funds.

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The District currently has a Requisition/Purchase Order Reference Manual published each school year which provides guidelines for entering requisitions, monitoring purchase orders, and includes that a purchase order should exist prior to the purchase. We recommend the District employees follow the guidelines in the current manual.

Management Comment

Obtaining Self Insurance Quotes

In 2001, the District solicited a quote from BCS for third-party administration of the District's self insurance plan. According to Vince Osgood, BCS Manager, BCS was unable to provide an adequate proposal due to limited information regarding current health coverage provided by the District and United Healthcare. In addition, no documentation was maintained by the District supporting analysis of the health coverage to identify which plan optimized the District's money. As a result of an incomplete analysis, the reduced premiums resulted in reduced health coverage for its employees and numerous employee complaints.

We recommend when a District is requesting proposals for third-party administration of its self insurance plan, the District should consider the types of coverage wanted, types of and cost of third-party services to be provided, costs to the employees, and perform thorough reference checks ensuring the administrator is familiar with governmental entities and is capable of managing this type of self insurance plan prior to selecting an administrator.

Supplement to the Special Audit Report

Additional Weaknesses

Although not directly the result of the issues and procedures of the Special Audit, we noted the following additional internal control weaknesses that we wanted to bring to the District's attention:

Management Comments

Employee Payroll

The former payroll clerk was compensated an extra \$.50 per hour totaling \$1,840 from October 1998 through July 2000, which was not included on her annual salary notice and was not approved by the Board. Also, on the pay period ended March 11, 2000, 15 employees were paid a total of \$1,742 for 11 work days instead of the standard 10 day period. The District explained the extra day was a result of being paid for leap year.

The Board is responsible for establishing the rate of pay for its employees through salary notices, contracts, or union contracts per Ohio Rev. Code Section 3319.081. Without approving any adjustments to an employee's pay, uncertainty can arise with regard to the correct, authorized rates of pay.

We recommend the treasurer's office monitor changes in pay rates or the number of days paid, to ensure only authorized payments are issued. In the case of the 15 individuals with the additional day of pay and the employee paid \$.50 per hour above her authorized salary, we recommend the Board review the circumstances and determine whether or not those individuals should refund the additional pay to the District.

District Credit Cards

The District maintained four credit cards for use by the superintendent, treasurer, business manager, and one general card for other employees. The District did not have a credit card usage policy. Failure to have a specific, written policy governing credit card usage can lead to a lack of accountability for purchases and the possibility of incurring purchases unrelated to District business.

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 addressing the number of credit cards available for use, maximum limits on each card, employees authorized to use the card, safeguarding of cards when not in use, requiring the employee to provide a detailed receipt as well as the credit card slip, and the individuals required to monitor and review purchases for school-related business.

Personal Use of District Assets

Based on a review of his computer files, Randy Scherf, former treasurer, used his computer to prepare his resume, personal budget, memos regarding mortgage insurance on his residence, and information regarding his property on Catawba Island. Additionally, we identified \$486 of telephone calls to the former treasurer's relatives and the former superintendent's personal residence. The District does not have a written policy prohibiting the personal use of District assets such as copiers, computers, cellular phones, or telephones. As a result, the District incurred expenses unrelated to school business.

The District should adopt a formal policy prohibiting the personal use of District assets to ensure those assets are only used for school-related purposes. If the District chooses to permit employees to use District assets for personal reasons, the employees should reimburse the District for expenses incurred.

Additionally, we recommend the District establish a policy addressing usage of District-owned phones for personal calls and requiring reimbursement for personal phone calls. Monthly phone logs should be maintained by each employee or by each phone to track long distance phone calls made. The logs should identify the date, time, name and number of the person called, and a general description of the call's purpose. These logs should be reviewed each time the phone bills arrive and any personal usage should be reimbursed to the District for the costs incurred.



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FAIRBORN CITY SCHOOL DISTRICT

GREENE 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
OCTOBER 14, 2004**