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INDEPENDENT AUDITORS' REPORT

Joyce Galbraith, Board President
Tom Goodney, Superintendent
Educational Service Center of Central Ohio
2080 Citygate Drive
Columbus, Ohio 43219

We conducted a special audit of the Educational Service Center of Central Ohio (ESC) by performing the procedures described in the attached Supplement to the Special Audit Report for the period January 1, 2007 through June 30, 2012 (the Period) solely to:

- Determine whether expenditures made for travel during the Period by former ESC Superintendent Bart Anderson were supported and for purposes related to the operation of the ESC. We also attempted to determine whether Superintendent Anderson attended certain events claimed or conducted business on behalf of the ESC for 20 trips taken during the Period.

This engagement was conducted in accordance with the Quality Standards for Inspection and Evaluation established by the Council of the Inspectors General on Integrity and Efficiency (January 2012). 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 examined expenditures made by former superintendent Bart Anderson using the ESC credit card.

Significant Results - During the Period, Dr. Anderson used the ESC credit card to make travel related purchases totaling \$485,097. Of this amount, purchases by Dr. Anderson totaling \$91,637 for travel to 112 locations were not approved by the ESC Governing Board. Dr. Anderson also made purchases of alcohol using the ESC credit card totaling \$589 that were not reimbursed to the ESC and three miscellaneous purchases totaling \$2,832 that were not supported by documentation to enable a determination of the purpose of the expenditures. Additionally, Dr. Anderson redeemed ESC credit card reward points totaling \$1,452 for personal use.

We issued findings for recovery against Dr. Anderson totaling \$96,510. We referred the personal use of ESC credit card reward points to the Ohio Ethics Commission for further review.

We also issued a noncompliance citation for maintaining public records and an abuse of public funds comment related to travel expenses.

2. On July 18, 2014, we held an exit conference with the following individuals representing the ESC:

Joyce Galbraith, Board President
Edward Bischoff, Board Member
Jennie Henkel, Board Member
Robin Reid-Pleasnick, Board Member

Greg Spencer, Board Member
Tom Goodney, Superintendent
Alan Hutchinson, Treasurer
Melissa Carleton, Attorney for Board

The attendees were informed that they had five business days to respond to this special audit report. A response was received on July 25, 2014. The response was evaluated and changes were made to this report as we deemed necessary. Due to the nature of the items included in this report it is being referred to the Franklin County Prosecuting Attorney's Office for consideration of whether action by that agency is warranted.



Dave Yost
Auditor of State

July 18, 2014

Supplement to the Special Audit Report

Background

At a pre-audit conference held in July 2012, the ESC advised the Auditor of State's Columbus Region audit staff ("Region") that ESC superintendent Dr. Bart Anderson had redeemed for personal use points earned from an ESC credit card. The ESC discovered the issue and the superintendent repaid the approximate cash value of the points to the ESC.

During the course of the financial audit, the Region reviewed the credit card expenditures and noted extensive travel expenses incurred by Dr. Anderson, including purchases of alcohol. As a result of these issues, the Region determined it necessary to review all credit card transactions from the inception of the credit card in 2007 through 2012.

The Region obtained monthly credit card statements and original voucher packets from the ESC to examine support for the transactions. The Region returned the records to the treasurer's filing cabinets in December 2012, and requested Dr. Anderson provide explanations for his travel.

In January 2013, the Region met with Dr. Anderson to review the support he provided. Upon further examination, the Region noted inconsistencies in Dr. Anderson's explanations, including travel expenses incurred on dates Dr. Anderson had indicated were personal travel.

On February 4, 2013, Dr. Anderson resigned from his position as superintendent of the ESC.

In February 2013, the Region returned to the ESC to reexamine the credit card invoices. Upon this subsequent review, the Region noted that some receipts had been altered.

The information was considered by the Auditor of State's Special Audit Task Force and on March 18, 2013, the Auditor of State initiated a special audit of the Educational Service Center of Central Ohio.

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Objective No. 1 – Examination of Superintendent’s Travel

Procedures

We identified the expenditures for travel by former superintendent Bart Anderson. We examined documentation to determine whether the expenditures were supported and for ESC operations. For 20 trips, we attempted to determine whether Dr. Anderson attended certain events or conducted business on behalf of the ESC.

Results

During the Period, expenditures totaling \$485,097 were made using the ESC credit card assigned to Dr. Anderson. The ESC credit card was intended for use by Dr. Anderson for his travel and expenses incurred while performing the duties of superintendent.

The following is a breakdown of the credit card transactions examined:

Type of Expenditure	Amount Examined
Lodging	\$152,811
Meals	\$ 90,152
Airfare	\$ 80,706
Transportation	\$ 29,254
Alcohol	\$ 13,336
Miscellaneous ¹	<u>\$118,838</u>
Total	\$485,097

Dr. Anderson reimbursed the ESC \$12,747 during the Period for purchases of alcohol made using the ESC credit card.

We noted 102 purchases that were supported only by the credit card statement and 86 purchases that had a receipt; however, the receipt was not itemized.

We attempted to contact entities to verify Dr. Anderson’s attendance at events for 18 of 20 trips taken during the Period. For the remaining two trips, we were unable to identify an entity to contact. Of the 18 entities contacted, three verified Dr. Anderson’s attendance and one verified his registration for an event. One entity responded that they were unable to locate any registration information for Dr. Anderson. Another responded that they were unable to locate any record of Dr. Anderson’s visit to their school. We did not receive responses from entities contacted for 12 trips.

Finding for Recovery

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only.

¹ Miscellaneous expenditures included publications, courier services, fees, telephone and internet charges,

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Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose states governmental entities may not make expenditures of public monies unless they are for a valid public purpose. There are two criteria which demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced. Additionally, the Bulletin states the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. The Auditor of State's Office does not view the expenditure of public funds for alcoholic beverages as a proper public purpose and will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect.

According to the ESC Governing Board minutes of January 2007 and January 2008, the Board authorized the superintendent to travel within the guidelines of the superintendent's job description and contract. The resolutions state in part, "(t)ravel other than official meetings, training, conferences, or seminars of the following organizations shall be presented to the Governing Board for approval: American Association of School Administrators; Buckeye Association of School Administrators; the Broad Superintendents Academy; Mid-West Suburban Superintendents' Association, University of Pennsylvania School of Education; and The District Management Council."

During the Period, the ESC Governing Board approved travel by Dr. Anderson to 91 locations, of which 75 required out of state travel. We did not evaluate the appropriateness of decisions made by the Board to approve travel where such decisions were at management's discretion. We noted travel by Dr. Anderson to 112 locations totaling \$91,637 that was not approved by the ESC Governing Board and was not for a location on the approved organization list. We were unable to determine whether the travel expenses incurred were for a proper public purpose.

We noted travel expenses incurred by Dr. Anderson in which alcohol totaling \$589 was paid for using the ESC credit card but was not reimbursed to the ESC. Purchases of alcohol have been determined not to be a "proper public purpose" as described in Auditor of State Bulletin 2003-005.

We noted three credit card transactions totaling \$2,832 that were supported only by the credit card statement. Due to lack of available documentation we concluded the unsupported charges were not related to the operation of the ESC based on the description and nature of the vendors listed on the credit card statements.

ESC Policy 1440, Job-Related Expenses, states in part "Frequent Flyer mileage earned on official Center travel may be accrued by its employees or officials as long as such miles earned are used for future official travel for that employee or official or another Center employee or official." Additionally, Ohio Ethics laws prohibit individuals from using their positions with public entities to secure anything of value such as accrual and use of credit card rewards for personal benefit.

Reward points were earned on the ESC credit card. We noted Dr. Anderson redeemed 444,639 credit card points for personal use during the Period with an approximate cash value of \$4,446. In June 2012, Dr. Anderson reimbursed the ESC \$2,994 for the points redeemed, leaving a remainder of \$1,452 unreimbursed. We referred the personal use of ESC credit card reward points to the Ohio Ethics Commission for further review.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued in the amount of \$96,510 against Bart Anderson, in favor of the Educational Service Center of Central Ohio.

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Noncompliance Citation

Public Records

Ohio Revised Code 149.351(A) states in part, "(a)ll 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 Section 149.38 to 149.42 of the Revised Code."

The superintendent's practice was to hand-write the purpose of meetings and the names of individuals with whom he dined on the back of credit card receipts. During the financial audit, we examined all credit card receipts for the Period and noted the information written on the receipts. We returned the receipts to the ESC in December 2012. Upon reviewing the receipts again in February 2013, we noted approximately 70 receipts totaling \$8,182 had been altered; the original receipts were removed and replaced with photocopies of the original receipts and the purpose and/or names of meal companions had been changed. We also noted instances where the original receipts we had observed and documented were missing.

We recommend the ESC implement procedures to ensure that original records are maintained in accordance with the Ohio Revised Code.

Abuse of Public Funds

Travel Expenses

Generally Accepted Government Auditing Standards, 2011 Revision, Section 4.07, defines abuse as "behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances." Appendix 1, Supplemental Guidance, Section A.07d, provides an example of abuse to include, "(m)aking travel choices that are contrary to existing travel policies or are unnecessarily extravagant or expensive."

ESC Policy 1440, Job-Related Expenses, states in part, "(a)dmistrative staff members are expected to exercise the same care incurring travel expenses that a prudent person would exercise if traveling on personal business and expending personal funds. Unauthorized costs and additional expenses incurred for personal preference or convenience will not be reimbursed."

The policy states, "(u)nauthorized expenses include but are not limited to alcohol, movies, supplemental insurance on rental cars, fines for traffic violations, and the entertainment/meals/lodging of spouses or guests." The policy further states, "(t)he validity of payments for job-related expenses shall be determined by the treasurer/designee."

ESC Administrative Guideline 1440 states in part, "(e)mployees shall request and accept, if available, the government rate on rooms." A resource for determining reasonable travel expenses is the U.S. General Services Administration (GSA) website.

We noted the following examples of nightly lodging rates incurred by Dr. Anderson which we consider abusive:

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Date	Hotel	Location	Nights	Rate Per Night	GSA Rate
10/2007	Conrad Hotel	Chicago, IL	4	\$555	\$173
11/2007	Waldorf Astoria	New York, NY	2	\$799	\$311
9/2009	Hotel Palomar	Washington, DC	4	\$350	\$233
1/2010	Hilton Beach Resort	Marco Island, FL	4	\$469	\$164
1/2010	Ritz-Carlton	Sarasota, FL	1	\$514	\$117
8/2010	Broadmoor Hotel	Colorado Springs, CO	5	\$285	\$88
10/2010	Hilton	New York, NY	3	\$529	\$269
11/2010	Jumeirah Essex House	New York, NY	3	\$769	\$269
1/2011	Hilton Beach Resort	Marco Island, FL	4	\$367	\$155
4/2011	The Roosevelt	New Orleans, LA	3	\$278	\$131
9/2011	Waldorf Astoria	New York, NY	2	\$508	\$295
3/2012	Waldorf Astoria	Orlando, FL	3	\$524	\$111

Additionally, the superintendent used the ESC credit card to incur excessive charges paid by the ESC for alcohol, meals, transportation and potentially non-business related activities. Dr. Anderson did not provide clear, detailed descriptions for the purpose of all travel destinations and expenditures which made it difficult to determine the nature of certain trips and charges and whether each related to the operations of the ESC.

The Board clearly documented its intentions to approve specific travel plans for the superintendent by issuing resolutions identifying the destination and purpose. There were no Board resolutions indicating the Board's intent to pay for the expenses of Dr. Anderson traveling to 112 locations.

Failure to follow the established travel policy and Board's intentions by not requiring and reviewing detailed itemized documentation supporting travel and credit card purchases can lead to lack of accountability for expenditures and the possibility of processing payments for transactions unrelated to the operations of the ESC. Additionally, not having established maximum travel rates resulted in the ESC paying charges that may have been excessive and/or for personal preference or convenience.

We recommend the ESC follow the Board's intentions and only process payment of travel related expenditures that have been expressly approved by the Board. All travel expenditures and purchases made by credit card should be supported as to the purpose. We recommend the ESC implement procedures that include a detailed examination of charges, including determining whether the charges were supported, for an ESC-related purpose and in accordance with ESC policies. We also recommend the ESC consider establishing maximum rates for in-state and out-of-state lodging based on the rates established by the GSA.

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EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO

FRANKLIN 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
AUGUST 27, 2014