

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

SPECIAL AUDIT

FOR THE PERIOD JULY 1, 2012 THROUGH DECEMBER 15, 2015



Dave Yost • Auditor of State

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Fraud Examination Report	3
Supplement to the Special Audit Report	
Objective No. 1 – Service Agreements with School District	7
Objective No. 2 – Treasurer’s Compensation	17
Objective No. 3 – Superintendent’s Compensation	29
Objective No. 4 – Non-Payroll Disbursements	35
Objective No. 5 – Credit Card Transactions	38
Objective No. 6 – Treasurer’s Vacation Leave	41

THIS PAGE INTENTIONALLY LEFT BLANK



Dave Yost • Auditor of State

FRAUD EXAMINATION REPORT

Lawrence County Educational Service Center
3rd Floor Courthouse
111 South 4th Street
Ironton, OH 45638

Background

On September 15, 2015, the Auditor of State's Office (AOS) identified concerns at the Lawrence County Educational Service Center, Ironton, Ohio (ESC) with the employment contracts for the Superintendent and Treasurer as part of the fiscal year 2014 financial audit. On September 21, 2015, the AOS Special Audit Task Force (SATF) authorized the AOS Public Integrity Assurance Team (PIAT) to open a preliminary investigation into the conduct of the ESC. PIAT reviewed the items of concern and confirmed there were discrepancies with both the Superintendent's and Treasurer's contracts and salaries including the allowance and calculation of performance incentives and vacation leave that was converted to cash payment. On October 13, 2015, SATF considered this information and initiated a special audit of the ESC.

On December 8, 2015, PIAT issued a subpoena to the ESC for records related to service agreements entered into between the ESC and member school districts, contracts and other payroll documentation for the Superintendent and Treasurer, leave records for the Treasurer, credit card transactions made by the Superintendent and Treasurer, non-payroll disbursements issued to the Superintendent and Treasurer, the Board's meeting minutes, and the ESC's policies and procedures. On December 8, 2015, the ESC Board placed the Treasurer, Teresa Lawless, on paid administrative leave.

Scope

In conducting this special audit, we considered the issues brought to our attention by the AOS financial audit team during the fiscal year 2014 financial audit and our preliminary findings to identify the areas we should investigate and the relevant time period. This initial work also helped define our specific objectives, or questions, which could be audited (i.e., either documents existed or at least should have existed which could be tested, whether relevant laws were adhered to and whether internal procedures were in place) and would answer whether the ESC spent public money appropriately. In order to answer whether the ESC spent public money appropriately, we audited for compliance with applicable Revised Code provisions; for compliance with internal policies; compliance with employment contracts; and annual service agreements entered into pursuant to Ohio Rev. Code § 3313.843. The ESC receives a significant amount of funding each year from member school districts pursuant to these service agreements. We defined our audit period as covering July 1, 2012 to December 15, 2015 (except as noted below) based on the risk factors identified.

The objectives and procedures are described more fully in the attached Supplement to the Special Audit Report.

The specific objectives we tested to determine whether fraud was committed at the ESC, and if so, to what extent, were as follows:

- Examined service agreements entered into by the ESC and local school districts for services provided by the ESC and determined if they were in accordance with the Ohio Revised Code for the period July 1, 2011 through June 30, 2015¹.
- Examined payments to the Treasurer, Teresa Lawless, for compensation and benefits and determined whether she was paid for those items in accordance with approved contracts, amendments, addendums and Board resolutions for the period of July 1, 2012 through April 29, 2016².
- Examined payments to the Superintendent, Dr. James Payne, for compensation and benefits and determined whether he was paid for those items in accordance with approved contracts, amendments, addendums and Board resolutions for the period of July 1, 2012 through December 15, 2015.
- Examined non-payroll disbursements issued to Dr. Payne and Ms. Lawless and determined whether the disbursements were properly supported, for a purpose related to ESC operations, and made in accordance with their contracts and the ESC's policies for the period of July 1, 2012 through December 15, 2015.
- Examined credit card transactions made by Dr. Payne and Ms. Lawless and determined if they were approved, for a purpose related to ESC operations, and made in accordance with their contracts and the ESC's policies for the period of July 1, 2012 through December 15, 2015.
- Examined Ms. Lawless's personal credit card statements and identified purchases made outside of Ironton, OH on days and times she was normally scheduled to be working at the ESC. The examination then compared this information against her leave usage records and determined if she had a valid reason to be excused from work for the period of July 1, 2013 through December 8, 2015³.

In order to test these objectives, we reviewed available documentation at the ESC, interviewed key ESC personnel, and issued subpoenas to the ESC, various financial institutions and businesses. Specifically, we reviewed the financial activity of the ESC's special education services provided to member school districts pursuant to service agreements entered into based on Ohio Rev. Code § 3313.843, we reviewed 100% of the compensation paid to Dr. Payne and Ms. Lawless, we reviewed 100% of non-payroll disbursement issued to Dr. Payne and Ms. Lawless, we reviewed 100% of credit card transactions made by Dr. Payne and Ms. Lawless, and we reviewed Ms. Lawless's vacation leave. Ultimately PIAT issued findings for recovery, non-compliance citations, and internal control recommendations.

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).

¹ This period was reviewed to determine the total unused funds received by the ESC related to special education services which were recorded based on a fiscal year.

² This period was reviewed because we determined the treasurer was being overpaid for her base salary outside of our audit period, therefore, we extended the period until the ESC adjusted her salary.

³ This period was reviewed because the treasurer did not have any vacation leave recorded for almost two years during this period and she was placed on administrative leave on December 8, 2015.

Findings

At the conclusion of our audit work, we determined there were instances where Dr. Payne and Ms. Lawless were paid more than they were entitled to be paid. We identified multiple findings for recovery. A finding for recovery generally constitutes a finding that an individual or entity (e.g. vendor) illegally received public money. Pursuant to Ohio Rev. Code section 117.28, when the Auditor of State's office issues a finding for recovery, the individual or entity can repay the amount voluntarily, however, the finding for recovery empowers the public office's statutory legal counsel or the Attorney General's office to institute legal proceedings to collect that amount.

We proposed two findings for recovery totaling \$6,664 against Dr. Payne because he was overpaid for a bonus and received a duplicate travel expense reimbursement. When informed of the findings, Dr. Payne repaid the ESC in full prior to the completion of the special audit. We issued five findings for recovery totaling \$38,493 against Ms. Lawless because she was overpaid on her base salary, bonus payments, and vacation leave conversions, and she received unallowable travel expense reimbursements, as well as she made unallowable credit card transactions with the ESC's credit card.

The details are discussed more fully in the attached supplement.

We also reported an abuse of public funds related to performance incentives paid to Ms. Lawless totaling \$169,674 and to Dr. Payne totaling \$87,793.

The specific procedures and associated findings are identified in the attached Supplement to the Special Audit Report.

On March 23, 2017, we held an exit conference with the following individuals representing the ESC:

Phillip Carpenter, Board President
Jeannie Shafer, Board Vice-President
Jeff Floyd, Board Member
Ray Malone, Board Member
Roland Hayes, Board Member
Jeff Saunders, Superintendent
Brenda Hill, Interim Treasurer
Sue Yount, Legal Counsel
Warren Grody, Legal Counsel

The attendees were informed that they had five business days to respond to this special audit report. A response was received on April 3, 2017. The response was evaluated and changes were made to this report as we deemed necessary. We offered to hold a separate exit conference with Ms. Lawless on April 6, 2017 and after reviewing this special audit report she declined to meet. We informed Ms. Lawless she had five business days to respond to this special audit report and a response was received on April 13, 2017.



Dave Yost
Auditor of State

March 23, 2017

THIS PAGE INTENTIONALLY LEFT BLANK

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Objective No. 1 - Examine service agreements entered into by the ESC and local school districts for services provided by the ESC and determine if they were in accordance with the Ohio Revised Code.

PROCEDURES

We obtained and reviewed service agreements entered into by the ESC and local school districts for the period July 1, 2011 through June 30, 2015.

We reviewed revenues and expenditures recorded by the ESC related to those service agreements.

RESULTS

Ohio Rev. Code § 3313.843 (B) (1) states “the board of education of each city, exempted village, or local school district with an average daily student enrollment of sixteen thousand or less, reported for the district on the most recent report card issued under section 3302.03 of the Revised Code, shall enter into an agreement with the governing board of an educational service center, under which the educational service center governing board will provide services to the district.” Ohio Rev. Code § 3313.843 (B) (3) states in part “services provided under an agreement entered into under division (B)(1) or (2) of this section shall be specified in the agreement, and may include any of the following: supervisory teachers; in-service and continuing education programs for district personnel; curriculum services; research and development programs; academic instruction for which the governing board employs teachers pursuant to section 3319.02 of the Revised Code; assistance in the provision of special accommodations and classes for students with disabilities; or any other services the district board and service center governing board agree can be better provided by the service center and are not provided under an agreement entered into under section 3313.845 of the Revised Code. Services included in the agreement shall be provided to the district in the manner specified in the agreement.”

During the Period, the ESC entered into agreements with seven school districts⁴ in Lawrence County to provide school psychologists, special education cooperatives⁵, curriculum supervisors, and speech option services. Each year the ESC's treasurer and superintendent prepared a budget with estimated expenditures for the services the ESC would provide. For fiscal years 2012 through 2015, the ESC calculated the aggregate amount it would cost to provide services to all of the school districts which included salaries, benefits, supplies, equipment, and a 6% administrative fee. Each year the ESC and the districts agreed to an amount for the services that were to be provided by the ESC. The ESC would then submit agreements signed by the ESC and school district officials to the Ohio Department of Education authorizing the annual amount to be deducted from the school districts state foundation payments and paid to the ESC on a semi-monthly basis throughout the school year.

Fiscal Year 2012

During the 2012 fiscal year, the ESC entered into agreements with six local school districts to provide school psychologists and special education cooperatives. Also, the ESC entered into an agreement with one local school district to provide only special education cooperatives. The ESC accounted for all of the financial activity related to the psychology services and special education cooperatives within General Fund special cost centers (SCC). The ESC accounted for the financial activity of psychology services in SCC 0000. The ESC's SCC 0000 also accounted for other revenues and expenditures related to the operations of the ESC.

⁴ Chesapeake Union Exempted Village School District; Dawson-Bryant Local School District; Fairland Local School District; Ironton City School District; Rock Hill Local School District; South Point Local School District; and Symmes Valley Local School District.

⁵ Represents services provided to students identified with disabilities of cooperating school districts. Special education services for students with disabilities may include classes or related services. Classroom costs include but are not limited to supplies, equipment, transportation, substitutes, administrative and housing fees, when applicable.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The ESC accounted for the financial activity related to the special education cooperatives separately in SCC's 9123, 9124, and 9125. The three SCC's accounted for the special education services provided by the ESC at Ironton City School District, Rock Hill Local School District, and South Point Local School District. The ESC had lease agreements with each of the districts to lease rooms for the school year.

We identified and reviewed the revenues and expenditures posted to SCC's 0000, 9123, 9124, 9125 and compared these actual amounts to the budgeted amounts prepared by the ESC.

On December 30, 2011, the ESC recorded transfers from SCC's 9123, 9124, and 9125 to SCC 0000 totaling \$32,251 for an administrative fee and \$11,100 for a school employment retirement system (SERS) surcharge⁶. The SERS surcharge amounts transferred by the ESC were for the amounts budgeted by the ESC, however, the ESC paid the SERS surcharge for the 2012 fiscal year to SERS on September 24, 2012 directly from SCC's 9123, 9124, and 9125 totaling \$1,330. Therefore, the ESC transferred \$11,100 for a SERS surcharge from SCC's 9123, 9124, and 9125 to SCC 0000 that was not related to the services agreed upon between the ESC and the school districts.

On June 30, 2012, the ESC recorded a transfer from SCC 9124 to SCC 9200 for \$74,406. Ms. Lawless told us SCC 9200 was established to set aside funds in preparation to comply with the new laws requiring educational service centers to own their facility and/or pay rent and utilities as directed by the superintendent. The ESC did not have any documentation to support the transfer. We followed up with Ms. Lawless requesting an explanation for the transfer and she told us it was to pay for the salary and benefits of a psychologist. However, the ESC had budgeted and recorded the revenues and expenditures related to this psychologist in SCC 0000. We determined the ESC paid a total of \$20,000 from SCC 9200 to Ironton City School District and Rock Hill Local School District for a classroom lease in September 2012 related to the 2012 fiscal year. Therefore, we determined \$54,406 transferred to SCC 9200 was not properly supported and not related to the services agreed upon between the ESC and the local school districts.

On June 30, 2012, the ESC recorded a transfer from SCC 9124 to SCC 9130 for \$3,261 and from SCC 9125 to SCC 9130 for \$35,491. These two transfers totaled \$38,752 and represented the unused funds received by the ESC for the special education cooperatives provided in fiscal year 2012. Beginning in fiscal year 2013, the ESC accounted for substantially all financial activity related to special education cooperatives in SCC 9130. On September 27, 2012, the ESC issued seven checks totaling \$43,752 from SCC 9130 which represented the reimbursements to the member districts for unused funds related to the special education cooperative classes and an additional \$5,000 to South Point for a classroom lease related to the 2012 fiscal year. The unused funds were allocated to the districts based on their average daily membership (ADM).

We determined the transfers totaling \$65,506 recorded by the ESC representing expenditures for the SERS surcharge and the salary and benefits of a school psychologist were not expenditures that should have been applied to the special education cooperatives but rather should have been included in the unused funds returned to the school districts.

Fiscal Year 2013

During the 2013 fiscal year, the ESC entered into agreements with six school districts to provide school psychologists and special education cooperatives. Also, the ESC entered into an agreement with one school district to provide only special education cooperatives. The ESC accounted for all of the financial activity related to the psychology services and special education cooperatives within SCC's of their general fund. The ESC accounted for the financial activity of psychology services in SCC 0000. The ESC's SCC 0000 also accounted for other revenues and expenditures related to the operations of the ESC.

⁶ A SERS surcharge is an additional employer charge that is levied on the salaries of lower paid SERS members. The minimum annual compensation is determined annually by the System's actuaries. The surcharge is limited to 2% of each district's total qualified SERS payroll, not the total of the initial individual surcharge. The statewide limit is 1.5% of total qualified payroll for all employers.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The ESC accounted for substantially all of the financial activity related to the special education services separately in SCC 9130.

On June 28, 2013, the ESC issued a memorandum check totaling \$306,809 from multiple SCC's and posted a receipt to SCC 0000. This memorandum check included an expenditure to SCC 9130 totaling \$188,196. During review of the ESC's contract files we identified a handwritten document prepared by Ms. Lawless explaining the purpose and breakdown of the memorandum check posted to SCC 9130. The memorandum check, in part, was to reimburse SCC 0000 for the following items:

- A) Rent for \$35,000 (South Point - \$5,000 and Rock Hill – \$30,000).
- B) SERS - \$22,000.
- C) Materials - \$17,000.
- D) Admin Fee - \$46,016
- E) Annette - \$50,180
- F) Sub Cost - \$18,000

We reviewed the expenditures and discussed these items with Ms. Lawless and determined the following:

- A) Ms. Lawless told us the ESC paid \$5,000 to South Point for rent in September 2012, however, this payment was related to rent for fiscal year 2012 and was paid from SCC 9130, therefore, this was not a valid reason to reimburse SCC 0000. Additionally, the ESC paid \$5,000 to South Point in September 2013 and \$30,000 for rent to Rock Hill in June 2014, however, these expenditures were made from SCC 9130, therefore, these were not valid reasons to reimburse SCC 0000.
- B) Ms. Lawless told us the \$22,000 was related to the SERS surcharge. The ESC budgeted \$22,000 for SERS surcharge which was used to calculate the contract amount agreed upon between the ESC and the member school districts. However, we obtained the ESC's final surcharge report for fiscal year 2013 which showed the ESC only owed a total of \$5,284 in SERS surcharge. This amount was subsequently paid in September 2013 and included \$2,115 charged to SCC 9130. Based on this information, the \$22,000 transferred to SCC 0000 was not the correct amount for the surcharge actually spent and furthermore was not paid from SCC 0000. As such, this was not a valid reason to reimburse SCC 0000.
- C) Ms. Lawless provided us with a list of 32 checks totaling \$17,003 paid from SCC 0000 that she identified were related to the special education cooperatives. We did not take exception to this response.
- D) Ms. Lawless told us the administrative fee represents 6% of the total amount budgeted for special education cooperatives. The ESC budgeted \$766,940 for the special education cooperatives, supporting the administrative fee of \$46,016.
- E) Ms. Lawless told us Annette Massie was the special education director. We determined Ms. Massie's salary and benefits were paid from SCC 0000, supporting the \$50,180.
- F) Ms. Lawless told us the sub costs totaling \$18,000 were related to substitute teachers, however, the ESC did not document who the substitute teachers were and did not provide documentation to support they were paid from SCC 0000. In addition, the ESC's budget reported \$15,000 for substitute teachers. Therefore, we determined this was not a valid reason to reimburse SCC 0000.

In September 2013, the ESC issued refund checks from SCC 9130 to the seven member school districts for unused special education cooperative funds totaling \$48,345, however, the fund balance in SCC 9130 at June 30, 2013 totaled \$96,799. The \$48,345 that was refunded was allocated to the District's based on their ADM.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We determined the transfers recorded by the ESC through a memorandum check representing expenditures for the room rentals at South Point Local School District and Rock Hill School District, the SERS surcharge, and the costs related to substitute teachers totaling \$75,000 were not expenditures that should have been applied to the special education cooperatives but rather should have been included in the unused funds returned to the school districts.

Fiscal Year 2014

During the 2014 fiscal year, the ESC entered into agreements with six local school districts to provide school psychologists, special education cooperatives, and supervisory services⁷. Also, the ESC entered into an agreement with one local school district to provide special education cooperatives and supervisory services. The ESC accounted for all of the financial activity related to the psychology services, special education cooperatives, and supervisory services within SCC's of their general fund. The ESC accounted for the financial activity related to the psychology services and supervisory services provided to the member school districts in SCC 0000. The ESC's SCC 0000 also accounted for other revenues and expenditures related to the operations of the ESC. The ESC accounted for the financial activity related to the special education services separately in SCC 9130. However, we determined the ESC did not record all of the revenue they received related to the special education cooperatives in SCC 9130. The ESC recorded \$100,919 of the special education cooperatives revenue in SCC 0000.

On June 30, 2014, the ESC issued a memorandum check totaling \$227,463 from multiple SCC's and posted a receipt to SCC 0000. This memorandum check included an expenditure from SCC 9130 totaling \$149,500. The documentation maintained for this check included an invoice from the ESC to Lawrence County Academy⁸ (the Academy). The invoice reported the Academy purchased services from the ESC, including \$149,500 for special education services. We asked Ms. Lawless about the amount charged to SCC 9130 and she initially told us the invoice was for educational services provided by the ESC to the Academy. Then later she told us the wrong letterhead was used on the invoice and provided us with a breakdown explaining why she issued a memorandum check to record the \$149,500 expenditure from SCC 9130. Ms. Lawless told us the expenditure was for the following items:

- The salary and benefits of the special education supervisor totaling \$51,478.
- The salary and benefits of a school psychologist totaling \$63,642.
- The salary and benefits of a special education curriculum supervisor totaling \$15,142.
- Five checks paid from SCC 0000 totaling \$19,238 for services provided by South Central Ohio Computer Association, directories, postage, psychology supplies, and testing materials.

We confirmed the salary and benefits for the special education supervisor and special education curriculum supervisor were paid from SCC 0000. Also, we confirmed the salary and benefits of the school psychologist totaling \$63,642 and the psychology supplies purchased totaling \$8,002 were paid from SCC 0000. However, the ESC received and used funds from the school districts to provide psychology services which were recorded in SCC 0000. Therefore, the salary and benefits of a school psychologist and psychology supplies totaling \$71,644 should not have been reimbursed with funds from SCC 9130 which were to be used for special education cooperative services.

We identified two employees who worked at the special education cooperative during FY 2014, however, their salaries and benefits totaling \$86,153 were charged to SCC 9913 which was the SCC used by the ESC to account for the financial transactions of the Academy.

The ESC did not issue refund checks to the member school districts for any unused funds from the service agreements for the 2014 fiscal year. Instead of issuing refund checks to the school districts the

⁷ Supervisory services to ESC member districts (as provided by ORC §3313.843).

⁸ Lawrence County Academy is a conversion community school sponsored by the ESC. Also, the ESC is the fiscal agent of the Academy.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ESC applied a 5.8% discount totaling \$55,353 to the budget they prepared for the 2014-2015 special education cooperatives services to be provided to the school districts. The budget prepared by the ESC was used to determine the cost of the special education cooperatives services to be provided and the amounts agreed upon by the local school districts for the 2015 fiscal year. We asked how the discount rate of 5.8% was calculated but they were unable to provide an explanation or any supporting documentation.

Fiscal Year 2015

For fiscal year 2015 fiscal year, the ESC entered into agreements with seven local school districts to provide school psychologists, special education cooperatives, supervisory allowance, and speech option services.

For fiscal year 2015 school year, the ESC used a different approach for calculating the budget and determining the amount to be charged to each school district for special education cooperative services. The ESC identified all of the students receiving special education services by district and identified the type of services each student would receive. By district, the ESC calculated the estimated cost of providing special education services to each student by taking the special education category rate⁹ times the district's state share index¹⁰ plus the state per pupil rate. The ESC determined the total cost to provide special education services to all of the districts would be \$954,372. A 5.8% discount rate was applied to each school district resulting in an aggregate discount of \$55,353. The ESC prepared a document identifying the cost of the services to be provided totaling \$899,019. The document reported the following breakdown of costs:

- Salaries and benefits of 18 employees totaling \$716,881.
- Custodial / Cook salaries and benefits totaling \$25,000.
- Substitute teacher costs totaling \$25,000.
- Meeting / Supplies totaling \$19,400
- SERS surcharge totaling \$22,000.
- Classroom rental totaling \$40,000.
- Administration fee totaling \$50,897.
- An undocumented credit of \$159.

The ESC accounted for the financial activity related to the psychology services and supervisory allowance provided to the school districts in SCC 0000. The ESC's SCC 0000 also accounted for other revenues and expenditures related to the operations of the ESC. The ESC accounted for the expenditures related to the special education services and speech option services separately in SCC 9130, however, the ESC recorded all of the revenue, except for \$662, for these services in SCC 0000.

The ESC's SCC 9130 fund balance at July 1, 2014 was \$74,915. The ESC recorded revenue of \$662 and expenditures totaling \$570,567 in SCC 9130 in fiscal year 2015. On June 30, 2015, the ESC recorded a transaction reducing revenue in SCC 0000 by \$494,990 and increasing revenue in SCC 9130 for the same amount in order to bring the balance of SCC 9130 to \$0. The school districts agreed to have the ESC provide special education cooperatives totaling \$899,019 and speech option services for an amount totaling \$75,908 for an overall total of \$974,927.

⁹ The special education category rates are reported in Ohio Revised Code § 3317.013.

¹⁰ The state share index is the ratio that shows the portion of the funding calculation that is supported by the state. The index is computed by the Ohio Department of Education per Ohio Revised Code § 3317.07(D).

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We reviewed the documents prepared by the ESC for the costs of services to be provided and reviewed expenditures recorded by the ESC. During our review we identified the following issues:

- Four of the 18 employees reported to provide special education services identified by the ESC were paid from SCC 9913. SCC 9913 was used by the ESC to record the financial activity of the Academy. We spoke with Dr. Payne and the interim treasurer and they told us the four employees paid out of SCC 9913 performed services for the special education cooperatives and should have been paid from SCC 9130. The salaries and benefits paid by the ESC for these four employees totaled \$192,108. In addition, there was one employee who worked in the special education cooperative during FY 14 and the remainder of her contract totaling \$4,858 was paid from SCC 9913 and should have been paid from SCC 9130. Therefore, the transaction recorded by the ESC on June 30, 2015 should have included these additional amounts totaling \$196,966 to cover the expenditures that should have been recorded into SCC 9130.
- The six percent administrative fee totaling \$50,897 was not charged as an expenditure to SCC 9130 because the ESC recorded all of the revenue for special education cooperatives in SCC 0000 and the administrative fee is used to pay for expenditures accounted for in SCC 0000.
- The salary and benefits totaling \$64,148 for the special education coordinator were not charged as an expenditure to SCC 9130 because the ESC recorded all of the revenue for special education cooperatives in SCC 0000 and the coordinator's salary and benefits were paid from SCC 0000.
- The ESC recorded outstanding encumbrances in SCC 9130 totaling \$13,308 and did not transfer funds from SCC 0000 to cover the cost of these expenditures.
- The SERS surcharge paid by the ESC for employees related to the special education cooperative in FY 15 only totaled \$5,803 and was paid in FY 16.

We determined the ESC had expenditures totaling \$312,011 related to the special education cooperatives for the salaries and benefits of five employees that were charged to SCC 0000 and 9913 rather than SCC 9130 and the ESC did not properly account for administrative expenses in the proper SCC.

Table 1 and **Table 2** summarize the activity documented above for fiscal years 2012 through 2015 and the impact of the improper postings over this period of time.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Table 1 reports the activity of the special education cooperative funds recorded by the ESC:

Table 1: Summary of Special Education Cooperative Activity as Reported by the ESC					
Fiscal Year	Amount Received for Special Ed Coops	Prior Year Unused Special Ed Coop Funds Retained by the ESC	Special Ed Coop Revenue recorded in SCC 9130	Special Ed Coop Expenditures (including o/s encumbrances) recorded in SCC 9130	Unused Special Ed Coop Funds at end of FY Recorded in SCC 9130
12	\$568,990	N/A	\$568,990	\$530,238	\$38,752 ¹¹
13	812,957	0	812,957	716,158	96,799 ¹²
14	812,957	48,454	712,038	685,734	74,758
15 ¹³	974,927	74,758	495,652	583,718	(13,308)

Table 2 reports the financial activity of the special education cooperative funds based on AOS findings identified in this report:

Table 2: Summary of Special Education Cooperative Activity Based on Review Performed by AOS						
Fiscal Year	Amount Received for Special Ed Coops	Special Ed Coop Expenditures (including o/s encumbrances) recorded in SCC 9130	Expenditures reported by the ESC determined by the AOS not to be related to Special Ed Coops	Special Ed Coop Expenditures recorded in the wrong SCC by the ESC	Total Special Ed Coop Expenditures per AOS	Unused Special Ed Coop Funds at end of FY per AOS
12	\$568,990	\$530,238	\$(65,506)	\$0	\$464,732	\$104,258
13	812,957	716,158	(75,000)	0	641,158	171,799
14	812,957	685,734	(71,644)	86,153	700,243	112,714
15	974,927	583,718	0	312,011	895,729	79,198
						\$467,969
	Total amount of special education cooperative funds refunded by the ESC					(87,097)
	Total amount of unused special education cooperative funds for FY 12-15					\$380,872

Based on our review of the ESC's financial activity related to the special education cooperatives for the period of July 1, 2011 through June 30, 2015, we determined the ESC did not expend \$380,872 received from member school districts to provide special education services. The \$380,872 was accounted for in the ESC's general fund balances which ultimately increased performance incentives paid to the superintendent and treasurer. (See results for Objective 2 and Objective 3 related to performance incentives)

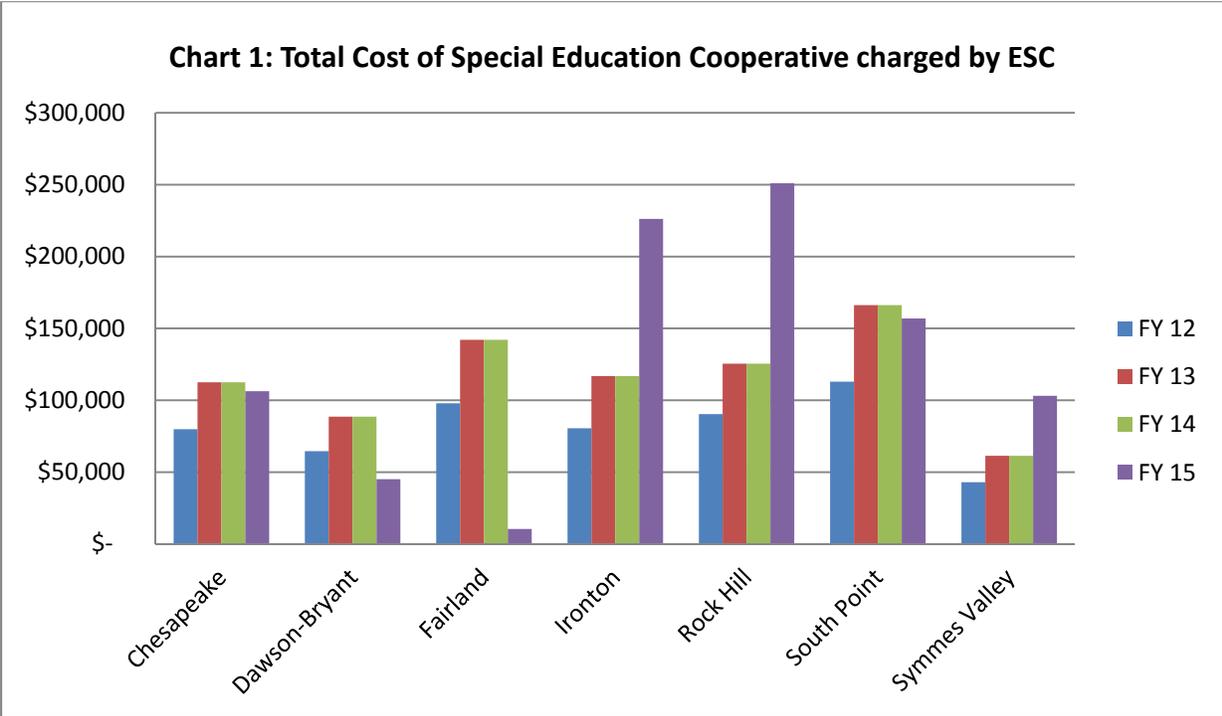
¹¹ The Center refunded seven local school districts a total of \$38,752 for unused special education cooperative funds.

¹² The Center refunded seven local school districts a total of \$48,345 for unused special education cooperative funds.

¹³ Amounts reported for FY 14-15 include speech option services.

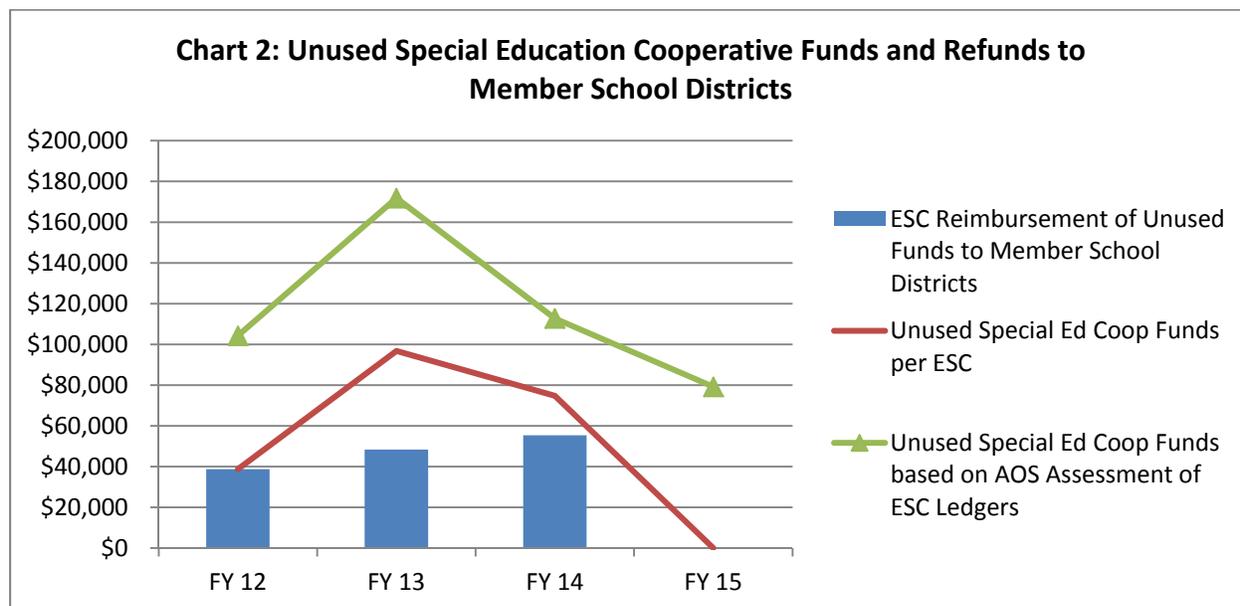
SUPPLEMENT TO THE SPECIAL AUDIT REPORT

During fiscal year 2012 through fiscal year 2014, the ESC allocated the estimated costs of the special education services to each school district based upon the ADM of each school district participating in the cooperative. For fiscal year 15, the ESC allocated the estimated costs of the special education services to each school district based upon the students each district had that were going to be provided special education services. The funding change made by the ESC in fiscal year 15 had a significant impact to some of the school districts participating in the special education cooperatives, including Fairland, Ironton and Rock Hill. **Chart 1** shows the costs of services charged to each school district by fiscal year.



SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Chart 2 shows the unused funds the ESC had received for special education services at the end of each fiscal year as reported in the ESC's financial system, the unused funds the ESC reimbursed to member school districts, and the unused funds for special education services determined by the AOS.



MANAGEMENT COMMENT

During the period of July 1, 2011 through June 30, 2015, the ESC entered into annual service agreements pursuant to Ohio Rev. Code § 3313.843 with seven school districts located in Lawrence County. We reviewed these service agreements and the related financial activity recorded by the ESC during this period and identified the following issues:

- The ESC provided the school districts with a total estimate for the costs of the services to be provided but did not provide any detail on the costs of each service to be provided.
- The ESC established a separate special cost center to account for the funds received to provide special education services, however, funds received for psychology, supervisory services, and speech option services were not accounted for in a separate special cost center.
- The ESC refunded the school districts for unused funds received for these service agreements during fiscal year 2012 and fiscal year 2013. The ESC did not refund the school districts for any unused funds received in fiscal year 2014 but did provide a 5.8% discount for services to be provided in fiscal year 2015. The ESC was unable to provide documentation supporting how the 5.8% discount was derived. None of the service agreements entered into between the school districts and the ESC addressed how the ESC would use or distribute any unused funds the ESC received. In addition, the ESC did not document how they determined what amount of unused funds from these service agreements would be used to refund the member school districts.
- The ESC did not provide periodic reporting (e.g. monthly, quarterly, biannually) of the funds received and expended for the services they provided related to the service agreements.

When the ESC reimbursed the school districts for the unused funds received from the school districts they did not provide documentation as to how the amounts were determined and did not explain the reason for reimbursing the school districts for the unused funds. In addition, when the ESC provided a discount for services to be provided in fiscal year 15 the ESC did not formally document and explain to the schools districts why they were providing a discount and how they determined the amount of the discount to be provided.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Failure to properly account for monies received from school districts related to service agreements entered into pursuant to Ohio Rev. Code § 3313.843 could result in the ESC incurring expenditures that are not related to the agreed upon services. The contracts entered into by the ESC and the school districts did not address how the ESC would expend any unused funds received from the service agreements and allowed the ESC to distribute the unused funds however they wanted. Also, failure to document in the service agreement how the ESC would distribute unused funds and failure to provide an explanation and documentation to support why they were reimbursing the school districts resulted in the school districts not being aware of why funds were being returned and if the amounts returned were accurate.

Based on our review of the annual service agreements between the ESC and the school districts we recommend the following:

- Service agreements entered into pursuant to Ohio Rev. Code § 3313.843 by the ESC and the school districts should clearly define how to distribute any unused funds. Ohio Rev. Code § 3313.848 provides school districts with options on how to handle the disposition of unexpended funds under service agreements.
- The ESC should provide the school districts with a detailed budget of the services to be provided before entering into a service agreement.
- The ESC should account for each service they provide to the school districts separately so they can properly account for the funds received and provide the school districts with documentation on how the funds were expended.
- The ESC should provide the school districts with periodic (e.g. monthly, quarterly, biannually) budget to actual expenditure reports to allow the school districts to review and know how the funds are being expended.
- At the end of the agreement the ESC should provide each school with a final reconciliation of the funds received and expended and documentation on how the unused funds are being distributed.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Objective No. 2 - Examine payments to Ms. Lawless for compensation and benefits to determine whether she was paid for those items in accordance with approved contracts, amendments, addendums and Board resolutions.

PROCEDURES

We obtained and reviewed Ms. Lawless's contracts for the period of July 1, 2012 through April 29, 2016 to determine her annual salary.

We obtained and reviewed the ESC's board meeting minutes for the Period and identified any amendments to Ms. Lawless' contracts.

We examined the ESC's payroll records supporting the total compensation paid to Ms. Lawless for the Period.

RESULTS

On October 27, 2008, Ms. Lawless entered into a contract with the ESC for the period January 1, 2009 through July 31, 2013. The Board agreed to pay Ms. Lawless compensation of \$60,180 per year plus pay 100% of the employee share of the School Employees Retirement System (SERS) contribution and pick-up on the pick-up¹⁴.

On November 25, 2008, the Board approved to increase Ms. Lawless's annual salary in the amount of \$5,000 to \$65,180.

On October 25, 2010, the Board approved to pay 100% of Ms. Lawless's health insurance premiums beginning in December 2010 with the first payment being made in November 2010.

On December 17, 2012, Ms. Lawless entered into a new five year contract with the ESC for the period August, 1, 2013 to July 31, 2018 that was effective immediately. The Board agreed to an initial annual salary of \$70,524 with a Cost of Living Adjustment (COLA) beginning January 2013 and each January thereafter. The contract included the following additional compensation:

- Payment of one hundred percent of the employee share of SERS contributions and pick-up on the pick-up;
- Indemnification from all legal costs arising from the performance of her duties as treasurer;
- Liability insurance for the treasurer's personal vehicle;
- Mileage at the IRS standard rate to the treasurer for using her private vehicle to perform the business of the Board.
- Use of the ESC's credit card up to \$10,000 with the Board being responsible for all payments;
- A cellular mobile telephone, antenna, cable, internet service and installation of the phone or any other technological device the treasurer needed in the performance of her duties.
- Allow the treasurer to convert up to ten days of previously accrued vacation for cash payment per year.

Base Pay

The ESC applied a 3.6% COLA to Ms. Lawless's salary beginning in January 2013. The ESC did not document how the rate was determined but Ms. Lawless told us she obtained the rate per a website; however, she did not provide the website or any other documentation to support the rate.

¹⁴ A fringe benefit included in compensation is often referred to as a "pick-up on pick-up" plan. Under a fringe benefit included in compensation plan, the contributions are paid by the employer and an additional contribution on the employee contribution is also paid. This plan provides for a higher salary for retirement purposes only

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We reviewed the social security website and confirmed they publish COLA rates for social security annually. Per the social security website, the COLA for January 2012 and January 2013 was 3.6% and 1.7% respectively. Ms. Lawless's attorney sent us an email and provided a copy of the treasurer's contract with some handwritten notes. Ms. Lawless's attorney stated the contract was a "copy of what was commonly referred to as the negotiating contract, which has some handwritten revisions. Of most relevance is the handwritten revision that reflects a 2012 COLA increase beginning January 2013. Ms. Lawless informs me that the Board of Education agreed and understood that the paychecks beginning in January 2013 would reflect a COLA increase based on the 2012 COLA. That precise language should have been included in the actual contract that was signed, but it was not." Since Ms. Lawless's signed contract did not include any language stating the COLA beginning January 2013 was to reflect the 2012 COLA we determined the COLA applied to Ms. Lawless's salary should have been 1.7% rather than 3.6%.

On July 27, 2015, the Board approved a 3% salary increase for all office staff.

Table 3 documents Ms. Lawless's authorized salary for the 2013 contract year:

Table 3: Treasurer's Authorized Base Salary for 2013 Contract Year	
Rate per Pay Period for salary during the period August 1, 2012 – December 16, 2012 – (\$65,180 / 24 pay periods)	\$2,715.83
Number of pay periods for the period August 1, 2012 – December 16, 2012	9
Total Authorized Salary for the period August 1, 2012 – December 16, 2012	24,442.50
Rate per Pay Period for salary during the period December 17, 2012 – (\$70,524 / 24 pay periods) and authorized salary for the period December 17, 2012 – December 31, 2012	2,938.50
Rate per Pay Period for salary during the period January 1, 2013 – July 31, 2013 – (\$70,524 x 1.7% = \$71,723 / 24 pay periods)	2,988.46
Number of pay periods for the period January 1, 2013 through July 31, 2013	14
Total authorized salary for the period January 1, 2013 through July 31, 2013	41,838.36
Total authorized salary for the 2013 contract year	\$69,219

Table 4 documents Ms. Lawless's authorized salary for the 2014, 2015, and 2016 contract years:

Table 4: Treasurer's Authorized Base Salary for 2014 through 2016 Contract Years	
Annual Salary for the period August 1, 2013 – July 31, 2018 (effective December 17, 2012) per contract approved by Board	\$70,524
COLA Increase effective January 2013	1.7%
Adjusted salary effective January 1, 2013	\$71,723
Annual salary increase beginning August 2013 per Board approval	5%
Authorized salary for 2014 contract year	\$75,309
Annual salary increase per Board approval	5%
Authorized salary for 2015 contract year	\$79,074
Annual salary increase per Board approval	5%
Adjusted salary for 2015 contract year	\$83,028
Board approved salary increase for all office staff	3%
Authorized salary for 2016 contract year	\$85,519

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

For the period of July 1, 2012 through April 29, 2016, as shown in **Table 5**, we determined as it relates only to her base salary, Ms. Lawless received compensation at a rate higher than what was authorized for three years and at a lesser rate than what was authorized for one year.

Table 5: Underpayment/Overpayments of Treasurer's Base Salary			
Contract Year	Authorized Base Salary	Actual Base Salary Paid	(Underpayment) / Overpayment
13	69,219	67,797	(1,422)
14	75,309	77,016	1,707
15	79,074	87,466	8,392
16 ¹⁵	64,139	76,179	12,040

The following information, including what is included in **Tables 6, 7, 8, and 9** illustrate how Ms. Lawless calculated her base salary actually paid for the contract years listed above. For the 2013 contract year, as previously noted, we determined Ms. Lawless calculated her COLA increase effective January 2013 using the incorrect rate, resulting in an overpayment. However, we also determined Ms. Lawless incorrectly adjusted her salary with her new contract effective December 17, 2012 by improperly calculating a lower daily rate than the contract dictated, which resulted in a net underpayment for the contract year.

Table 6: Treasurer's Salary Calculated by Ms. Lawless for the 2012-2013 Contract Year	
Daily Rate based on a 260 day contract for the period August 1, 2012 - December 16, 2012 (\$65,180 / 260 days)	\$250.692
Number of days worked for the period August 1, 2012 - December 16, 2012	98
Total Salary for the period August 1, 2012 – December 16, 2012	24,567
Annual Salary based on contract for the period August 1, 2013 - July 31, 2018 (effective December 17, 2012)	70,524
COLA increase applied beginning December 17, 2012	3.6%
Annual Salary calculated by Treasurer for the period December 17, 2012 – July 31, 2013	73,062.86
Daily Rate based on a 240 day contract for the period December 17, 2012 - July 31, 2013 (\$73,062.86 / 240 days)	304.43
Number of days remaining for a 240 day contract for the period December 17, 2012 - July 31, 2013	142
Total authorized salary for the period January 1, 2013 through July 31, 2013	43,229
Ms. Lawless ESC salary paid for the 2013 contract year	\$67,796

For the 2014 contract year, the ESC entered into a community school sponsorship contract with the Academy. Ms. Lawless was approved to be the treasurer for the Academy and was paid an annual salary of \$6,000 for these services. For the 2014 contract year, we determined Ms. Lawless improperly included her annual salary as the Academy treasurer with her annual salary at the ESC to calculate her annual ESC five percent increase. In addition, Ms. Lawless was overpaid as a result of receiving a 3.6% COLA in January 2013 that should have been 1.7%.

¹⁵ Only represents the period of August 1, 2015 through April 29, 2016. Authorized base salary for school year 2016 was \$85,519 and she was paid based on a salary of \$101,572. On May 11, 2016, the Board approved to adjust Ms. Lawless's compensation based on an internal review of her base salary performed by the ESC. The ESC determined her authorized base salary for school year 2016 school year was \$84,089 and adjusted her salary accordingly beginning with pay period ending May 13, 2016.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Table 7: Treasurer’s Salary Calculated by Ms. Lawless for the 2014 Contract Year	
ESC Salary for the period August 1, 2013 – July 31, 2018 (effective December 17, 2012) per contract approved by Board	\$70,524
COLA increase effective January 2013 applied by the ESC	3.6%
ESC Salary effective December 17, 2012 (ESC applied COLA effective immediately)	73,063
Academy salary for the 2014 contract year	6,000
Combined salary for the 2014 contract year from the ESC and Academy	79,063
Annual salary increase for the ESC per Board approval	5%
Total annual salary increase for ESC improperly inflated by Academy Salary	3,953
Ms. Lawless’s ESC salary paid for the 2014 contract year	77,016

During the 2015 contract year, Ms. Lawless continued to be the Academy treasurer at an annual rate of \$6,000. Prior to the new contract year, Ms. Lawless calculated her annual ESC 5% increase scheduled to be effective in August 2014 by improperly including her annual salary at the Academy along with her annual salary at the ESC in the base of the calculation. However, in performing the calculation, Ms. Lawless added in the Academy salary of \$6,000 a second time, further inflating the calculation for her 2014-2015 ESC salary. In addition her base amount was already inflated by the improper inclusion of the Academy salary in the 2014 calculation also. This resulted in Ms. Lawless’s salary being incorrectly calculated and in her being overpaid.

Table 8: Treasurer’s Salary Calculated by Ms. Lawless for the 2015 Contract Year	
ESC Salary (\$77,016) and the Academy salary (\$6,000) for the 2014 contract year	\$83,016
LCA salary for the 2015 contract year	6,000
Combined salaries from the ESC and LCA for the 2015 contract year prior to annual increase	89,016
Annual salary increase for the ESC per Board approval	5%
Total annual salary increase for the ESC	4,450
Ms. Lawless’s ESC salary paid for the 2015 contract year	\$87,466

During the 2016 contract year, Ms. Lawless continued to be the LCA treasurer at an annual rate of \$6,000 until she resigned effective December 1, 2015. Prior to the new contract year, Ms. Lawless improperly calculated her annual 5% increase scheduled for August 2015 and an additional 3% increase provided to all ESC office staff using the incorrect annual salary she calculated for the 2015 contract year plus her salary as the LCA treasurer. This resulted in Ms. Lawless’ salary being incorrectly calculated and in her being overpaid.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Table 9: Treasurer's Salary Calculated by Ms. Lawless for the 2016 Contract Year	
ESC Salary (\$87,466) and Academy salary (\$6,000) for the 2015 contract year	\$93,466
Academy salary for the 2016 contract year	6,000
Combined salaries from the ESC and Academy for the 2016 contract year prior to annual increase and additional increase provided to all office staff	99,466
Annual salary increase for the ESC per Board approval	5%
Total annual salary increase for the ESC improperly inflated by the Academy Salary	4,973
Salary for the ESC for the 2016 contract year (\$93,466) plus annual increase (\$4,973) plus salary as Academy treasurer for the 2016 contract year (\$6,000) prior to increase provided to all staff	104,439
Salary increase approved for all office staff at the ESC	3%
Total salary increase received for being an office staff employee	3,133
Ms. Lawless's ESC salary for the for the 2016 contract year (\$93,466 + 4,973 + 3,133)	\$101,572
Salary paid to Ms. Lawless as of April 29, 2016	\$76,179

On May 11, 2016, the Board approved to adjust Ms. Lawless's compensation based on an internal review of her base salary performed by the ESC. The ESC determined her authorized base salary for contract year 2016 was \$84,089 and adjusted her salary accordingly beginning with pay period ending May 13, 2016.

Bonuses

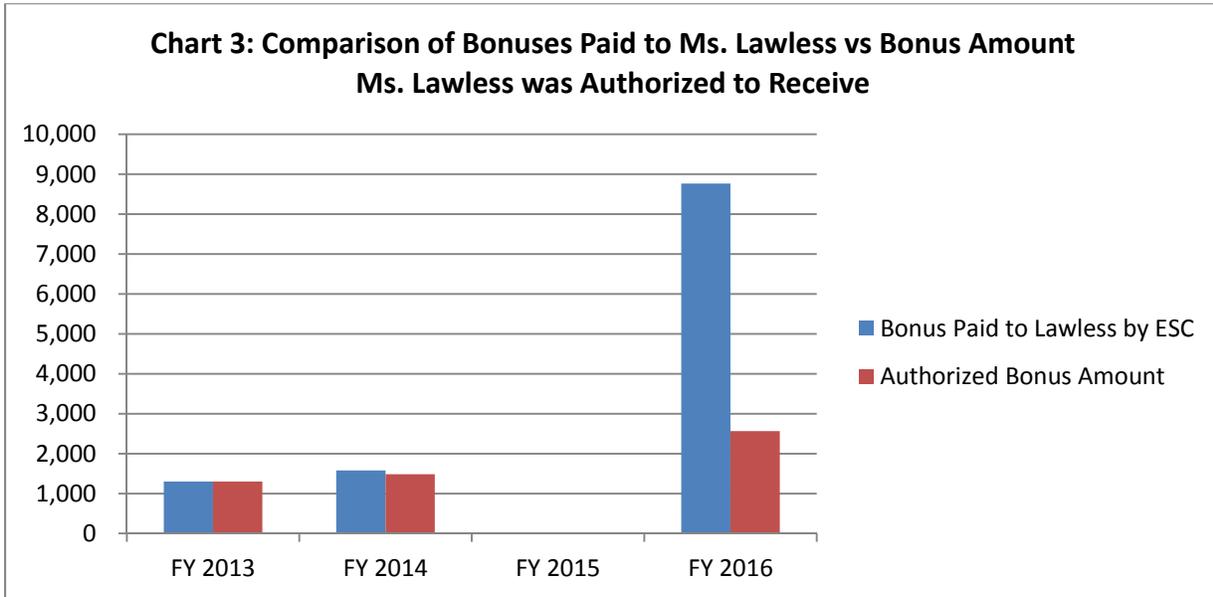
On November 29, 2012, the ESC Board approved a 2% bonus for regular office employees, the Superintendent, and the Treasurer. Ms. Lawless's authorized ESC salary at the time of the approval was \$65,180 resulting in a bonus of \$1,303. Ms. Lawless was paid this bonus in her December 14, 2012 pay check.

On November 19, 2013, the ESC's Board approved a 2% bonus for regular office workers, the Superintendent and the Treasurer. Ms. Lawless's authorized ESC salary at the time of the approval was \$71,723 resulting in a bonus of \$1,435. However, on December 13, 2013, the ESC paid Ms. Lawless \$1,581. Ms. Lawless calculated the bonus using her ESC salary and her Academy salary which totaled \$79,063, resulting in an overpayment of \$146.

On December 1, 2015, the ESC's Board approved a 3% bonus to regular office employees. Ms. Lawless's authorized ESC salary at the time of the approval was \$85,519 resulting in a bonus of \$2,565. However, on December 15, 2015, the ESC paid Ms. Lawless \$8,767 for the bonus resulting in an overpayment of \$6,201. Ms. Lawless calculated the 3% bonus by taking her already inflated ESC salary of \$101,572 and again adding her Academy salary of \$6,000 which totaled \$107,572 to arrive at a bonus of \$3,227. Then Ms. Lawless added the bonus of \$3,227 to her ESC salary and Academy salary to reach a new total of \$110,799. Ms. Lawless then calculated an additional *unapproved* bonus of 5% totaling \$5,540.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Chart 3 shows the amount Ms. Lawless was paid for bonuses in fiscal year 2013, 2014, and 2016 compared to the amount she was authorized to receive.



Performance Incentives

On January 30, 2014, the Board approved to amend Ms. Lawless's contract to include a 5% increase each year for the next five years retroactive to August 2013 and allowed her to become eligible for a 5% performance incentive with the exact language as was in the superintendent's contract. The language in the superintendent's contract stated "the Board agrees to compensate the superintendent a yearly payment equal to five percent of the unencumbered balance in the general fund(s), the baseline will be the fiscal year 2010 balance, as a performance incentive to be paid in the second pay period in July of each year beginning in 2013 through regular payroll."

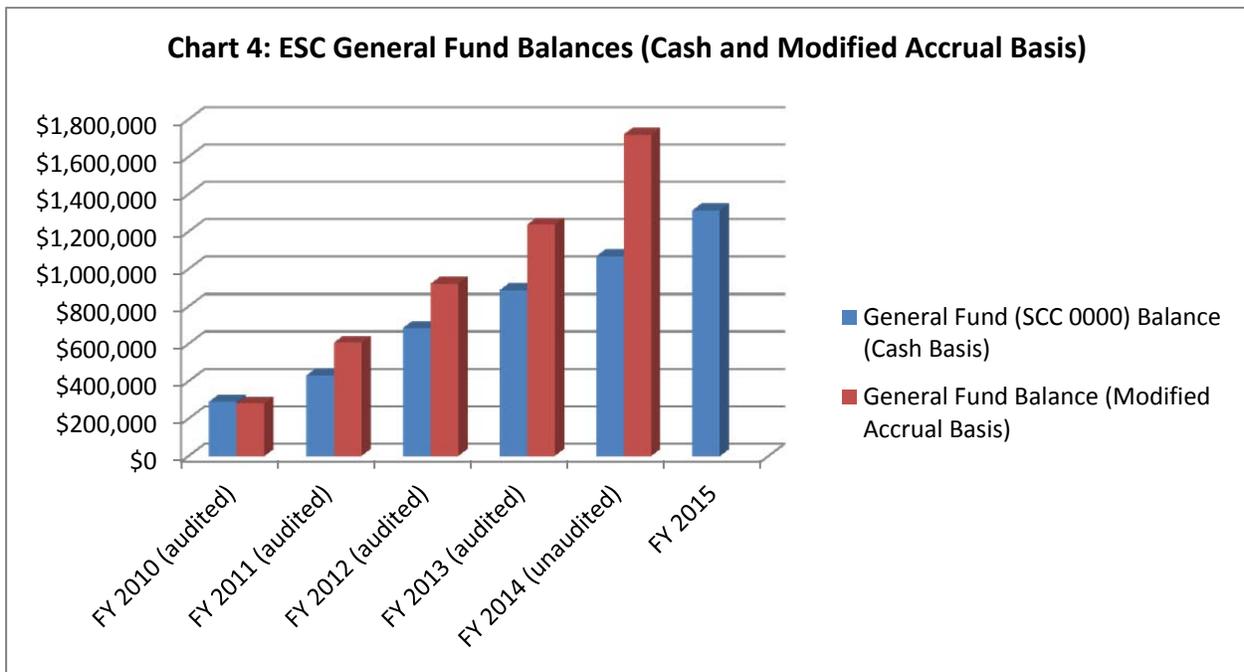
The Superintendent's contract neither clearly defined the term "unencumbered" nor defined which special cost centers (SCC) within the general fund were to be used to calculate the performance incentive. For the first performance incentive paid to the Superintendent, Dr. Payne issued a letter to Ms. Lawless and enclosed a report from their financial system that documented an "Unencumbered Fund Balance" for fiscal year 2010 as well as for fiscal year 2013 and highlighted the balances of the general fund's SCC 0000. Per the reports submitted by the Superintendent the balance for fiscal year 2010 totaled \$311,254 and for fiscal year 2013 it was \$887,261. In the letter issued to Ms. Lawless the Superintendent calculated his performance incentive as \$28,800 using these fund balances and requested it be paid by December 30, 2013. On February 28, 2014, Ms. Lawless was also paid a performance incentive totaling \$28,800. On August 15, 2014, Ms. Lawless was paid an additional \$18,994 and the payroll report documented the payment as '2013 Inc. difference'. Ms. Lawless told us she believed the performance incentive should be calculated using the general fund balance reported on the ESC's financial statements instead of the cash basis ledgers. Therefore, the performance incentive for fiscal year 2013 was recalculated by Ms. Lawless using modified accrual basis general fund balances reported on the fiscal year 2010 and fiscal year 2013 financial statements totaling \$281,867 and \$1,237,571 respectively.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Table 10 shows the performance incentives calculated by Ms. Lawless and paid to her related to fiscal year 2013 and 2014.

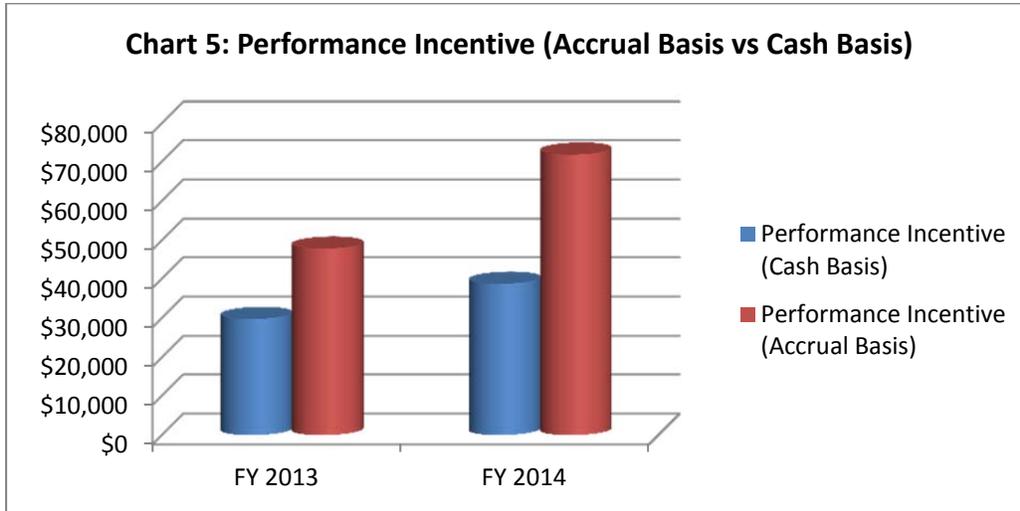
Table 10: Performance Incentives for Fiscal Year 2013 and 2014 Calculated by Ms. Lawless and Paid to Ms. Lawless	
Fiscal Year 2010 general fund balance per financial statements	\$281,687
Fiscal Year 2013 general fund balance per financial statements	1,237,571
Increase in general fund balance from Fiscal Year 2010 to 2013	955,884
Performance incentive	5%
Performance incentive paid for Fiscal Year 2013	47,794
Fiscal Year 2014 general fund balance per financial statements	1,719,294
Increase in general fund balance from Fiscal Year 2010 to 2014	1,437,607
Performance incentive	5%
Performance incentive paid for Fiscal Year 2014	71,880

Chart 4 shows the general fund balance reported on the ESC's financial statements (modified accrual basis) and the general fund balance reported for SCC 0000 on the ESC's financial summary report (cash basis) by fiscal year. Fiscal year 2014 balances are based on the financial statements prepared by an Independent Public Accountant and were not audited as of the date of this report. There is no modified accrual balance reported for fiscal year 2015 because the ESC had not prepared financial statements for fiscal year 2015 as of the date of this report. The ESC did not document the reason for using FY 2010 as the baseline in their calculation of the performance incentive but fiscal year 2010 was prior to significant changes that occurred in the ESC's operations. This was prior to the ESC contracting with member school districts to provide special education services, and other such services.



SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Chart 5 shows the performance incentive amount paid to Ms. Lawless using the general fund balances reported on the financial statements (modified accrual basis) and the performance incentive amount that would have been paid if the ESC would have used the general fund balance for SCC 0000 that Dr. Payne used in his original calculation of the performance incentive.



On September 30, 2015, Ms. Lawless was paid \$50,000 for the performance incentive related to fiscal year 2015. This payment was an advance for the fiscal year 2015 performance incentive until the financial statements for fiscal year 2015 were prepared and could be used to calculate the performance incentive. As of the date of this report, the remaining portion of this performance incentive payment is still pending.

Vacation Leave Conversion

Per Ms. Lawless's contract for the period August 1, 2013 through July 31, 2018, it states in part "The Board will allow the Treasurer to convert up to ten (10) days of previously accrued vacation for cash payment per year. The Board will approve the cashing in of increments of five (5) or more vacation days at the current daily rate of pay for the Treasurer, based on the number of work days in the Board approved Treasurer's contract divided into the annual salary for that school year of July 1 to June 30. Once the vacation time is converted to cash the days cashed in are to be removed from the accrued total days of vacation." Per the Board meeting minutes, on June 7, 2013, the Board approved to increase the treasurers paid vacation by 10 days for the next three years and handwritten on the minutes was '20 days total'. Ms. Lawless told us this was to increase the number of previously accrued vacation days from 10 to 20 that she could convert to cash.

During the 2014 contract year, Ms. Lawless converted 10 days of accrued vacation leave on September 30, 2013, five days on November 29, 2013, and five days on December 30, 2013 totaling \$6,588. Ms. Lawless's authorized daily rate during this period was \$313.79 and therefore she should have been paid only \$6,275, resulting in an overpayment of \$313. We reviewed the ESC's staff attendance report and determined the five days converted in both November 2013 and December 2013 *were not* removed from Ms. Lawless's vacation leave balance. However, in June 2016, the ESC's Interim Treasurer provided us with a report showing five days of vacation leave was removed from Ms. Lawless's balance on November 29, 2013 and another five days was removed on December 25, 2013. In addition, the Interim Treasurer provided us with an 'Audit Report' from their system that reported changes made to the employee data of Ms. Lawless. The 'Audit Report' reported that there were four entries made to Ms. Lawless's vacation leave balance on December 8, 2015 from 1:16 pm to 1:44 pm. During this time, representatives of PIAT were at the ESC issuing a subpoena to Ms. Lawless and waiting for records to be provided. The first entry reduced Ms. Lawless's leave balance by 10 days. The second entry increased her leave balance by 10 days. The third entry reduced her leave balance by five days and the fourth entry reduced her balance by another five days.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

All four entries were made under the username of the payroll clerk. The payroll clerk told us she could not remember if she posted any entries for Ms. Lawless's leave balance that day. The payroll clerk told us Ms. Lawless was at the payroll clerk's desk during parts of the day on December 8, 2015 but did not know if she posted any entries related to her vacation leave balance. Ms. Lawless told us she did not post any adjustments to her vacation leave balance while PIAT representatives were waiting for records related to the subpoena.

During the 2015 contract year, Ms. Lawless converted 20 days of accrued vacation leave on January 15, 2015 totaling \$7,789. Ms. Lawless's authorized daily rate during this period was \$329.48 and therefore should have been paid only \$6,590, resulting in an overpayment of \$1,199. On January 30, 2015, Ms. Lawless converted an additional 20 days of accrued vacation leave. During an interview, Ms. Lawless told us she requested to convert 20 days of vacation leave in December 2014; however, the ESC did not process the leave conversion until the first pay period in 2015. In addition, Ms. Lawless told us the 20 days of unused vacation leave she was allowed to convert to cash was based on a calendar year. However, the contract is written based on a school year of July 1 to June 30. Therefore, we determined the additional 20 days of accrued vacation leave she converted totaling \$7,789 on January 30, 2015 was not allowable per her contract.

Total Overall Compensation Received by Ms. Lawless

For the period of July 1, 2012 through April 29, 2016, we reviewed ESC's records and determined Ms. Lawless's authorized total compensation should have been as shown in **Table 11**.

Table 11: Total Compensation Authorized to be Paid to Ms. Lawless					
Contract Year (CY)	Base Salary	Bonus¹⁶	Performance Incentive	Leave Conversion	Total Compensation
2013	\$69,219	\$1,303	\$ 0	\$ 0	\$70,522
2014	75,309	1,435	47,794	6,275	130,813
2015	79,074	0	71,880	6,590	157,544
2016 ¹⁷	64,139	2,565	0	0	66,704
Totals	\$287,741	\$5,303	\$119,674	\$12,865	\$425,583

For the period of July 1, 2012 through April 29, 2016, we reviewed the ESC's payroll records and determined Ms. Lawless's total compensation paid by the ESC was as shown in **Table 12**.

Table 12: Total Compensation Paid to Ms. Lawless					
Contract Year (CY)	Base Salary	Bonus¹⁸	Performance Incentive	Leave Conversion	Total Compensation
2013	\$67,797	\$1,303	\$ 0	\$ 0	\$69,100
2014	77,016	1,581	47,794	6,588	132,979
2015	87,466	0	71,880	15,578	174,924
2016 ¹⁹	76,179	8,767	50,000	0	134,946
Totals	\$308,458	\$11,651	\$169,674	\$22,166	\$511,949

¹⁶ The ESC approved a 2% bonus on 11/29/12 and 11/19/13 and a 3% bonus on 12/1/15.

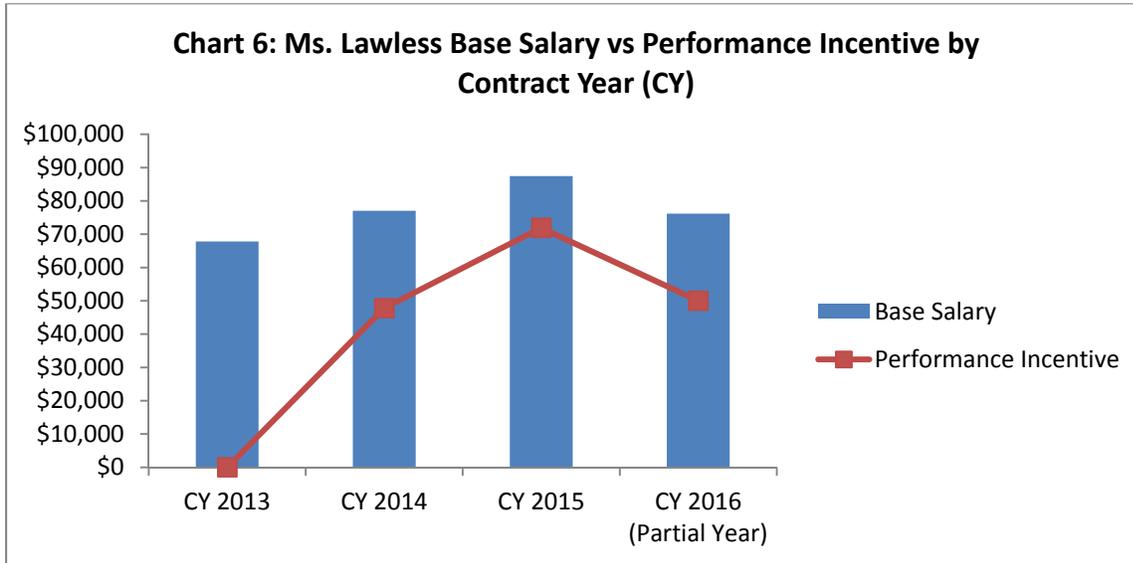
¹⁷ Only represents the period of August 1, 2015 through April 29, 2016.

¹⁸ The ESC approved a 2% bonus on 11/29/12 and 11/19/13 and a 3% bonus on 12/1/15.

¹⁹ Only represents the period of August 1, 2015 through April 29, 2016.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Chart 6 shows the amounts paid to Ms. Lawless for her base salary and performance incentives and a comparison of the amount paid for performance incentives in relation to her base salary.



FINDING FOR RECOVERY

Annual Salary

During the period August 1, 2013 through April 29, 2016, we determined Ms. Lawless received compensation at an unauthorized rate which resulted in an overpayment of \$22,139.

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 \$22,139 against Ms. Lawless and her bonding company, Travelers Casualty and Surety Company of America, jointly and severally, and in favor of the ESC's general fund.

Bonus Calculated Incorrectly

We determined Ms. Lawless improperly calculated her payout for the 2% bonus in December 2013 and the 3% bonus in December 2015 which resulted in an overpayment of \$6,347.

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 \$6,347 against Ms. Lawless and her bonding company, Travelers Casualty and Surety Company of America, jointly and severally, and in favor of the ESC's general fund.

Vacation Leave Conversion

We determined Ms. Lawless converted 40 days of unused vacation leave during school year 2015, however, her contract only allowed her the authority to convert 20 days of unused vacation leave per school year resulting in her being paid \$7,789 that she was not authorized to receive.

In addition, we determined Ms. Lawless converted 20 days of unused vacation leave to cash during school year 2013 and an additional 20 days during school year 2015 at the incorrect rate which resulted in an overpayment of \$1,512.

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 \$9,301 against Ms. Lawless and her bonding company, Travelers Casualty and Surety Company of America, jointly and severally, and in favor of the ESC's general fund.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ABUSE OF PUBLIC FUNDS

Quality Standards for Inspection and Evaluation, dated January 2012, 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.”

On January 30, 2014, the Board approved an amendment to Ms. Lawless’s contract to include a 5% increase each year for the next five years retroactive to August 2013. The Board also allowed her to become eligible for a 5% performance incentive with the exact language as was in the Superintendent’s contract. The language in the Superintendent’s contract stated in part the Board agreed to compensate the Superintendent a yearly payment equal to five percent of the unencumbered balance in the general fund(s), the baseline will be the fiscal year 2010 balance, as a performance incentive to be paid in the second pay period in July of each year beginning in 2013 through regular payroll.

The language in the Superintendent’s contract did not clearly define the word “unencumbered” nor did it clearly define which general fund balance(s) were to be used in the calculation of the performance incentive. Ultimately, the Treasurer determined to calculate the performance incentives using the general fund balance reported on the ESC’s financial statements which are presented on a modified accrual basis. The employment contract that included the performance incentive entered into by the Superintendent was approved by the Board on December 17, 2012. The ESC’s general fund balance reported on the fiscal year 2012 financial statements was \$921,147 compared to the general fund balance reported on the fiscal year 2010 financial statements of \$281,687. So by using fiscal year 2010 as the baseline year there was already an increase of \$639,460 built into this incentive calculation. The Board should have recognized the performance could be in excess of \$30,000.

We determined Ms. Lawless was paid performance incentives totaling \$169,674 over a three year period. These incentives were based solely on the increase of the ESC’s general fund balance and had no relationship to her actual performance as a treasurer. In fact, it could be perceived as creating an incentive for the Treasurer to not perform duties in the best interest of the ESC, such as returning unused funds for member school districts or not paying other liabilities in a timely fashion in an effort to keep a larger general fund balance intact, and thus supporting a higher performance incentive to be paid. Ms. Lawless’s salary paid for the 2013 contract year was \$67,797. Ms. Lawless was paid a performance incentive related to the 2013 contract year totaling \$47,794. This means she was paid a performance incentive that equaled 70% of her base salary in 2013. Ms. Lawless’s salary paid for the 2014 contract year was \$77,016. Ms. Lawless was paid a performance incentive related to the 2014 contract year totaling \$71,880. This means she was paid a performance incentive that equaled 93% of her base salary in 2014.

We determined Dr. Payne was paid performance incentives totaling \$87,794 related to fiscal year 2013 and 2014. Dr. Payne requested the performance incentive language to be removed from his contract and it was approved by the Board on February 3, 2015. (See results for Objective 3 for more detail related to Dr. Payne’s performance incentives.)

The failure to clearly document in the employment contract which general fund balance(s) were to be used in the calculation allowed Ms. Lawless to maximize the amount she was compensated for the performance incentive. In addition, basing a performance incentive solely on the fund balance of the general fund could incentivize employees to make decisions and influence the activity in ways that are not in the best interest of the ESC. For example, this could create incentive to hold payments at year end or take positions that lead to fraudulent financial reporting.

We recommend the Board review Ms. Lawless’s contract and determine if a performance incentive is appropriate and accomplishes the goals and mission of the ESC. Furthermore, if the Board determines a performance incentive is appropriate we recommend the Board review Ms. Lawless’s contract language regarding the performance incentive and amend the language to clearly define how the performance incentive is to be calculated.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

NONCOMPLIANCE CITATION

Minutes

The ESC's governing board by-laws state in part, "the Treasurer shall keep reasonably comprehensive minutes of all its meetings showing the time and place, the members present, the subjects considered, a summary of the deliberations sufficient enough for the public to understand the basis for the Board's actions, the actions taken, the vote of each member on roll-call votes, and any other information required to be shown in the minutes by law, which shall be available to the public. The minutes of Board meetings shall be considered at the next succeeding meeting where they shall be read (unless waived by law), corrected, and approved. The approved minutes shall be signed by the Treasurer and the President. The approved minutes shall be filed in the Treasurer's office in a prescribed minute book as a permanent record of official Board proceedings."

We obtained the ESC's minute book on December 8, 2015 via a subpoena. Upon review of the official board meeting minutes we determined the ESC did not have minutes for the regular meeting held on July 31, 2014. After being notified by the AOS, the ESC located the minutes in Ms. Lawless's office; however, they were not signed by the Treasurer or the Board President. In addition, we identified minutes for 12 meetings during the period of January 2015 through October 2015 that were not signed by the Board President and three of those were not signed by the Treasurer.

We identified a motion recorded in the minutes for the regular meeting held on June 7, 2013 stating the board made a motion to approve increasing the Treasurer's paid vacation by 10 days for the next three years and "20 days total" was handwritten next to the recorded motion. Based on the motion recorded in the meeting minutes we were unable to determine the purpose of the motion. Ms. Lawless told us this motion was to increase the number of unused vacation days she was allowed to convert for cash payment from 10 days to 20 days.

A failure to review and approve the Board's meeting minutes could result in the minutes being incomplete and not properly recorded. A failure to clearly define the subject considered could result in actions approved by the board to be unclear and misinterpreted. We recommend that the Board President and Treasurer review all minutes prepared to ensure the minutes are complete and have correctly recorded the official actions taken by the Board.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Objective No. 3 - Examine payments to Dr. Payne for compensation and benefits to determine whether he was paid for those items in accordance with approved contracts, amendments, addendums and Board resolutions.

PROCEDURES

We obtained Dr. Payne's contracts for the Period to determine his annual salary.

We reviewed the ESC's board meeting minutes for the Period and identified any amendments to Dr. Payne's contracts.

We examined the ESC's payroll records supporting the total compensation paid to Dr. Payne for the Period.

RESULTS

On October 27, 2008, Dr. Payne entered into a contract with the ESC for the period January 1, 2009 through July 31, 2013. The Board agreed to pay Dr. Payne compensation of \$92,500 per year plus pay 100% of the employee share of the School Employees Retirement System (SERS) contribution and pick-up on the pick-up.

On December 17, 2012, Dr. Payne entered into a five year contract with the ESC for the period August, 1, 2013 to July 31, 2018. The Board agreed to an initial annual salary of \$99,500, with an annual five percent increase beginning August 1, 2013. The annual increase was in addition to any amounts paid to other staff members through bonuses or base increases throughout the term of the contract. The contract included the following additional compensation:

- Payment of one hundred percent of the employee share of SERS contributions and pick-up on the pick-up;
- A yearly performance incentive equal to five percent of the unencumbered balance in the general fund(s), using the fiscal year 2010 general fund balance(s) as the baseline to be paid in July of each year beginning in 2013;
- Payment of one hundred percent of health insurance benefits;
- Payment of the employee share of Medicare payroll tax;
- Contribution of \$300 per pay period to Dr. Payne's deferred compensation plan or other annuity chosen by him beginning on January 1, 2013;
- Indemnification from all legal costs arising from the performance of his duties as superintendent;
- Liability insurance for the superintendent's personal vehicle;
- Use of the ESC's credit card up to \$15,000 with the Board being responsible for all payments;
- A cellular mobile telephone, antenna, cable, internet service and installation of the phone or any other technological device the superintendent needed in the performance of his duties.

The contract entered into by Dr. Payne and the Board on December 17, 2012 went into effect immediately at the date of signing. Based on the two contracts in effect during the 2013 contract year, we determined that Dr. Payne's authorized salary was \$96,875.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Table 13 reports Dr. Payne’s authorized salary for the 2013 contract year:

Table 13: Superintendent’s Authorized Salary for 2013 Contract Year	
Rate per Pay Period for salary during the period August 1, 2012 – December 16, 2012 – (\$92,500 / 24 pay periods)	\$3,854.17
Number of pay periods for the period August 1, 2012 – December 16, 2012	9
Total Authorized Salary for the period August 1, 2012 – December 16, 2012	34,687.50
Rate per Pay Period for salary during the period December 17, 2012 – July 31, 2013 – (\$99,500 / 24 pay periods)	4,145.83
Number of pay periods for the period December 17, 2012 through July 31, 2013	15
Total authorized salary for the period December 17, 2012 through July 31, 2013	62,187.50
Total authorized salary for the 2013 contract year	\$96,875

The ESC incorrectly adjusted Dr. Payne’s salary to account for the new contract mid-year resulting in him being underpaid by \$3,140.

On July 27, 2015, the Board approved a 3% salary increase for all office staff.

Table 14 reports Dr. Payne’s authorized salary for the 2014, 2015, and 2016 contract years:

Table 14: Superintendent’s Authorized Salary for 2014 through 2016 Contract Years	
Annual Salary for the period August 1, 2013 – July 31, 2018 (effective December 17, 2012) per contract approved by Board	\$99,500
Annual salary increase beginning August 2013 per Board approval	5%
Authorized salary for 2014 contract year	\$104,475
Annual salary increase per Board approval	5%
Authorized salary for 2015 contract year	\$109,699
Annual salary increase per Board approval	5%
Adjusted salary for 2015 contract year	\$115,184
Board approved salary increase for all office staff	3%
Authorized salary for 2016 contract year	\$118,639

Bonuses

On November 29, 2012, the ESC Board approved a 2% bonus for regular office employees, the Superintendent, and the Treasurer. Dr. Payne’s authorized salary at the time of the approval was \$92,500 which resulted in a bonus of \$1,850.

On November 19, 2013, the ESC Board approved a 2% bonus for regular office workers, the Superintendent and Treasurer. Dr. Payne’s authorized salary at the time of the approval was \$104,475 which resulted in a bonus of \$2,089.

On December 1, 2015, the ESC Board approved a 3% bonus to regular office employees. Dr. Payne’s authorized salary at the time of the approval was \$118,639 which resulted in a bonus of \$3,559. On December 15, 2015, the ESC paid Dr. Payne \$9,669 for the bonus resulting in an overpayment totaling \$6,109. The overpayment of \$6,109 resulted from the ESC adding the 3% bonus of \$3,559 to his salary of \$118,639 totaling \$122,198 and then adding an additional unapproved 5% bonus to arrive at the \$6,109.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Performance Incentives

Dr. Payne was paid \$28,800 on December 30, 2013 and was paid an additional \$18,994 on August 15, 2014. This totaled \$47,794 for his performance incentive related to contract year 2013. As reported in objective 2 for Ms. Lawless, the additional \$18,994 was paid to Dr. Payne, the same as Ms. Lawless, because Ms. Lawless determined the performance incentives should be calculated using the general fund balance reported in the audited modified accrual financial statements rather than the unencumbered fund balances reported in the ESC's cash basis financial summary report at the end of the fiscal year.

On September 30, 2014, Dr. Payne was paid \$40,000 for the performance incentive related to fiscal year 2014. This payment was an advance for the fiscal year 2014 performance incentive because the financial statements were still being prepared and could not yet be used to calculate the final performance incentive using the modified accrual basis.

On January 26, 2015, the ESC received a public records request for copies of contracts for the Treasurer and Superintendent. On February 3, 2015, at Dr. Payne's request, the Board amended his contract to remove the language regarding the payment of yearly performance incentives equal to five percent of the unencumbered balance of the general fund. We confirmed through an interview with Dr. Payne that he provided copies of the contracts to the requestor on February 5, 2015; however, the copy of Dr. Payne's contract provided to the requestor did not include the performance incentive language. Dr. Payne stated he did not notify the requestor about the removal of the performance incentive language in his contract. Additionally, Dr. Payne stated he did not notify the requestor about the same performance incentive that was approved by the Board on January 30, 2014 for Ms. Lawless, which was not documented in her signed contract, as it was subsequent to the contract being signed.

Total Overall Compensation Received by Dr. Payne

For the Period, we reviewed the ESC's payroll records and determined Dr. Payne's total compensation paid by the ESC was as shown in **Table 15**.

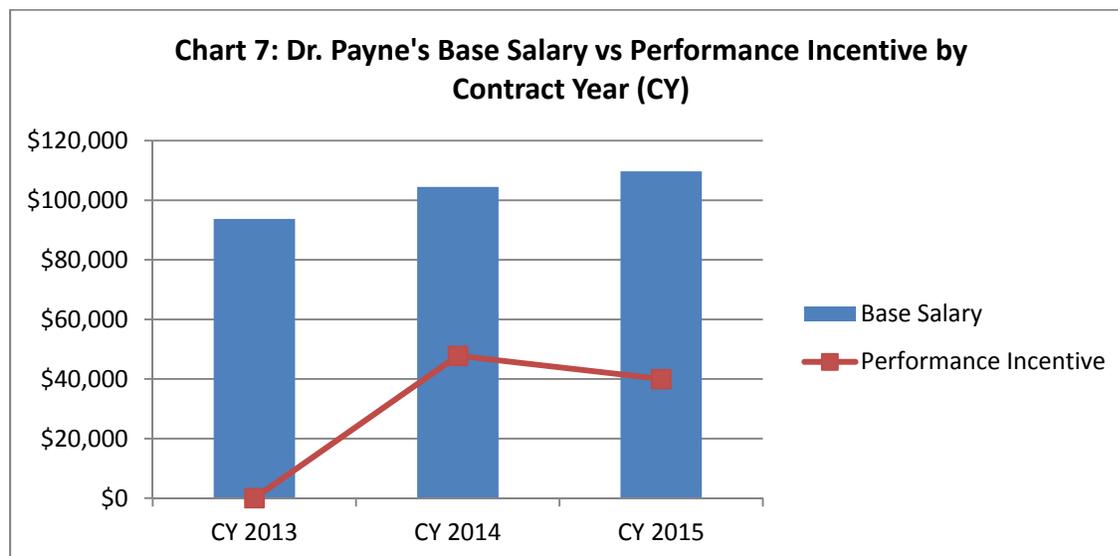
Table 15: Total Compensation Paid to Dr. Payne				
Contract Year	Base Salary	Bonus²⁰	Performance Incentive	Total Compensation
2013	\$93,735	\$1,850	\$ 0	\$95,585
2014	104,475	2,089	47,794	154,358
2015	109,699	0	40,000	149,699
2016 ²¹	44,489	9,669	0	54,158
Totals	\$352,398	\$13,608	\$87,794	\$453,800

²⁰ The ESC approved a 2% bonus on both November 29, 2012 and November 19, 2013 and a 3% bonus on December 1, 2015.

²¹ Only represents the period of August 1, 2015 through December 15, 2015.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Chart 7 shows the amounts paid to Dr. Payne for his base salary and performance incentives and a comparison of the amount paid for performance incentives in relation to his base salary.



FINDING FOR RECOVERY REPAYED UNDER AUDIT

On December 1, 2015, the Board approved all regular office employees to receive a one-time 3% increase. The ESC incorrectly calculated Dr. Payne's increase resulting in Dr. Payne being overpaid \$6,109.

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 \$6,109 against Dr. Payne in favor of the ESC's general fund.

On June 6, 2016, Dr. Payne authorized the ESC to deduct \$3,054 from his gross salary on June 15, 2016 and deduct \$3,055 from his gross salary on June 30, 2016. The ESC deducted the amounts as authorized by Dr. Payne in June 2016 thereby making full repayment of the previous overpayment.

NONCOMPLIANCE CITATION

Ohio Rev. Code § 149.43 (B) (1) states upon request and subject to division (B)(8) of this section, all public records responsive to the request shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours. Subject to division (B)(8) of this section, upon request, a public office or person responsible for public records shall make copies of the requested public record available at cost and within a reasonable period of time. If a public record contains information that is exempt from the duty to permit public inspection or to copy the public record, the public office or the person responsible for the public record shall make available all of the information within the public record that is not exempt. When making that public record available for public inspection or copying that public record, the public office or the person responsible for the public record shall notify the requester of any redaction or make the redaction plainly visible. A redaction shall be deemed a denial of a request to inspect or copy the redacted information, except if federal or state law authorizes or requires a public office to make the redaction.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Under the Public Records Act, a public office has the legal obligation to provide copies of public records in existence at the time of a request for those records, subject to any legal exceptions that allow the public office to withhold or redact the records. See *State ex rel. Kerner v. State Teachers Retirement Bd.*, 82 Ohio St.3d 272, 274-75, 659 N.E.2d 256, 258 (1988) (mandamus action available to order access to public office's existing records).

On January 26, 2015, the ESC received a public records request for copies of contracts for the Treasurer and Superintendent.

On February 3, 2015, at Dr. Payne's request, the Board amended his contract to remove the language regarding the payment of yearly performance incentives equal to five percent of the unencumbered balance of the general fund.

We confirmed through an interview with Dr. Payne that he provided copies of the contracts to the requestor on February 5, 2015; however, the copy of Dr. Payne's contract provided to the requestor did not include the performance incentive language. Dr. Payne stated he did not notify the requestor about the removal of the performance incentive language in his contract. Additionally, Dr. Payne stated he did not notify the requestor about the same performance incentive that was approved on January 30, 2014 by the Board for Ms. Lawless which was not documented in her signed contract, as the approval was subsequent to the contract being signed.

The records provided by Dr. Payne did not include the performance incentive language that was valid at the time the records were requested. Therefore, Dr. Payne did not provide the requestor with the actual public records they were requesting. For future public records requests received, we recommend the ESC provide the public records that were in existence at the time of the request to ensure the requestor is receiving an accurate representation of the request.

MANAGEMENT COMMENT

During review of Dr. Payne's and Ms. Lawless's employment contracts and interviews with them we identified the following issues:

- Dr. Payne's contracts stated the Board agreed to pay 100% share of the SERS contribution and pick-up on the pick-up, however, during the audit period we determined Dr. Payne was contributing to the State Teachers Retirement System.
- Dr. Payne's contract for the period of August 1, 2013 through July 31, 2018 did not clearly define which general fund balance(s) were to be used in the calculation of the performance incentive nor did it define the term "unencumbered".
- Ms. Lawless's contract for the period of August 1, 2013 through July 31, 2018 did not document how the COLA would be calculated and the contract allowed her to receive a COLA two weeks after the contract was effective.
- During a board meeting, the board approved to amend Ms. Lawless's contract for the period of August 1, 2013 through July 31, 2018 to include a performance incentive with the same language as the superintendent's contract. However, the actual contract was never amended.
- Dr. Payne's and Ms. Lawless's employment contracts were not reviewed by the ESC's legal counsel prior to being approved by the Board.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- The Board approved a motion to increase the number of paid vacation days by 10 days for Ms. Lawless. It was not clear from reading the board meeting minutes the Board's intention in this motion. Ms. Lawless told us this was to increase the number of unused vacation days she was allowed to convert to a cash payment in a year. The ESC did not amend Ms. Lawless actual employment contract after the motion was approved by the Board.

The failure to clearly document in the employment contract which general fund balance(s) were to be used in the calculation of the performance incentives paid to Dr. Payne and Ms. Lawless allowed Ms. Lawless to maximize the amount they were compensated for the performance incentive using her interpretation of the contract language. The failure to clearly document how the COLA would be calculated in Ms. Lawless's contract allowed her to determine the rate used for the COLA. A failure to amend the employees' actual contract could result contracts being open for interpretation and not in the best interest of the ESC. The failure of the ESC to not have the employment contracts of Dr. Payne and Ms. Lawless reviewed by legal counsel prior to being approved by the board led to the contracts being poorly written and open to interpretation by Dr. Payne and Ms. Lawless.

We recommend the board consult and have all employment contracts reviewed by their legal counsel prior to them being approved by the board to ensure they have been properly vetted and are in the best interest of the ESC and the employee.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Objective No. 4 - Examine non-payroll disbursements issued to Dr. Payne and Ms. Lawless to determine whether the disbursements were properly supported, for a purpose related to ESC operations, and made in accordance with their contracts and the ESC's policies.

PROCEDURES

We identified all non-payroll disbursements issued to Dr. Payne and Ms. Lawless for the period of July 1, 2012 through December 8, 2015.

We examined available documentation supporting the disbursements issued to Dr. Payne and Ms. Lawless for the Period.

RESULTS

During the Period, we identified 40 non-payroll disbursements totaling \$23,910 issued to Dr. Payne by the ESC for mileage reimbursement, snacks and meals for meetings, and other travel related expenses.

We identified a disbursement issued to Dr. Payne in March 2013 that included a travel expense report submitted by Dr. Payne for mileage reimbursement totaling \$555 related to eight trips taken in May 2012; however, Dr. Payne had reported the eight trips on another travel expense report he submitted and was paid for in February 2013. This resulted in a duplicate expense reimbursement of \$555.

All travel expense reports submitted by Dr. Payne were signed by Dr. Payne but were not reviewed by anyone at the ESC. Three travel expense reports submitted by Dr. Payne were signed as approved by Dr. Payne.

During the Period we identified ten non-payroll disbursements totaling \$6,710 issued to Ms. Lawless by the ESC for mileage reimbursements, meal reimbursements, snacks for meetings, supplies, and fees. On two travel expense reports, Ms. Lawless submitted mileage reimbursement from her personal residence to the ESC for working in the evening or on weekends for 49 days. Ms. Lawless was reimbursed \$552 for travel from her personal residence to the ESC. Ms. Lawless did not obtain approval in advance from the Superintendent for this travel.

FINDING FOR RECOVERY REPAID UNDER AUDIT

Travel Submitted by Dr. Payne

Dr. Payne was paid twice for mileage reimbursement related to eight trips taken in May 2012 resulting in a duplicate expense reimbursement of \$555.

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 \$555 against Dr. Payne in favor of the ESC.

On December 1, 2016, Dr. Payne issued a cashier's checking totaling \$555 to the ESC for the duplicate mileage reimbursement.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Travel Submitted by Ms. Lawless

Ms. Lawless's contract in part states, "the Board agrees to pay mileage at the IRS standard rate to the Treasurer for using her private vehicle to perform the business of the Board."

The ESC's travel payment and reimbursement policy states in part, "Employees 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. All travel must be approved in advance by the Superintendent."

Ms. Lawless reported mileage for 49 days for traveling to the ESC's office in the evening or on weekends from July 2014 to January 2015 and was reimbursed \$552 by the ESC for this travel. Ms. Lawless did not request reimbursement for travel from home to the ESC any other time during the Period and did not get this travel approved in advance by the Superintendent.

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 \$552 against Ms. Lawless and her bonding company, Travelers Casualty and Surety Company of America, jointly and severally, and in favor of the ESC's general fund.

MANAGEMENT COMMENT

Travel Expense Reports

While reviewing travel expense reports submitted by Dr. Payne and Ms. Lawless for the Period we identified the following issues:

- Expense reports were not required to be submitted for a consistent period of time (ex. every pay period, every month). Expense reports submitted covered periods of one to six months.
- Expense reports were not completed and submitted in a timely manner for reimbursement. The reports submitted ranged from two to 11 months after the travel had occurred.
- Expense reports did not always clearly document the purpose of travel.
- Dr. Payne was reimbursed for 19 meals he purchased totaling \$511 and the meals were for more than one person and he did not document who the other people were that received the meal. Ms. Lawless was reimbursed for one meal totaling \$20 that included another person and she did not document who received the meal.
- Expense reports were not approved by the ESC.
- Three travel expense reports prepared by Dr. Payne were signed as approved by Dr. Payne.

The ESC had a travel policy in effect during the Period; however, it was vague and did not address the issues reported above.

Failure to complete travel expense reports in a timely manner resulted in travel being submitted twice for reimbursement by the Superintendent. Failure to document the purpose of the travel, failure to require approval before reimbursement, and failure to require submission of detailed itemized receipts could result in the ESC reimbursing employees for expenses that are not valid or for purposes not related to the operations of the ESC.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We recommend the ESC implement a travel policy requiring employees to document the purpose of their travel, document the time of day the travel occurred, define a clear time period in which employees are required to submit travel expense reports for reimbursement, e.g. every pay period, and require all travel expenses submitted to be reviewed and approved prior to the ESC reimbursing the employee. We further recommend the board president or a board member review and approve travel expense reports submitted by the Superintendent and the Superintendent review and approve travel expense reports submitted by the Treasurer.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Objective No. 5 - Examine credit card transactions made by Dr. Payne and Ms. Lawless to determine if they were approved, for a purpose related to ESC operations, and made in accordance with their contracts and the ESC's policies.

PROCEDURES

We identified all credit card transactions made by Dr. Payne and Ms. Lawless during the period of July 1, 2012 through December 8, 2015.

We examined available documentation supporting the credit card transactions made by Dr. Payne and Ms. Lawless for the Period.

RESULTS

During the Period we identified 123 credit card transactions totaling \$31,797 made by Dr. Payne and 204 transactions totaling \$36,158 made by Ms. Lawless.

The ESC paid for a \$15 pet charge at a hotel for Dr. Payne on August 15, 2014. Dr. Payne told us he paid the hotel in cash for the pet fee but the charge was not recorded as paid. Dr. Payne told us he attempted to contact the hotel to have the charge removed but it remained on the invoice. After we reported this issue to Dr. Payne he reimbursed the ESC for the purchase on June 2, 2016.

During the Period, we identified four transactions totaling \$154 made by Ms. Lawless to purchase candles and fragrance products which we considered not to be for a proper public purpose or related to the operations of the ESC.

FINDING FOR RECOVERY

Per the ESC's Use of Credit Cards policy it states in part that credit cards shall only be used in connection with Board-approved or school-related activities and that only those types of expenditures that are for the benefit of the ESC and serve a valid and proper public purpose shall be paid for by credit card. During the Period, we identified four transactions totaling \$154 made by Ms. Lawless which we considered not to be a proper public purpose or related to the operations of the ESC.

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 \$154 against Ms. Lawless and her bonding company, Travelers Casualty and Surety Company of America, jointly and severally, and in favor of the ESC's General Fund.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

MANAGEMENT COMMENTS

Credit Card Policy

Per the ESC's Use of Credit Cards policy it states in part that credit cards shall only be used in connection with Board-approved or school-related activities and that only those types of expenditures that are for the benefit of the ESC and serve a valid and proper public purpose shall be paid for by credit card. The Superintendent shall specify those employees authorized to use credit cards, the type of expenditures which can be paid by credit card, and their proper supervision and use.

During the Period, we identified the following conditions related to the ESC's credit card policy:

- The types of expenditures allowable to be paid by credit card and their proper supervision and use were not identified by the Superintendent.
- The ESC did not identify the type of expenditures that are considered a proper public purpose.
- The ESC did not have a receipt or invoice for 47 transactions made by Ms. Lawless. We were able to perform alternative procedures to gain assurance as to the appropriateness to all but one of the transactions. We proposed a finding for recovery against Ms. Lawless for a transaction to Yankee Candle because they do not provide products we would consider are related to the operations of the ESC.
- The ESC did not clearly document if the transactions made by Dr. Payne or Ms. Lawless were reviewed and approved.
- The ESC paid \$389 for finance charges and late fees related to purchases made by employees.

Failure to provide detailed guidance regarding the supporting documentation that is needed for each transaction, clear definitions of allowable and unallowable expenditures, and failure to provide a structure of review of all charges prior to making payment on the credit card can result in unauthorized transactions being made by the ESC.

We recommend the ESC adopt a credit card policy that defines allowable and unallowable expenditures and requires documentation to support the nature and purpose of charges. Additionally, the ESC should implement specific procedures and internal controls to review credit card usage and ensure charges are for a proper public purpose and comply with the ESC's policy prior to making payment. We further recommend credit card transactions made by the Treasurer be reviewed by the Superintendent and credit card transactions made by the Superintendent be reviewed by the board president or a board member.

Travel Policy

The ESC's Travel Payment and Reimbursement policy in part states employees are expected to exercise the same care incurring travel expenditures that a prudent person would exercise if traveling on personal business and expending personal funds.

During the audit period, we noted the following conditions related to the ESC's travel policy and travel expenditures:

- The ESC's policy does not define when meals can be purchased for employees who are traveling for official business. We identified nine transactions totaling \$128 made by Dr. Payne and one transaction totaling \$8 made by Ms. Lawless to purchase meals while traveling to attend meetings that did not require overnight lodging.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- The ESC's policy does not clearly define the amount that can be spent for purchasing meals while traveling for official business. We identified one instance where the ESC paid for six people to attend a conference in Columbus and expenditures at Mitchell's Steakhouse totaled \$423 and total meal expenditures for the day totaled \$581. The following year the ESC paid for six people to attend the same conference and expenditures at Mitchell's Steakhouse totaled \$365. We identified two meals purchased by Dr. Payne during one week for himself that totaled \$70 and \$64 at the Ocean Club restaurant. Also, we identified a purchase by Dr. Payne at Smith and Wollensky restaurant that totaled \$77, two purchases at J. Alexander's for \$75 and \$71, and a purchase at Texas Roadhouse for \$72. For the Texas Roadhouse purchase, there was no detailed receipt and we were unable to determine if the meal was for more than one person.
- We identified 45 transactions totaling \$2,739 made by Dr. Payne or Ms. Lawless to purchase meals at restaurants while traveling and 33 of these transactions totaling \$2,419 did not have a detailed receipt submitted, but rather just included a summary receipt from the restaurant. For the 12 detailed receipts submitted we determined four of them were to purchase a meal for more than one person and neither Dr. Payne nor Ms. Lawless documented who received the meals.

Failure to clearly define when meals can be purchased and establishing ESC maximum travel rates could result in the ESC paying for expenditures that may be excessive and/or for personal preference or convenience. Failure to require employees to submit a detailed receipt for the purchase of meals and, when applicable, documentation of the business purpose for the expenditure could result in the ESC paying for expenditures not related to the operations of the ESC. Failure to require and review 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.

We recommend the ESC only process payment of travel related expenditures that have been expressly approved by the Board, superintendent or the superintendent's designee. All travel expenditures and purchases made by credit card should be supported by detailed receipts and documentation as to the purpose. We recommend the ESC implement procedures that include a detailed examination of expenditures, including determining whether the expenditures 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 United States General Services Administration.

Proper Public Purpose Policy

The ESC has a policy for amenities for participants at meetings and/or other occasions. The ESC's policy in part states "The Governing Board recognizes the value of providing meals, refreshments, and/or other amenities for staff, students, citizens, advisory groups who participate in meetings and staff development sessions, or on other occasions as deemed appropriate by the administration. The Board hereby affirms that these expenses do serve a valid and proper public purpose."

During the period, we identified two purchases totaling \$425 made by Dr. Payne at restaurants for retirement parties. In addition, we identified three purchases totaling \$203 made by Ms. Lawless to purchase flowers and food for a board member's funeral and the funeral of a board member's wife.

Failure to define what type of occasions are deemed appropriate could result in the ESC's administration purchasing items that could be considered not a proper public purpose.

We recommend any purchases to be made for "other occasions as deemed appropriate by the administration" as documented in the ESC's policy be approved by the board prior to the expense being made to ensure they are for a proper public purpose.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Objective No. 6 – Examine Ms. Lawless’s personal credit card statements to identify purchases made outside of Ironton, OH on days and times she was normally scheduled to be working at the ESC and compare against her leave usage records to determine if she had a valid reason to be excused from work.

PROCEDURES

We obtained monthly credit card statements for three personal credit cards issued to Ms. Lawless for the period of July 1, 2013 through December 8, 2015 and identified transactions that occurred in a location outside of Ironton, OH where the ESC is located.

We obtained the ESC’s Staff Attendance report for the period of July 1, 2013 through December 8, 2015 and identified all sick, personal, and vacation days taken by Ms. Lawless.

We obtained all leave request forms completed by Ms. Lawless for the period of July 1, 2013 through December 8, 2015 and compared to the ESC’s Staff Attendance report.

We identified days Ms. Lawless made personal purchases outside of Ironton, OH on work days and was not excused from work for leave and determined if there was any other valid reason for her not to be at work.

RESULTS

During the Period, we identified Ms. Lawless used and was paid for one full sick day and nine half sick days; she used and was paid for one full personal day and one half personal day; and she used and was paid for 7 full vacations days. We determined Ms. Lawless completed a leave request form for all of the leave she used, however, none of the forms were reviewed and approved by the Superintendent.

During the Period, we reviewed Ms. Lawless’s personal credit card statements and identified 43 days where there were purchases made outside of Ironton, OH on scheduled work days for the ESC. We determined on nine of these days Ms. Lawless requested and used vacation or sick leave and had a valid reason for not being at work. We determined on two of these days Ms. Lawless was traveling to attend conferences related to the ESC and therefore had a valid reason for not being at work. For 16 of the remaining 32 days, we were unable to determine if Ms. Lawless was at work for a portion of the day and therefore we were unable to determine if she should have used any leave for not being at work. We identified 16 days where Ms. Lawless had transactions that occurred outside of Ironton, OH on a scheduled work day and she did not use any type of leave to excuse herself from work. Based on our review, she did not have any other valid reason for not being at work and was paid by the ESC for the work day. Based on the geographic location of the purchases made, we determined Ms. Lawless could not have been at work on these days and should have requested and used leave.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Table 16 reports the geographic location where Ms. Lawless made purchases on her personal credit card for the 21 scheduled working days we reviewed as well as what her daily rate of pay at the ESC was for those dates:

Table 16: Personal Credit Card Transactions Made by Ms. Lawless Outside of Ironton, OH on Scheduled Working Days				
	Date of Transactions	Location of Transactions	Approximate drive time from Ironton²²	Daily Rate of Pay²³
1	August 29, 2013 – Thursday	Somerset and Bronson, KY	3 hours	\$320.09
2	August 30, 2013 – Friday	None ²⁴	n/a	320.09
3	September 18, 2013 – Wednesday	Seiverville, TN	5 hours	320.09
4	September 19, 2013 – Thursday	None ²⁵	n/a	320.09
5	September 20, 2013 – Friday	Seiverville, TN	5 hours	320.09
6	January 24, 2014 – Friday	Milford ²⁶ and Cincinnati, OH	2.5 hours	320.09
7	August 18, 2014 – Monday	Cincinnati, OH	2.5 hours	364.45
8	September 15, 2014 – Monday	St. Petersburg, FL	n/a	364.45
9	September 16, 2014 – Tuesday	St. Pete Beach and St. Petersburg, FL	n/a	364.45
10	September 17, 2014 – Wednesday	St. Pete Beach, FL	n/a	364.45
11	September 18, 2014 – Thursday	St. Pete Beach, FL	n/a	364.45
12	September 19, 2014 – Friday	St. Petersburg, FL	n/a	364.45
13	April 21, 2015 – Tuesday	Cincinnati, OH	2.5 hours	364.45
14	September 16, 2015 – Wednesday	Fort Chiswell, VA	n/a	364.45
15	September 17, 2015 – Thursday	Orangeburg, SC	n/a	364.45
16	September 18, 2015 – Friday	St. Pete Beach, FL	n/a	364.45

²² Per search performed on www.mapquest.com.

²³ Represents the actual rate Ms. Lawless was paid by the Center.

²⁴ There were no transactions on Friday, August 30, 2013, however, Ms. Lawless had transactions on Saturday, August, 2013 in Jamestown, KY which is approximately 3.5 hours from Ironton, OH.

²⁵ There were no transactions on Thursday, September 19, 2013, however, Ms. Lawless had transactions on Friday, September 20th, Saturday, September 21st, and Sunday, September 22nd in Seiverville, TN.

²⁶ Milford is located in the Greater Cincinnati area.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Somerset and Bronson, KY – August 29-30, 2013

Ms. Lawless requested and used two vacation days for Tuesday, August 27, 2013 and Wednesday, August 28, 2013. Ms. Lawless had transactions in Jamestown, KY on August 27th. Ms. Lawless did not have any transactions on Friday, August 30, 2013, however, there was a transaction in Somerset, KY and a transaction in Bronson, KY on Thursday, August 29th and two transactions in Jamestown, KY on Saturday, August 31st indicating that Ms. Lawless was in Kentucky on August 30th.

Seiverville, TN – September 18-20, 2013

Ms. Lawless had three transactions on Wednesday, September 18th and one transaction on Friday, September 20th. Also, Ms. Lawless had transactions on September 21st and 22nd. These transactions indicate Ms. Lawless was in Seiverville, TN from Wednesday, September 18th through Sunday, September 22nd.

Milford and Cincinnati, OH – January 24, 2014

On Thursday, January 23, 2014, Ms. Lawless had a transaction at a restaurant in Milford, OH. Ms. Lawless's daughter lived in Loveland, OH, located in the greater Cincinnati area, and approximately eight miles from Milford. On Friday, January 24, 2014, Ms. Lawless had three transactions in Cincinnati, OH including a transaction at a restaurant that is only open for lunch and dinner.

Cincinnati, OH – August 18, 2014

Ms. Lawless reported on a travel expense report that she traveled to the office on the evening of August 18, 2014. Ms. Lawless had four personal credit card transactions in Cincinnati, OH on August 18, 2014. Per Ms. Lawless employment contract it states "Treasurer agrees to perform faithfully the duties of Treasurer for the Lawrence County Educational Service Center in the hours of 8:30 am – 4:00 pm." Travel to and from Cincinnati is approximately five hours and since Ms. Lawless reported traveling to the office in the evening the transactions that occurred on her personal credit card would have had to have been during the day and during the time she should have been at the ESC.

St. Petersburg and St. Pete Beach, FL – September 15-19, 2014

Ms. Lawless had 12 transactions during the period of September 15th through September 19th. One of the transactions was to the Grand Plaza Hotel in St. Petersburg, FL. We obtained the hotel registration card, invoice, and an imprint of Teresa Lawless personal credit card from the hotel. The registration card was in the name of Kristin Lawless with an arrival of September 15th and departure for September 19th. Handwritten in the special request section of the registration card was 'Teresa' and the registration card was signed by Teresa Lawless. The invoice was issued to Kristin Lawless and there was an initial charge of \$125.44 posted to the account and the credit card used was not Teresa Lawless's credit card. However, this charge was refunded on September 15, 2014 and on September 19, 2014, Teresa Lawless personal credit card was charged \$501.76. The imprint of the credit card provided also included Teresa Lawless signature. We spoke to the General Manager of the hotel who told us when guests sign the registration card on arrival the guests provide the hotel with the credit card imprint and by doing so they accept and acknowledge the charges and this is only possible by being present as the credit card is imprinted. Therefore, based on this information we determined Teresa Lawless was not at work during the period of September 15 through September 19, 2014 and did not request or use any leave to be excused from work.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Cincinnati, OH – April 21, 2015

On Monday, April 20, 2015, Ms. Lawless had a transaction at a bridal shop in Cincinnati, OH. On Tuesday, April 21, 2015, Ms. Lawless had two transactions in Cincinnati, OH including a transaction at a restaurant that is only open for lunch and dinner.

Fort Chiswell, VA; Orangeburg, SC; St. Pete Beach, FL – September 16-18, 2015

On Wednesday, September 16th, Ms. Lawless had a transaction at a fueling station in Fort Chiswell, VA. On Thursday, September 17th, she had a transaction at a fueling station and a hotel in Orangeburg, SC. We issued a subpoena and obtained an invoice from the Grand Plaza Hotel in St. Pete Beach, FL. The invoice was addressed to Ms. Lawless and documents an arrival on Thursday, September 17th. Ms. Lawless made a purchase with the hotel on August 17, 2015 and it was later refunded on September 17th per the invoice. The hotel room was for two nights on Thursday, September 17th and Friday, September 18th. The room was paid by someone else in Ms. Lawless's party. The room was just held on Ms. Lawless's credit card.

Ms. Lawless had seven transactions in Florida from Saturday, September 19th through Thursday, September 24th. On Friday, September 25th, she had a transaction at a hotel in Colteawah, TN and a restaurant in Richmond, KY. Ms. Lawless requested and took five vacation days at the ESC for Monday, September 21st through Friday, September 25th.

For the period of July 1, 2013 through December 8, 2015, we recalculated Ms. Lawless's vacation leave balance to account for the 21 days we determined Ms. Lawless was not at work and she should have requested leave. Also, during our review of Ms. Lawless's vacation leave balance we determined the ESC reported she had a vacation leave balance of 72.766 days at the beginning of July 2013. However, per Ms. Lawless's employment contract for the period of August 1, 2013 through July 31, 2018, effective beginning December 17, 2012, it states her vacation leave can accumulate to a maximum of 60 days. Therefore, we recalculated Ms. Lawless's vacation leave balance and took into consideration she could not exceed a 60 day balance. **Table 17** reports our recalculation of Ms. Lawless' vacation balance.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Table 17: Summary of Ms. Lawless’s Vacation Leave Balance for the Period

Period	Vacation Leave Days Accrued	Vacation Leave Requested and Used	Vacation Leave Days Converted to Cash	Lawless vacation balance per ESC	Days AOS determined Lawless didn’t work	Lawless vacation balance per AOS
June 2013	-	-	-	72.766	-	60.000
July 2013	1.666	-	-	74.432	-	60.000
August 2013	1.666	(2.000)	-	74.098	(2.000)	57.666
September 2013	1.666	-	(10.00)	65.746	(3.000)	46.332
October 2013	1.666	-	-	67.430	-	47.998
November 2013	1.666	-	-	69.096	-	49.664
December 2013	1.666	-	-	70.762	-	51.330
January 2014	1.666	-	-	72.428	(1.000)	51.996
February 2014	1.666	-	-	74.094	-	53.662
March 2014	1.666	-	-	75.760	-	55.328
April 2014	1.666	-	-	77.426	-	56.994
May 2014	1.666	-	-	79.092	-	58.660
June 2014	1.666	-	-	80.758	-	60.326
July 2014	1.666	-	-	82.424	-	61.992
August 2014	1.666	-	-	84.090	(1.000)	62.658
September 2014	1.666	-	-	85.756	(5.000)	59.324
October 2014	1.666	-	-	87.422	-	60.990
November 2014	1.666	-	-	89.088	-	62.656
December 2014	1.666	-	-	90.754	-	64.322
January 2015	3.332	-	(40.000) ²⁷	54.086	-	47.654
February 2015	1.666	-	-	55.752	-	49.320
March 2015	1.666	-	-	57.418	-	50.986
April 2015	1.666	-	-	59.084	(1.000)	51.652
May 2015	1.666	-	-	60.750	-	53.318
June 2015	1.666	-	-	62.416	-	54.984
July 2015	1.666	-	-	64.082	-	56.650
August 2015	1.666	-	-	65.748	-	58.316
September 2015	1.666	(5.000)	-	62.414	(3.000)	51.982
October 2015	1.666	-	-	64.080	-	53.648
November 2015	1.666	-	-	65.746	-	55.314
December 2015	1.666	-	(10.000)	57.412	-	46.980
		(7.000)	(60.000)		(16.000)	

²⁷ Ms. Lawless converted 40 days of unused vacation but was only allowed to convert 20 days per school year per her contract.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

MANAGEMENT COMMENT

Vacation Leave

The ESC's vacation policy states in part 'all vacation schedules will be approved by the ESC Superintendent'. Dr. Payne told us he did not approve any vacation schedules for Ms. Lawless. The ESC's vacation policy does not address the use of 'Vacation Request Forms'. During the period of July 1, 2013 through December 8, 2015, we determined Ms. Lawless completed two 'Vacation Request Forms' to take two days of vacation on August 27 and 28, 2013 and five days of vacation from September 21, 2015 to September 25, 2015. On the 'Vacation Request Forms' it states 'Request for the use of vacation must be approved by the Superintendent and filed with the Treasurer.' Dr. Payne did not approve the two 'Vacation Request Forms' prepared by Ms. Lawless. Furthermore, Ms. Lawless signed her name approving forms.

Ms. Lawless did not request or use vacation leave from August 29, 2013 through September 18, 2015. However, we reviewed Ms. Lawless's personal credit card statements during this period and determined she had transactions outside of Ironton, OH for 21 days and could not have been at work. Ms. Lawless should have requested time off by using vacation leave.

In addition, Ms. Lawless's contract with the ESC for the period August 1, 2013 to July 31, 2018 states in part that the Treasurer shall receive twenty (20) days of vacation annually exclusive of legal holidays and shall accumulate to a maximum of 60 days. During the period of July 2013 through December 2014, Ms. Lawless had a vacation leave balance exceeding the maximum amount of 60 days. During this period, Ms. Lawless's vacation leave balance ranged from 65 to 90 days. Also, Ms. Lawless's contract states in part, 'upon separation of employment of the Educational Service Center, the Treasurer shall be entitled to full pay at her current per diem rate of unlimited days of her accumulated and unused sick and vacation leave with the Education Service Center as of the date of separation.'

As of December 2015, the ESC reported Ms. Lawless had a vacation leave balance of 57.412 days. We recalculated Ms. Lawless's vacation leave balance for the period of July 2013 through December 2015 and determined her balance as of December 2015 should be 46.980 days when taking into consideration the 16 days she did not work at the ESC, the 20 additional days she converted in January 2015 which we determined was not allowed per her contract, and the cap on her balance to not exceed 60 days.

A failure by the Superintendent to approve vacation leave for Ms. Lawless allowed her to take time off of work for days she was scheduled to be at work and resulted in her being paid for days she did not work without an appropriate reduction in her leave accrual balances. In addition, the ESC did not have a policy that clearly defined the approval process for employees who requested vacation leave and resulted in Ms. Lawless taking vacation leave that was not approved by the ESC. Also, the ESC did not monitor Ms. Lawless's vacation leave balance during the period. This deficiency resulted in Ms. Lawless's vacation leave balance exceeding the maximum amount allowed per her contract and also resulted in the ESC reporting an incorrect leave balance for her as of December 2015. If the ESC does not monitor Ms. Lawless's vacation leave balance to ensure it is in compliance with her contract and ESC policies, it could result in her being paid for unused vacation leave days she is not entitled to upon her separation of employment with the ESC.

We recommend the ESC adopt a vacation leave policy that addresses procedures for employees requesting and obtaining approval for the use of vacation leave. We recommend the ESC adopt procedures to monitor the leave balances of employees in relation to employee contracts and ESC's policies. Furthermore, we recommend the ESC correct Ms. Lawless's vacation leave balance as of December 2015. As of the date of this report, Ms. Lawless had not been paid her remaining unused vacation leave balance.



Dave Yost • Auditor of State

LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER

LAWRENCE 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
MAY 25, 2017