

Investigative Report Update

Legislative Joint Auditing Committee

December 15, 2010

Review of Selected Transactions

Pulaski County Special School District

INTRODUCTION

As indicated in the Division of Legislative Audit (DLA) Investigative Report – Review of Selected Transactions – Pulaski County Special School District (Prior Report), dated April 28, 2010 inclusive of the period March 1, 2004 through February 19, 2010, numerous internal control deficiencies were identified at the Pulaski County Special School District (District). In addition, the Prior Report disclosed that District funds were misappropriated by a maintenance shop employee and unallowable and questioned travel expenses were incurred by District Board of Directors (Board) and former Superintendent James Sharpe.

HIGHLIGHTS OF REPORT

- Employment contract for Superintendent Hopson included **salary of \$205,000**; purchase, and business/personal use, of a **vehicle costing \$35,480** and unlimited use of District fuel credit cards; one-third of **cost to reinstate to ATRS of \$56,357**; **moving/relocation allowance of \$25,000**; **insurance benefits at a monthly cost of \$1,426**; and technology and community/civic activities **allowances of \$3,600 and \$2,400**, respectively.
- **Salaries and benefits for certain administrators are budgeted to increase by \$550,138 and \$162,777**, respectively, in the 2010-11 school year from the previous school year.
- **Unallowable travel expenses and cellular telephone usage fees totaling \$1,360** paid to, or on behalf of, Board members. **Board-related expenses totaled \$176,054** including boardroom renovations, laptop computers, travel costs, and association dues. Another **\$15,852 was spent to purchase iPads** for Board and Cabinet members.
- District **received \$20.5 million in desegregation funds and expended \$16.2 million** in the 2009-10 school year.
- Review of certain consultant contracts indicated two individuals, who are or will become District employees, were placed on contract for services and **paid over \$78,000 prior to employment** which appears to be to pay them above the salary level for the positions they hold or will assume.
- District **expended \$961,329 for legal services**, including fees for union disputes and ongoing desegregation case.
- At the direction of the Superintendent, the District's **bell schedule was changed** resulting in the purchase of 39 used school buses at a **cost of \$760,500** as well as hiring 35 additional part-time bus drivers.
- Three new employees were **paid a total of \$9,741 for days not worked**.
- Examples of the District's **spending patterns, totaling over \$3.2 million**, are provided in **Schedule 3 on page 38**.
- Matters disclosed and **pending in the Prior Report, and status thereof, are discussed on pages 33 and 34**.
- The District is **due or potentially due \$66,807** from various Board members, employees, and vendors.

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Following presentation of the Prior Report on May 14, 2010, the Legislative Joint Auditing Committee (LJAC) requested DLA staff to determine and report corrective measures the District implemented regarding Prior Report findings. In addition, LJAC requested, at its June 11, 2010 meeting, DLA staff to prepare a follow-up report relating to selected transactions and activities of the District subsequent to the time periods of review for various components of the Prior Report.

OBJECTIVES

Objectives in conducting the investigative review were:

- Review pertinent contracts of selected District personnel and consultants.
 - Examine selected financial transactions, including moving and travel expense reimbursements; payments other than salary to selected employees; credit card transactions; and other employee expenses/reimbursements.
 - Ascertain increases in salaries and benefits of certain administrators for the 2010-11 school year from the previous year.
 - Determine membership of the District's Cabinet and analyze Cabinet policies and expenses.
 - Determine amount of Board-related expenses.
 - Pertaining to Board members:
 - Determine number of training hours required and received.
 - Analyze selected expenses.
 - Review events surrounding an agreement with a Board member's relative.
 - Review District purchasing, travel, cellular telephone, credit card usage, and other pertinent policies and ascertain if the District adhered to these policies.
 - Provide information relating to negotiations between the District and a teachers' union.
- Ascertain sources and uses of desegregation funds.
 - Ascertain amount and purpose of legal fees paid by the District.
 - Review selected purchases of goods and services to determine propriety.
 - Determine if the District acted in accordance with Arkansas Code Annotated (Code) relating to solicitation of bids for certain purchases.
 - Analyze compensation payments for propriety.
 - Determine status of an internal review involving the District's Grant Writer.
 - Verify amount due the District from a vendor.
 - Review selected accounting practices for sufficiency.
 - Assess internal controls for adequacy.
 - Determine status of matters included in Prior Report.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period March 1, 2009 through November 30, 2010. Pertinent Board and District policies and District accounting records, including general ledger, credit card statements and supporting documentation, employment contracts, and travel expense reports were reviewed. Applicable Code and Internal Revenue Service (IRS) regulations were reviewed. Appropriate personnel were interviewed and internal controls were assessed for adequacy.

The methodology used in conducting this review was developed uniquely to address the stated objectives; therefore, this review was more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller of the United States.

Time periods of review for various components are provided below by subject and date.

- Acting Superintendent:
 - Employment contracts: March 11, 2009 through June 30, 2010.
 - Travel-related and other expenses: March 11, 2009 through June 30, 2010.
- Superintendent:
 - Employment contract: July 1, 2010 through June 30, 2011.
 - Travel expenses: April through November 15, 2010.
 - Consultant expenses: May through November 15, 2010.
 - Moving and relocation expenses: May through November 2010.
- Administrators' salaries and benefits:
 - Amounts paid 2009-10 school year.
 - Amounts budgeted 2010-11 school year.
- Superintendent's Cabinet: 2010-11 school year.
- Board-related matters:
 - Board member training hours: January 1, 2007 through December 31, 2009.
 - Board-related expenses: March 4, 2009 through June 30, 2010.
 - Boardroom expenses: October 13, 2009 through September 2010.
 - Mileage reimbursements and travel and miscellaneous expenses relating to Board members: February 26, 2009 through August 31, 2010.
 - Ethics issue: February 17, 2010.
- Employee travel reimbursements/expenses: March 4, 2009 through June 30, 2010 (credit card charges) and October 15, 2010.
- Union representation: July 1, 2009 through October 12, 2010.
- Desegregation funds: July 1, 2009 through June 30, 2010.
- Consultants' contracts and expenses: June through November 7, 2010.
- Legal fees: July 2009 through October 2010.
- Purchasing procedures and compliance with bid laws: July 1, 2009 through November 20, 2010.
 - Maintenance Department: October through November 22, 2010.
 - Division of Equity and Pupil Services: 2009-10 school year.
 - Bell schedule and school buses: August 16 through November 30, 2010.
 - Fixed assets: June 30 through October 15, 2010.
 - Inventory control: November 22, 2010.
 - Cellular telephones: July 17 through September 10, 2010.
- Overpayments to newly hired employees: July 1 through September 15, 2010.
- Overtime compensation: 2009-10 school year.
- Grant Writer: July 1, 2009 through August 3, 2010.
- Dedicating Resources to Excel All Minds (DREAM): August 2008 through November 30, 2010.
- Foreign travel: October 28 through November 30, 2010.
- Outstanding checks: September 30, 2010 (accounts payable checks) and June 30, 2010 (payroll checks).
- Expenditure coding: July 1, 2009 through November 30, 2010.
- Spending practices: July 16, 2009 through November 30, 2010.
- Matters disclosed in Prior Report: April 28 through November 30, 2010.

BACKGROUND

One of three public school districts in Pulaski County, the District encompasses the territory outside the Little Rock, Cammack Village, and North Little Rock city limits and includes the cities of Jacksonville, Maumelle, and Sherwood. The District contains 729 square miles, includes nearly 3 million square feet of education and support service buildings, and occupies more than 750 acres throughout Pulaski County. An act of the Arkansas legislature combined 38 independent school districts to establish the District in 1927.

The District is governed by a seven-member Board elected, by zone, to four-year terms. Board members, illustrated in **Exhibit I** as of June 30, 2010, serve without compensation.

The District currently operates 39 schools, including 7 high schools, 7 middle schools, 24 elementary schools, and a pre-kindergarten school. Enrollment was approximately 17,501 students, including 673 students in Pre-K, as of October 1, 2010 and **Exhibit II** reflects enrollment history. Also, depicted in **Exhibit II** is race composition of the 16,828 students in elementary and secondary grades at October 1, 2010.

The District converted its accounting system to the Arkansas Public School Computer Network (APSCN), effective July 1, 2010.

A financial audit of the District is performed annually by a Little Rock CPA firm.

RESULTS OF REVIEW

Review of contracts for Acting Superintendent Robert McGill disclosed he was allowed use of District fuel credit cards for both business and personal purposes. However, McGill did not maintain records to document personal use.

The employment contract for Superintendent Charles Hopson included use of a District vehicle and fuel credit cards for both business and personal purposes. Although the contract stipulated Hopson maintain records for personal use, these were not kept.

Hopson's contract also contained clauses for services as a consultant prior to hire date, moving and relocation expenses of \$25,000, health and other types of insurance premiums not allowed by Code nor certain IRS regulations, and

Exhibit I

Pulaski County Special School District (District) District Board Members As of June 30, 2010		
Zone	Board Member/Position	Years Served
3	Tim Clark, President	2
6	William Vasquez, Vice President	3
7	Gwen Williams, Secretary	14
1	Mildred Tatum	27
4	Charlie Wood	4
5	Danny Gililand	4
2	Sandra Sawyer	1

Note 1: As result of Board election held September 21, 2010, incumbents in Zones 4 and 5 replaced by Gloria Lawrence and Tom Stuthard, respectively

Source: District records

reimbursement of \$56,357 for a portion of his cost to reinstate to Arkansas Teachers Retirement System (ATRS).

Salaries and benefits for certain administrators are budgeted to increase by \$550,138 and \$162,777, respectively, in the 2010-11 school year from the previous school year.

Several Board members received training hours in excess of the number required. The District spent over \$176,000 for Board-related expenses, including boardroom renovations. In addition, Board members received unallowed reimbursements and use of a cellular telephone totaling \$1,360, which is due the District.

Although the Board voted to withdraw recognition of the teachers' and support staff unions as bargaining agents for these groups of employees, a court ruled this action was not legal. Subsequently, the Board reinstated recognition of the unions.

The District received \$20.5 million in desegregation funds of which \$16.2 million was expended in the 2009-10 school year.

Review of certain consultant contracts indicated two individuals, who are or will become District employees, were placed on contract for services

prior to employment which appears to be to pay them above the salary level for the positions they hold or will assume.

The District expended \$961,329 for legal services, including fees for union disputes and an ongoing desegregation case.

The Prior Report disclosed numerous deficiencies in the District purchasing process. Although this review indicated improvements in purchasing practices, the District continued to have issues in that supporting documentation was not available for all disbursements; accounts payable checks were occasionally held for pick up by, or hand-delivered to, vendors; and some Maintenance Department purchases were not tracked properly.

At the direction of the Superintendent, the District's bell schedule was changed resulting in the purchase of 39 used school buses at a cost of \$760,500 as well as hiring 35 additional part-time bus drivers.

Review of the District's fixed assets records and Warehouse inventory reports revealed several instances for which asset information was not accurate and inventory items were not adequately tracked. In addition, security measures at the Warehouse were not sufficient.

Three new employees were paid a total of \$9,741 for days not worked.

An internal review conducted by District personnel disclosed that the District's Grant Writer had misused District supplies. In addition, this employee received mileage reimbursement for travel unrelated to District business on District time.

DREAM, a vendor which provided before and after school programs, owes the District \$21,791 for meals and snacks provided by the District.

The District did not code all expenditures consistently or in accordance with ADE's accounting manual. In addition, the District did not timely void stale outstanding checks.

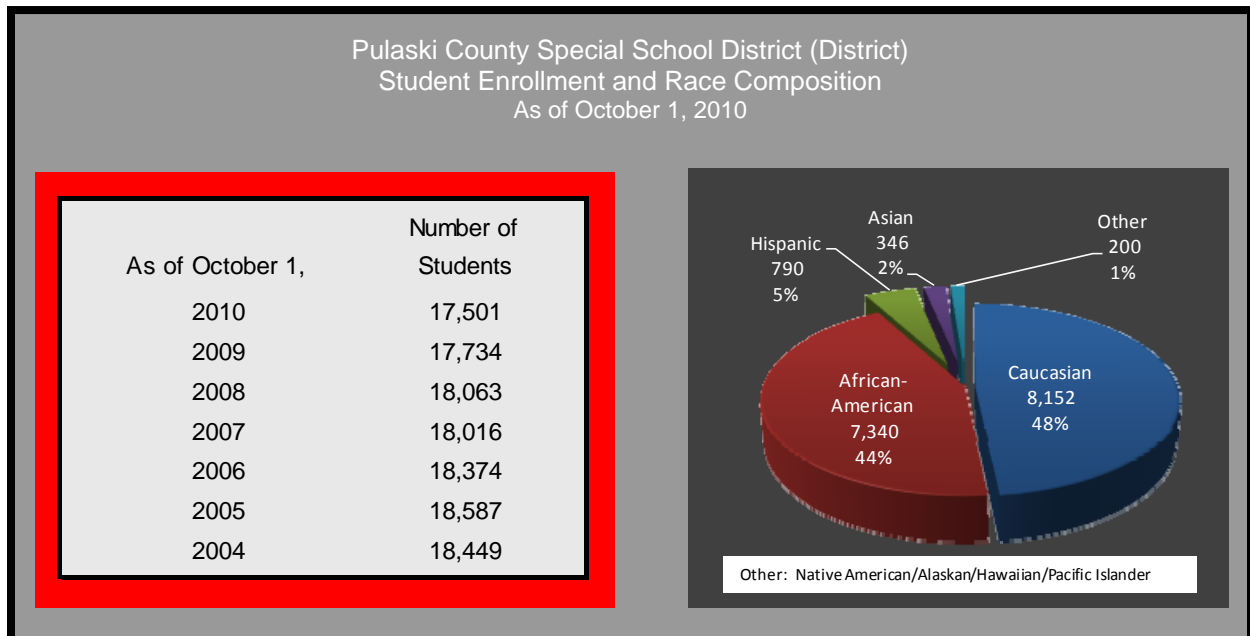
Examples of the District's spending patterns, totaling over \$3.2 million, are provided in **Schedule 3 on page 38**.

Matters disclosed and pending in the Prior Report, and the status thereof, are discussed on **pages 33 and 34**.

The District is due or potentially due \$66,807 from various Board members, employees, and vendors.

Results of this review are discussed, as follows, by topic and recommendations, if applicable. Response to the report provided by the Superintendent is presented in the **Appendix on pages A-1 through A-3**.

Exhibit II



Source: District enrollment records

Acting Superintendent

Contracts

Robert McGill, a District elementary school principal, was hired as Acting Superintendent for the period March 11, 2009 through September 11, 2009. Terms of this contract included:

- Annual salary of \$144,000.
- Annual accrued leave¹ of 15 days and 21 days vacation leave per year. Upon separation from the District, any unused annual accrued or vacation leave paid at prevailing daily rate of pay.
- Membership fees and reasonable incidental expenses incurred, up to \$400 per month, for participation in community and civic activities.
- \$500 per month vehicle allowance for use of personally-owned vehicle.
- Two gasoline credit cards to purchase gasoline for his vehicle for professional and reasonable personal use.

Subsequently, the Board issued McGill a contract as Acting Superintendent for the period July 1, 2009 through June 30, 2010. Terms of the 2009 -10 contract included:

- Annual salary of \$150,000.
- Annual accrued leave of 15 days and 21 days vacation leave per year. Upon separation from the District, any unused annual accrued or vacation leave paid at prevailing daily rate of pay.
- Membership fees and reasonable incidental expenses incurred, up to \$400 per month, for participation in community and civic activities.
- Cost of annual physical examination paid by District.
- Two gasoline credit cards to purchase gasoline for his vehicle for professional and reasonable personal use.

¹Accrued leave replaced sick leave and may be used for any time off with or without an excuse.

The contract for McGill did not include a communications and technology allowance nor provide him a District-owned vehicle.

Review of a fuel credit card used by McGill revealed charges totaling \$3,424 for the period July 1, 2009 through June 30, 2010. Neither the District nor McGill maintained records to determine business versus personal use.

McGill subsequently accepted a position outside the District, effective July 1, 2010. After review of contract terms, consultation with District legal representatives, and Board approval, District paid McGill \$40,866 (gross amount of \$87,602) for 142.5 accrued leave days at a daily pay rate of \$614.75 on June 30, 2010.

Reimbursements/Expenses

The District reimbursed Acting Superintendent Rob McGill \$265 for Arkansas Association of Educational Administrators (AAEA) dues on June 5, 2009. Proper documentation was available to support this reimbursement.

DLA staff review of District credit card purchases for the period March 4, 2009 through June 30, 2010 disclosed charges by, or on behalf of, McGill as follows:

- \$1,838 for expenses at T+L Conference in Denver, Colorado. Included were gratuities totaling \$35 for which McGill reimbursed the District.
- \$1,207 for expenses for trip to Lawrence, Massachusetts.
- \$405 for AAEA dues the District paid after McGill announced his resignation, which he reimbursed on December 3, 2010, and \$7 other miscellaneous expenses.

Appropriate receipts were provided as documentation for each of the charges.

Recommendation A

The District should determine dollar value of fuel purchased for nonbusiness use and either obtain reimbursement from McGill or report this as income on his IRS Form W-2 for 2010.

The District should also ensure expenses paid for employees are District purposes.

Superintendent

Contract

The Board voted, on April 15, 2010, to hire Dr. Charles Hopson, Deputy Superintendent of Portland Public Schools in Portland, Oregon, as District Superintendent for the period July 1, 2010 (effective date) through June 30, 2013. Terms of the contract are summarized below:

- Annual salary of \$205,000.
- Premiums for health insurance, including dental coverage, and the same benefits for the Superintendent's spouse and dependent children.
- Life insurance premiums for policy coverage equal to one year's salary.
- Disability insurance premiums, up to \$1,000 annually, to be reimbursed to the Superintendent.
- Annual accrued leave of 12 days and 21 days vacation leave per year.
- Prior to effective contract date, Board may retain Hopson as a consultant at daily pay rate of \$840 (salary divided by 244 days).
- Reasonable expenses for travel, meals, and lodging while Hopson serves as consultant paid by District.
- Membership fees and reasonable incidental expenses incurred, up to \$2,400 per year, for participation in community and civic activities paid by District. Expenses incurred, excluding association and civic organization dues, will be reimbursed by the District.
- Cost of annual physical examination paid by District.
- Full-size, late model vehicle, mutually agreeable to the Board and Superintendent, to be provided by District including expense of all maintenance costs and insurance. Superintendent shall be permitted to use automobile for business and personal use, without restriction, and shall pay state and federal income taxes on personal use as required by law.

- Gasoline credit cards, for which the District will pay charges, issued to Superintendent to provide gasoline for professional and personal use.
- Moving and relocation stipend of \$25,000, with expenses up to \$20,000 requiring receipts as documentation. At its discretion, the District may allow the Superintendent to document his moving and relocation expenses by using a District-provided debit or credit card to charge such expenses.
- The District will reimburse the Superintendent his monthly member contribution to ATRS. Further, Superintendent will be reimbursed for an amount equal to one-third of his cost to reinstate service in ATRS previously forfeited.
- Communications and technology allowance of \$300 per month paid by District. The Superintendent shall provide his own cellular telephone and the cost of his District-related computer and technology needs outside the office.

Ark. Code Ann. § 6-17-1117(c)(1) states, in part, "A school district shall provide the employer-provided health insurance benefits for all full-time . . . employees and pay the same employer contribution rate for each eligible employee . . ." In addition, Op. Att'y Gen. no. 2007-239 indicated legislative intent behind Ark. Code Ann. § 6-17-1117 was for a school district to contribute a set dollar amount, with the same applying to each employee.

According to IRS Publication 15-B Employer's Tax Guide to Fringe Benefits, the cost of life insurance premiums paid on behalf of a key employee, for which Hopson meets the definition, is required to be reported as income on the employee's IRS Form W-2. Further, the cost of other fringe benefits, not offered to all employees, should be considered income and reported as such on that employee's IRS Form W-2.

The District paid the following fringe benefits, totaling \$6,590, on behalf of Hopson during the period July 1 through November 15, 2010, which represents nine pay periods.

- \$3,620 for health and dental insurance premiums.
- \$1,829 for life insurance premiums.

- \$1,141 for disability insurance premiums. This was \$141 more than authorized in Hopson's contract.

The District paid all of Hopson's monthly health and dental insurance premiums of \$804, which equates to a contribution rate of \$508 more than the rate of \$296 for other employees. Therefore, of the \$3,620 the District paid on behalf of Hopson, \$2,288 was paid in conflict with Code and is due the District.

The District purchased for \$35,480 a 2010 Buick LaCrosse automobile for Hopson's District and personal use. This automobile was fully equipped including leather interior, power sunroof, OnStar® turn-by-turn navigation system, and chrome-plated wheels.

Review of a fuel credit card used by Hopson disclosed charges totaling \$1,202 for the period July 1, 2010 through October 4, 2010 which included fuel totaling \$196 purchased in Alabama, Florida, Mississippi, and Tennessee and \$160 (9 washes at an average cost of \$17.78 each) for car washes. Further, records were not maintained to determine business versus personal use of the automobile for compliance with IRS regulations.

After consulting with ATRS, the District did not reimburse Hopson for his monthly retirement contributions. In addition, the District has not reimbursed Hopson for any costs associated with his reinstatement to ATRS. According to information obtained from District personnel, the amount the District will reimburse is approximately \$56,357, or \$18,786 a year for three years.

In addition to the \$300 monthly technology allowance included in Hopson's contract, the District pays \$134 for Hopson's monthly cellular telephone service, which includes a Blackberry telephone and Intelligent Mobile Hotspot. As of November 2010, the District has paid \$667 for this service which was not a part of Hopson's contract.

Recommendation B

The District should obtain reimbursement of \$2,288 from Hopson for health and dental insurance premiums improperly paid on his behalf. Further, the District should discontinue

contributing an insurance premium rate not allowed by Code.

Life and disability insurance premiums paid on behalf Hopson should be reported as income on his IRS Form W-2 for 2010.

However, \$141 the District paid for disability insurance over the amount provided in Hopson's contract is due the District.

The District should require Hopson to maintain vehicle usage records for his personal use of a District vehicle to comply with IRS regulations. The District should report the value of personal vehicle use on Hopson's IRS Form W-2. This value should comply with IRS valuation regulations which include annual lease price of a vehicle as well as fuel expenses.

The Board should determine if the cost of car washes is included in Hopson's contract. If not, the District should obtain reimbursement for car washes charged to the District's credit card. Otherwise, the Board should establish an amount to pay for this expense.

Any amount reimbursed to Hopson for his cost associated with reinstatement to ATRS should be reported as income on Hopson's annual IRS Form W-2.

The amount of \$667 the District has spent for cellular telephone expenses for the Superintendent should be reimbursed by Hopson and services under District plan cancelled. If Hopson chooses to retain his District phone service, the District should reduce Hopson's monthly communications and technology allowance of \$300 by the monthly cost of his District cellular telephone service cost.

Exhibit III on page 10 details certain amounts paid to, or on behalf of, Hopson and the amounts unallowed and due the District.

Reimbursement for Airline Ticket-Purpose Unknown

Prior to selection by the Board as a candidate for the Superintendent position and at the request of an individual Board member, Hopson purchased a round trip airline ticket from Portland, Oregon to Little Rock, Arkansas. A request for reimbursement of the cost of the ticket was submitted to the

District. Since the purpose of Hopson's trip was unknown, the Acting Superintendent directed the District Chief Financial Officer (CFO) not to pay for the \$855 airline ticket without Board approval and further directed the Board to obtain a majority vote, during open session, regarding such payment. The Board voted, on April 20, 2010, to reimburse Hopson for the ticket.

Consultant Expenses

Hopson's contract for Superintendent included a provision that prior to the effective date of July 1, 2010, the Board may hire him as a consultant at a daily rate equal to the contract salary divided by 244 days, which results in a daily rate of \$840.

Subsequently, the Board approved for Hopson to work as a consultant on selected dates prior to July 1, 2010.

While serving the District as a consultant, Hopson was reimbursed \$12,414 which included \$10,922 for 13 days of consultant services; \$854 per diem at a daily rate of \$61 for 14 rather than 13 days; \$150 luggage fees; and \$488 rental car fees.

During the consulting period, the District paid for \$3,645 in airfare and \$1,597 in hotel fees on behalf of Hopson. The airfare amount included \$585 for a ticket for Hopson's wife, which he reimbursed the District.

The District paid \$364 for three nights hotel lodging in May 2010 on days Hopson was not serving as a consultant to the District. DLA staff contacted District personnel in August regarding repayment of these charges and were informed that Hopson had not yet reimbursed the District. At that time, Hopson submitted a check to the District for payment and DLA staff received a copy of it the following day. DLA staff contacted the District Business Office in November to request a copy of the deposit slip for the \$364 reimbursed by Hopson, but Business Office personnel had no knowledge of the check nor record of its deposit.

Subsequently, on November 15, 2010, Hopson issued another check for \$364 to the District and DLA staff received a copy of deposit ticket from District.

Moving/Relocation Expenses

According to IRS Publication 521 Moving Expenses, reasonable expenses, as provided below, may be deducted on an individual's

income tax return. IRS Publication 15-B allows an employer to exclude from an employee's income these same expenses:

- Moving household goods and personal effects including in-transit storage expenses.
- Traveling including lodging, but not meals, to a new home.

IRS Publication 521 further states the following items cannot be deducted as moving expenses:

- Any part of the purchase of a new home.
- Expenses of entering into or breaking a lease and security deposits.
- Return trips to the former residence.
- General repairs, maintenance, insurance, or depreciation of car.

Terms of Hopson's contract included a moving and relocation stipend of \$25,000.

Hopson was paid \$3,589, via payroll check, net of payroll withholdings totaling \$1,411, in May 2010 for "relocation expenses" prior to the effective date of his contract. In addition, the District paid \$5,000, \$2,000, and \$2,000 in May 2010, October 2010, and November 2010, respectively, as deposits toward the purchase of a residence for Hopson.

Prior to the effective date of his contract, Hopson was given a District credit card to use for moving and relocation expenses. Of the \$10,388 Hopson charged for moving and relocation expenses, \$4,419 was allowable and \$5,969 was unallowable according to IRS regulations. The following transactions were identified as nonallowable moving and relocation expenses:

- Sleep Country - \$1,750
- JCPenney catalog purchases - \$1,081
- Air travel and related costs - \$1,009
- Transmission Shop - \$764
- Wal-Mart - \$596
- Cable television service in Oregon - \$379
- Cellular telephone service in Oregon - \$286
- Garden Ridge - \$94
- Meal - \$10

Exhibit III

Pulaski County Special School District (District)
 Superintendent Charles Hopson Expenses/Reimbursements
 June 1, 2010 through October 31, 2010

	<u>Amounts</u>	
Fringe Benefits for Insurance Premiums		<u>\$ 6,590</u>
Consultant Expenses:		
Consultant fee		\$ 10,922
Per diem (\$61 X 14 days)		854
Airfare (Note 1)		3,645
Hotel (Note 1)		1,597
Car rental (\$488) and luggage fees (\$150)		<u>638</u>
Total Consultant Expenses		<u>\$ 17,656</u>
	<u>Board</u>	<u>Actual</u>
	<u>Approved</u>	<u>Expenses</u>
Relocation/Moving Expenses:	\$25,000	
Condo purchase plan/deposit		\$ 9,000
Relocation stipend (Note 2)		5,000
Round trip airfare for Hopson's daughter (Note 3)		417
Miscellaneous credit card charges		<u>10,388</u>
Total Moving/Relocation Expenses	<u>\$25,000</u>	<u>\$ 24,805</u>
Credit Card Charges:		
Luggage fees (\$75), meals (\$79), and parking fees (\$100)		\$ 254
Miscellaneous office accessories		<u>493</u>
Total Credit Card Charges		<u>\$ 747</u>
Miscellaneous Expense: Airfare on March 19, 2010 (Note 4)		<u>\$ 855</u>
Unallowable Expenses:		
Health insurance benefits		\$ 2,288
Disability insurance premiums		141
Cellular telephone		667
Meals charged to credit card on days per diem paid		79
Unallowed payments for residence purchase		9,000
Unallowed moving expenses charged to credit card		5,969
Unallowed moving expenses for airline cost reimbursed		417
Undocumented credit card charges for moving expenses		3,925
Undocumented credit card charges for business expenses		517
Undocumented airfare		855
Extra day per diem		<u>61</u>
Total Unallowable/Due or Potentially Due District		<u>\$ 23,919</u>

Note 1: Hopson reimbursed \$585 for spouse's plane ticket and \$364 for 3 additional nights in hotel

Note 2: Received \$3,589, net of withholdings totaling \$1,411

Note 3: Hopson's daughter flew round trip from Portland, Oregon to Little Rock, Arkansas in October 2010

Note 4: Round trip ticket from Portland, Oregon to Little Rock, Arkansas

Source: District financial records

In addition, of the \$10,388 Hopson charged to the District's credit card, documentation was available for only \$5,195. The undocumented charges totaled \$5,193, of which \$3,925 appeared to be for allowable moving expenses.

Since Hopson did not provide receipts for all purchases charged to this credit card, the District did not pay full amount by the due dates for August through November 2010 billing statements, resulting in late fees and interest charges of \$497.

Further, Hopson was reimbursed, as an additional moving expense, \$417 for the cost of round trip airfare for his daughter to fly from Portland, Oregon to Little Rock, Arkansas.

Other Credit Card Charges

Hopson charged \$747 to a District credit card for business-related expenses such as meals, airline fees, and office/technology accessories during the period June 4 to July 8, 2010. Review of charges revealed the following:

- Documentation was not provided to support \$517.
- Meals totaling \$79 charged to credit card on days that Hopson received per diem for meals.

Recommendation C

Although the Board approved reimbursing \$855 to Hopson for the cost of an airline ticket from Portland to Little Rock, a business purpose was not provided. Unless a business purpose for this expense is provided, Hopson should reimburse the District. Otherwise, \$855 should be reported on Hopson's IRS Form W-2 as income.

The District should report \$14,969 as income on Hopson's IRS Form W-2 for moving and relocation expenses paid for his residence (\$9,000) and for purchases charged to a District credit card (\$5,969) which were not allowable in accordance with IRS regulations. If Hopson reimburses the District for any unallowable moving and relocation expenses, then that amount would not need to be reported to the IRS as income.

The District should also obtain adequate supporting documentation for all purchases

charged to a District credit card. For any charges not documented, the District should request reimbursement from Hopson.

In addition, to ensure District is not responsible for charges not for District purposes, District should strengthen policies to ensure adequate documentation is maintained to support purchases. In the event adequate documentation is not provided, the Board may consider revoking credit card use.

Further, District should obtain reimbursement of \$79 for meals charged to a District credit card for which Hopson received a per diem.

Exhibit III details certain amounts paid to, or on behalf of, Hopson. The Superintendent owes or potentially owes \$23,919 to the District for unallowable expenses/reimbursements.

Administrators

The District employs approximately 2,728 full- and part-time employees, including 131 administrators, 1,384 educators, 943 support staff, and 270 bus drivers.

Salaries and benefits of certain administrators for the 2010-11 school year are provided, and compared to 2009-10 school year salaries and benefits, in **Schedule 1 on page 36**. This comparison indicated that salaries and benefits of these administrators increased by approximately \$550,138 and \$162,777, respectively, in the 2010 -11 school year.

Cabinet

The District Cabinet consists primarily of District administrative staff. According to Board policy, the Superintendent is authorized to establish a permanent or temporary cabinet deemed necessary for administration of Board policies and coordination of District educational and support programs. Further, policy states membership, reflecting racial balance, and responsibilities of Cabinet will be at the discretion of the Superintendent. The roles of Cabinet members will be advisory and recommendations to the Board will be submitted by Superintendent.

For the 2010-11 school year, the Cabinet consists of 12 members, including the Superintendent, as identified in **Exhibit IV on page 12**. Two Cabinet members were not District

employees, but were both under consultant agreements with the District, when chosen as Cabinet members.

According to District personnel, a mandatory Cabinet meeting is held weekly. The Superintendent presides over the meetings with a planned agenda which addresses issues, provides updates, and promotes transparency within District departments and schools. In addition, the Cabinet approves Board meeting agendas.

Hopson approved the purchase of 20 Apple® iPads™ (iPads) for Cabinet and Board members as a cost effective, around-the-clock communication tool. Cost of the iPads totaled \$15,852 and a monthly charge of \$300 (\$15 for each device) is incurred for internet and email access.

In addition to the iPads, the District provides smart phones to 8 of the 12 Cabinet members at an average cost of \$82 per month, per phone. The smart phone serves as a personal digital

assistant with address book, calendar, to-do list, and email capability. One Cabinet member is provided a wireless USB modem for internet access at \$60 per month.

Board Approval Process

Standard operating procedures regarding Board approval process for policies and contracts are enumerated in the Board Policy Manual. Any item pending Board approval is reviewed and approved by the Superintendent’s Cabinet two weeks before the regularly scheduled Board meeting; however, items may be placed on the Board agenda two “work days” in advance of a Board meeting. In addition, at the request of at least three Board members, an “addendum” may be added to the meeting agenda on the day prior to the meeting, if time is available for an official notice to the press.

Board Member Training Hours

Ark. Code Ann. § 6-13-629 requires serving Board members to receive six hours of training

Exhibit IV

Pulaski County Special School District (District) Cabinet Members 2010-11 School Year	
Name	Position
Dr. Charles Hopson	Superintendent
Anita Farver	Chief Financial Officer
Deborah Coley	Assistant Superintendent for Human Resources
Derrick Brown	Chief Technology Officer
Deborah Roush	Executive Director of Communications
Dr. Brenda Bowles	Assistant Superintendent for Equity and Pupil Services
June Elliott	Deputy Superintendent for Academic Accountability Region I
Rodney Matheney	Deputy Superintendent for Academic Accountability Region II
Dr. Bruce Bryant	Assistant Superintendent of Curriculum and Instruction
Dr. Robert Clowers	Executive Director of Educational Accountability
Derek Scott (Note 1)	Consultant for Facilities and Operations
Paul Brewer (Note 2)	Consultant to Superintendent for Human Resources

Note 1: Under consulting agreement with District when appointed to Cabinet, but is currently employed by District
 Note 2: Under consulting agreement with District

Source: District records

each calendar year of continuing service. Newly-elected Board members or members returning to the Board after a break in service must receive nine hours of training by December 31 of the year following election and six hours of training each calendar year thereafter. All but one District Board member exceeded the required number of training hours for the period January 1, 2007 through December 31, 2009 as reflected in **Exhibit V**. Charlie Wood did not obtain 4.75 of the required 6 hours of training in the 2008 calendar year.

A synopsis of information obtained at conferences attended was provided to DLA staff by applicable current Board members during November 2010.

Exhibit V

Pulaski County Special School District (District) Board Members' Training Hours January 1, 2007 through December 31, 2009				
Name	2009	2008	2007	Totals
Mildred Tatum	35.5	40.5	24.5	100.5
Gwen Williams	27.5	16.25	26.25	70
Danny Gililand	18.5	19.25	25	62.75
Bill Vasquez	14	15.5	8	37.5
Charlie Wood	9	1.25	12.5	22.75
Tim Clark	23.25	16.25	(Note 1)	39.5
Shana Chaplin (Note 2)	(Note 1)	16	3	19
Sandra Sawyer (Note 3)	6	(Note 1)	(Note 1)	6

Note 1: Not a Board member at that time
 Note 2: Elected to Board September 2007
 Note 3: Elected to Board September 2009

Source: Arkansas School Boards Association and District records

Recommendation D

The Board should evaluate the cost/benefit associated with Board members acquiring training hours in excess of the number required by Code. Procedures should also be implemented to ensure Board members obtain required number of training hours.

Board-Related Expenses

Overview

The District expended \$176,054 for Board travel, Boardroom renovations, meals for Board meetings, association dues and fees, mileage reimbursements, fees for a firm to assist in the search for a new Superintendent, and other miscellaneous expenses for the period March 4, 2009 through June 30, 2010. The Board adopted a policy, in April 2010, increasing the annual number of trips a Board member may take from two to three.

Exhibit VI on page 14 summarizes various Board expenses by type or vendor and amount.

During review of certain documents, DLA staff determined that District personnel did not correctly record expenses of a Board member in

the financial records. Rather than charging a Board member's travel expenses, totaling \$1,593, to the applicable accounting code for Board of Education Services, the expenses were coded as Instructional Staff Services. According to the Arkansas Financial Accounting Handbook (Accounting Handbook), instructional staff services code is for "activities associated with assisting the *instructional staff* (emphasis added) with the content and process of providing learning experiences for students."

Boardroom Renovation

The Board approved, on October 13, 2009, the purchase of equipment for reconfiguration of the boardroom for presentations and a paperless delivery system for Board documents.

According to District records, total cost of boardroom renovations, completed during Spring 2010, was approximately \$104,524 which included three 65" LCD displays, upgraded audio system, and laptops for Board and Cabinet members.

Subsequently, as mentioned on the previous page, upon the Superintendent's recommenda-

tion, 20 iPads were purchased at a total cost \$15,852 for Board and Cabinet members and the previously purchased laptops costing \$17,840 were not used.

Mileage Reimbursements

The District reimbursed Board members Tim Clark, Mildred Tatum, and Gwen Williams \$2,030, \$454, and \$1,015, respectively, during the period March 1, 2009 through September 3, 2010, for mileage incurred while performing duties on behalf of the District.

Mileage reimbursements are listed below by Board member and amounts due the District are reflected in **Exhibit VII on page 17**.

- Tim Clark

Clark was reimbursed \$2,030, on December 18, 2009, for 5,800 miles accumulated while commuting to/from District Central Office (Central Office) for the period February 26, 2009 through December 14, 2009. Mileage and odometer readings were listed on an expense form prepared by District personnel using Clark's mileage log. The mileage log appeared to be overstated by approximately 1,600 miles, based on actual distance between Clark's residence and Central Office. Prior to this review, Clark reimbursed the District \$2,030 on June 16, 2010, when questions arose over number of miles claimed for reimbursement.

Exhibit VI

Pulaski County Special School District (District) Summary of Board Expenses For the Period March 4, 2009 through June 30, 2010	
Description	Totals
Arkansas School Boards Association	\$ 5,974
Board member travel	11,562
Board member mileage (Note 1)	3,499
Boardroom renovations (Note 2)	104,524
Carlson Wagonlit Travel	3,688
Catering/meals for Board meetings and workshops	10,722
Cellular telephone (Note 3)	1,059
Holiday Inn Presidential Center (Note 4)	518
McPherson & Jacobson, L.L.C. (Note 5)	18,359
National Alliance of Black School Educators	1,570
National School Boards Association	11,740
Other miscellaneous expenses	2,089
Virginia School Boards Association	750
Total Board Member Expenses (Note 6)	\$ 176,054

Note 1: \$2,030 subsequently reimbursed by one Board member
 Note 2: Does not include purchase of iPads totaling \$15,852
 Note 3: Services for Board member Gwen Williams for the period March 2009 through August 2010
 Note 4: Expenses for Board workshop/retreat
 Note 5: Expenses for Superintendent search
 Note 6: Amounts may not be all inclusive

Source: District financial records

- Gwen Williams

Williams was reimbursed \$98 for 280 miles; \$242 for 690 miles, of which \$116 for 330 miles was reimbursed twice; and \$114 for 326 miles on November 13, 2009, March 9, 2010, and June 30, 2010, respectively. The majority of mileage reported by Williams appears to have accumulated while commuting to/from Central Office for Board meetings and workshops. Review of MapQuest, an online mapping service, indicated mileage reported appears to have been correctly stated.

- Mildred Tatum

Tatum was reimbursed \$895, on June 18, 2009, for 2,556 miles recorded from June 6, 2008 to May 27, 2009 and \$120 for 344 miles driven from June 2, 2009 to September 28, 2009. The following mileage reimbursements are questioned and considered overpayments to Tatum:

- Reimbursed \$12 for 34 miles reported as driven in-district on same dates as attending the National School Boards Association (NSBA) conference in San Diego.
- Round trip mileage from Tatum's residence to a hotel in Little Rock was overstated by 14 miles, resulting in \$5 incorrectly reimbursed.
- Round trip mileage from Tatum's residence to the Central Office was paid twice for a trip on May 12, 2009, resulting in \$4 overpayment.

Recommendation E

The District should obtain reimbursements for mileage reimbursement overpayments of \$116 and \$21 from Board members Williams and Tatum, respectively. Before reimbursing Board members for mileage expense, the District should review and substantiate mileage forms submitted for reimbursements.

Travel Advances

Board members Mildred Tatum, Gwen Williams, and Charlie Wood received \$4,795, \$4,455, and \$1,760, respectively, as travel advances for District-related travel expenses during the period March 1, 2009 through July 9, 2010.

The Board voted to discontinue travel advances to employees and Board members on June 8, 2010.

The following questioned transactions related to out-of-district travel are listed by Board member and amounts due the District are also reflected in **Exhibit VII on page 17**.

- Mildred Tatum

- The District issued a travel advance, in April 2009, to Tatum which included \$95 for NSBA membership fee and for which Tatum submitted a paid receipt from NSBA as documentation of the expenditure. Subsequently, Tatum received a \$95 refund check from NSBA in May 2009 for overpayment of membership fees which is due the District.
- Tatum received a travel advance of \$1,525, on October 16, 2009, for a National Association of Black School Educators (NABSE) conference in Indianapolis, Indiana. Actual expenses reported to the District reflect Tatum owed the District \$215, which was returned to the District on September 3, 2010, over ten months after the travel advance was received.
- Tatum received a travel advance of \$1,765, on March 3, 2009, for NSBA conference in San Diego, California. Actual expenses reported to the District reflect Tatum reported \$87 for gratuities, which was determined by District to be due back and subsequently repaid by Tatum on September 3, 2010.
- Tatum received a travel advance of \$1,284, on March 30, 2010, for NSBA conference in Chicago, Illinois. Actual expenses reported to the District reflect Tatum owed the District \$149, which was repaid to the District on September 3, 2010, five months after the travel advance was issued.
- One month after the Board voted to discontinue travel advances, Tatum received a travel advance of \$221, on July 9, 2010, as per diem for meals

during attendance at a NSBA Southern Region conference in Williamsburg, Virginia.

- Gwen Williams

- Williams received a travel advance of \$1,273, on October 15, 2009, for NABSE conference in Indianapolis, Indiana. Although Williams did not attend the conference, she cashed the travel advance check and did not return the amount advanced until three months later.
- Williams received a travel advance of \$1,702, on March 3, 2009, for a NSBA conference in San Diego, California. Actual expenses were not reported to the District until July 22, 2009 and reflected Williams owed the District \$268. Williams also submitted two mileage reimbursement forms and expenses incurred during another conference (NSBA Southern Regional conference in Little Rock) totaling \$279, which resulted in the District reimbursing Williams an additional \$11. District personnel later determined, and DLA staff verified, Williams reported \$71 in gratuities and \$20 for parking that was not documented, which is due the District.
- Williams received a travel advance of \$1,284, on March 30, 2010, for NSBA conference in Chicago, Illinois. Actual expenses reported to the District reflect Williams owes the District \$214.
- One month after the Board voted to discontinue travel advances, Williams received a travel advance of \$196, on July 9, 2010, as per diem for meals during attendance at NSBA Southern Region conference in Williamsburg, Virginia.

- Charlie Wood

Wood received a travel advance check totaling \$1,760 in March 2009 to attend the NSBA conference in San Diego, California. District personnel indicated Wood did not attend the conference nor did he cash the check. Although District personnel further

stated Wood had misplaced the check, District financial records reflected this check as an outstanding item on the bank reconciliation until November 2010 when brought to District attention by DLA staff.

Recommendation F

The District should obtain reimbursements for improper travel advances of \$95 and \$305 from Board members Tatum and Williams, respectively. The District should enforce the Board's policy of not advancing funds for travel expense.

Miscellaneous

Four Board members were reimbursed for miscellaneous expenses for the period March 4, 2009 through July 9, 2010 as listed below.

- Tim Clark

- \$138 for meals and parking expense, which included a \$15 meal per diem for a meal charged to the District's credit card, incurred while attending T+L conference in Denver, Colorado.
- \$351 for meals, parking, and baggage fees incurred while visiting Lawrence School District in Lawrence, Massachusetts.
- \$43 for recruiting supplies.

- Danny Gililand

\$34 for a meal and parking incurred during NSBA Southern Region conference in Little Rock during July 2009. Receipts reflect \$15 for parking on two days; however, the District reimbursed \$18 to Gililand. In addition, a gratuity of \$3 was improperly reimbursed. As shown in **Exhibit VII**, Gililand owes \$6 to the District.

- Mildred Tatum

- \$16 for a meal, which included a gratuity of \$3 subsequently reimbursed to the District by Tatum, during NSBA Southern Region conference in Little Rock. In addition, Tatum was reimbursed \$42 for valet parking on three days.

- o \$90 for baggage fees and taxi fare incurred while attending NSBA Southern Region conference in Williamsburg, Virginia.
- Gwen Williams
 - \$110 for baggage fees, taxi fare, and per diem for an additional meal, a result of flight delay, incurred while attending NSBA Southern Region conference in Williamsburg, Virginia.

Appropriate receipts were provided as documentation for each of the reimbursements to these four Board members.

Cellular Telephone Services

Board member Gwen Williams was furnished a District cellular telephone, allowable per Board policy as long as the member promptly reimbursed the District for the monthly service charges. The District terminated Williams' cellular telephone services in August 2010 because service charges totaling \$802, as identified in **Exhibit VII**, had not been reimbursed the District.

Recommendation G

The District should ensure adequate documentation is available for reimbursements. The District should request Clark repay \$15 for duplicate meal reimbursement and obtain \$6 from former Board member Gililand for improper expense reimbursements.

In addition, the District should require Williams reimburse \$802 for cellular telephone services the District paid on her behalf.

Ethics Issue

On February 17, 2010, the Board approved execution of a Contractual Privacy Agreement (Agreement) with Summit School Improvement Technology (Summit), at no cost to the District.

DLA staff received a complaint from a concerned citizen regarding a possible violation of Ark. Code Ann. §§ 6-24-101, -105 by Board President Tim Clark and his affiliation with Summit, a company owned by his in-laws.

According to Board Meeting Minutes (Board Minutes), Clark excused himself from the Board meeting, as required by Ark. Code Ann.§ 6-24-

Exhibit VII

Pulaski County Special School District (District) Amounts Due District from Board Members For the Period March 3, 2009 through July 31, 2010	
Board Member	Unallowable/ Due District
Gwen Williams	
Cellular telephone	\$ 802
Mileage	116
Gratuities	71
Parking	20
Travel advance	214
Total Due District	\$ 1,223
Mildred Tatum	
NSBA dues/refund	\$ 95
Mileage	21
Total Due District	\$ 116
Tim Clark	
Meal per diem	\$ 15
Total Due District	\$ 15
Danny Gililand	
Parking	\$ 3
Gratuity	3
Total Due District	\$ 6
Total Amount Due District from Board Members	\$ 1,360

Source: District financial records

105(c)(1)(C), prior to discussions regarding the contract between Summit and District, and therefore, did not vote on approval of the Agreement.

In addition, Ark. Code. Ann § 6-24-105(c)(1)(B), requires approval by the public educational entity's board be documented by written resolution after fully disclosing the reasons justifying the contract in an open meeting. DLA staff reviewed an addendum prepared and approved by Board members that disclosed the Board's rationale for the Agreement and the relationship between Clark and Summit.

Further, the Board consulted with ADE personnel who determined, that since the transaction was at no cost to the District, approval by the Commissioner of Education was not required.

Employee Travel Reimbursements/Expenses

To determine if proper documentation was maintained for employee travel expense reimbursements, DLA staff randomly selected ten checks, dated October 15, 2010, for review. Adequate documentation existed to support all ten reimbursements.

DLA staff review of District credit card purchases for the period March 4, 2009 through June 30, 2010 disclosed five instances in which meals, totaling \$86, were charged to hotel rooms by employees, but were not properly documented.

Recommendation H

The District should ensure adequate supporting documentation is maintained for all purchases. If employees do not provide documentation, the District should request the applicable employee reimburse the District.

Union Representation

*PACT -
Pulaski Association of Classroom Teachers*

The Pulaski Association of Classroom Teachers (PACT), the teachers' union, is the legal bargaining agent for teachers' employment contracts. The Board and PACT negotiated the latest Professional Negotiations Agreement (PNA), effective for the 2006 through 2009 school years. The PNA includes personnel policies, salaries, and educational matters concerning teachers, the majority of whom are members of PACT, employed by the District.

Although the District and PACT have been unable to agree on terms of a contract for successive years, the PNA is a continuous contract and remains in place until both sides agree on a new contract. As of report date, the 2006-2009 PNA is in effect.

For the 2009-10 school year, PACT had 796 members for whom the District paid \$580,783, obtained from teachers' payroll withholdings, for dues.

PASS – Pulaski Association of Support Staff

The Pulaski Association of Support Staff (PASS), the union for support staff, is the legal bargaining

agent for bus drivers and support staff. The previous contract between PASS and District, for the 2008-09 school year, expired on June 30, 2009. While PASS representatives negotiate a new contract, PASS members are operating under Board policy.

For the 2009-10 school year, PASS had 412 members for whom the District paid dues of \$118,610, obtained as payroll withholdings from support staff, to PASS.

Board Action Against PACT and PASS

Board voted in December 2009 and April 2010 to withdraw recognition of PACT and PASS; however, a Sixth Judicial District Circuit Court Judge ruled the Board's actions were not legal because without recognition of PACT and the PNA, the District did not have written personnel policies in place or a personnel policy committee as required by state law. The Judge further ordered the District and PACT to attempt to resolve differences through mediation, which was unsuccessful.

Subsequently, the Board, with two newly elected members, voted on October 12, 2010 to restore Board recognition of PACT and PASS.

Schedule 2 on page 37 provides a timeline of events involving the District and PACT/PASS for the period December 6, 2009 through October 12, 2010.

Desegregation Funds

Settlement provisions of a 1989 lawsuit between the state and the three school districts in Pulaski County require the state to provide extra funding each year to these school districts for desegregation efforts. According to Ark. Code Ann. § 6-20-210, desegregation funds are provided to ADE Public School Fund account from net general revenues of the state. ADE then disburses the desegregation funds, through the Public School Fund, to the applicable school districts.

District financial records reflected desegregation fund revenue totaling \$20,499,490 of which the District expended \$16,221,517 for the period July 1, 2009 through June 30, 2010 as reflected in **Exhibit VIII**, leaving a balance of \$4,277,973 as of June 30, 2010.

Consultant Contracts/Expenses

DLA staff selected five consultant contracts to review for content, purpose, and compliance with Board approval process. Review of certain consultant contracts indicated two individuals, who are or will become District employees, were placed on contract for services prior to employment with District which allowed them to be paid above the salary level for the positions they have or will assume. In addition, two contracts for professional staff development were analyzed.

Chief Technology Officer

The Board approved, on June 8, 2010, to restructure the Directors of Instructional Technology and Management Information Systems positions to form a new position of Chief Technology Officer with the new position at a higher level on the pay scale of the support staff salary schedule.

Subsequently, the Board approved, on June 11, 2010, employment of a Chief Technology Officer (CTO) with beginning contract date of July 1, 2010 and an annual salary of \$100,067.

Prior to the beginning of his contract, the newly-hired CTO from Portland Public Schools (Portland, Oregon) served as a consultant on Information Technology at the District for the period June 9, 2010 through June 30, 2010; however, the Board did not approve this consultant contract until July 8, 2010.

The contract specified consulting services relating to:

- Execution of technology strategy for technology platforms, partnerships, and external relationships.
- Building and management of the District's technology team, research and development, and project management.

Exhibit VIII

Pulaski County Special School District (District) Desegregation Funds Sources and Uses of Funds For the Period July 1, 2009 through June 30, 2010	
	Amounts
Beginning Balance	\$ 0
Sources of Funds:	
State Assistance	20,499,490
Uses of Funds:	
Salaries	8,297,021
Employee benefits	1,755,991
Purchased services:	
Advertising	13,803
Fleet insurance	202,642
Legal fees	343,658
Maintenance and repairs	94,565
Other professional services	40,514
Rent	5,650
Services purchased	
from other LEAs (Note 1)	117,400
Travel	13,885
Tuition to other LEAs (Note 1) in state	3,437,508
Gasoline	1,318,658
Supplies, books, and materials	492,029
Equipment	60,262
Heating oil	26,238
Dues and fees	1,693
Total Uses of Funds	<u>16,221,517</u>
Ending Balance	<u>\$ 4,277,973</u>

Note 1: Local Education Agency

Source: District financial records

- Anticipation of, and reaction to, major technology changes.
- Establishment of technical standards for District operations.

The contract further provided for a daily pay rate of \$410 and reimbursement of travel expenses incurred. A minimum number of hours or days to work was not specified in the contract.

The District paid the consultant for fees totaling \$3,691 and other expenses totaling \$8,117 which

were charged to the accounting code for the Superintendent's Office rather than to the accounting code specifically for administrative technology services. The Accounting Handbook states charges to the Office of the Superintendent are for activities performed by a superintendent in directing and managing all affairs of a school district.

According to District personnel, the consultant's check was mailed overnight to his residence in Oregon on July 13, 2010. The expenses paid, not covered in the consultant contract, included the following questioned transactions totaling \$6,223:

- \$5,899 for moving expenses.
- \$13 for alcoholic beverages.
- \$35 for child's car seat in rental car.
- \$80, which includes a \$3 gratuity, for meals in July 2010, after the expiration date of consultant contract.
- \$196 for hotel accommodations for two nights in July 2010, after the expiration date of consultant contract.

According to District records, effective employment date for CTO was July 1, 2010; however, email correspondence from CFO to Superintendent on July 2, 2010 indicated CTO would not officially report to the District for work until July 19, 2010. The Superintendent directed the CFO to not change the effective contract date or charge the CTO for ten days leave time because the CTO would make up time for which he was paid, but did not work, through flex time on Fridays during the summer and other days originally scheduled off work during the school year.

Executive Director of Operations

The District entered into a consulting agreement for Consultant Services for District Facilities and Operations (Operations Consultant) for 60 days during the period July 29, 2010 through November 7, 2010. Terms of the agreement stated the Operations Consultant would be paid a daily pay rate of \$727, totaling \$43,620, for 60 days service and reimbursed travel expenses incurred, subject to District approval.

Although the only service specified to be provided by the Operations Consultant was to initiate

development of an intensive five-year facility plan, District records indicate the Operations Consultant served on the Superintendent's Cabinet and was responsible for overseeing budgets, approving time sheets, and performing staff evaluations, all responsibilities of the Executive Director of Operations. These duties appear to conflict with Board policy that states "Consultants who serve the District will exercise no authority over the work of District employees"

In addition, the District provided the Operations Consultant a District cellular telephone and paid the monthly service charges, benefits not included in the consulting agreement nor normally provided a consultant.

For the duration of the Operations Consultant's contract, the District paid \$46,907 for 64.5 days of service, 4.5 days more than the contract allowed, resulting in \$3,272 paid over the approved contract amount.

In addition, the District reimbursed Operations Consultant \$4,237 in travel related expenses.

At the end of the consultant contract and on November 8, 2010, the District hired the Operations Consultant for the position of Executive Director of Support Services at a salary of \$65,065 and a salary supplement of \$20,140, total salary of \$85,205, for the remaining 2010-11 school year.

Consultant to Superintendent for Human Resources

The District executed a consulting agreement for a Consultant to the Superintendent for Human Resources (HR Consultant) for the period July 21, 2010 through December 21, 2010. Terms of the agreement included daily pay rate of \$600, with maximum amount paid not to exceed \$62,400, and reimbursement for in-district travel based on existing Board approved policy. Other travel expense reimbursements were subject to the approval of the Superintendent.

According to the agreement, primary responsibilities of the HR Consultant involve assistance to the Superintendent for compliance, mediation, reorganization, and restructuring of Human Resources Department (HR Department). In addition, the HR Consultant was to assist with the District's conversion process to APSCN.

The District paid the HR Consultant \$31,200 for services and reimbursed \$1,974 in mileage for commuting from his Hot Springs residence to the District during the period July 21, 2010 through October 1, 2010. While the contract between the District and Consultant stated the District would reimburse in-district travel expense, mileage reimbursement for commuting to the Central Office was not addressed in the contract.

Professional Development Contracts

According to Ark. Code Ann. § 6-20-2305, a portion of state foundation funding aid is required to be used for professional staff development each school year. The District received \$698,967 and anticipates getting \$692,218 in the 2009-10 and 2010-11 school years, respectively. DLA staff reviewed three contracts for professional development as discussed below.

1. Arkansas Leadership Academy

The Acting Superintendent, on behalf of the District, renewed a contract with Arkansas Leadership Academy (Academy) on May 7, 2010 for professional staff development for the 2010-11 school year.

The Academy provides services such as institutes for superintendents, master principals, and teachers as well as training for Board members, teacher leaders and facilitators, and community involvement design. In addition, the Academy provides an annual review of assessment data and assists in the development of school and District annual strategic planning.

The estimated cost is \$692,311 for the Academy's services during the 2010-11 school year.

2. Pacific Educational Group

On behalf of the District, the Superintendent entered into a consulting agreement with Pacific Educational Group (PEG) to conduct a two day workshop (Cultural Building Diversity Training Workshop) for a District executive team retreat at Mt. Magazine State Park. PEG was paid \$11,500 for consulting fees and \$951 for travel expenses of a PEG representative who conducted the workshop.

The Superintendent and consultant signed the contract on July 14, 2010, the date the invoice reflected services were actually performed. The contract approved and signed by Board members indicated dates of services of June 14 and 15, 2010.

An additional consulting agreement with PEG was executed in October 2010 for the period October 5, 2010 through July 1, 2011 at a cost to the District of approximately \$282,000, plus all travel related expenses.

Under this agreement, PEG will provide professional development and consulting services to the District for the purpose of developing and accelerating the District's capacity to engage in systemic equity transformation and eliminate racial educational disparities in District schools.

3. Performance fact, Inc.

On behalf of the District, the Superintendent executed a consulting agreement with Performance *fact*, Inc. to provide development of a system-wide strategic alignment plan, a service which appears to a part of the Academy contract, for the District.

Duration of this agreement is November 3, 2010 through June 1, 2011 with a cost of \$42,000.

Recommendation I

The District should obtain reimbursement of \$6,223 from the CTO for moving expenses (\$5,899) not a part of his contract and unallowed expenses (\$324). In addition, employees should not be paid for days not worked.

The District should also obtain reimbursement of \$1,974 from the HR Consultant for mileage reimbursement received for commuting, which was not included in the contract.

District management should ensure employees in positions combined to allow an increase in salary continue to perform the services which the new position entails.

In addition, the Board should ensure that all contracts are in the best interest of the District, approved prior to services performed, and adhered to properly. District personnel should

also refrain from allowing services to begin and obligating District financially without Board approval.

Further, the District should ensure that new professional development contracts do not duplicate services provided by existing contracts.

Legal Fees

According to District records, the District paid legal fees totaling \$961,329, as reflected in **Exhibit IX**, for the period July 16, 2009 through October 27, 2010. These fees were for professional services performed by various law firms, individual attorneys, and court reporters as well as other reimbursable charges.

Legal expenses included:

- \$427,313 to a Little Rock law firm for representation on a routine basis. The firm represents the District in various discrimination cases, a pending civil suit filed against James Sharpe (former superintendent), as well as certain issues concerning PACT.
- \$414,322 to another Little Rock law firm for representation in the ongoing desegregation case and certain personnel matters.
- \$71,920 to a New York law firm to assist with issues concerning the District and PACT.
- \$25,581 to various court reporters and a firm that provides court reporting services.
- \$16,233 to three attorneys who served as hearing officers for the Board mainly in personnel hearings regarding grievances and termination recommendations and also student expulsion hearings.

Overview of Purchasing Procedures for Goods and Services

The District expended approximately \$75.5 million for goods and services, excluding payroll related expenses, during the 2009-10 school year. Of this amount, approximately \$37.6 million was spent for construction projects.

Exhibit IX

Pulaski County Special School District (District) Legal Fees For the Period July 16, 2009 through October 27, 2010	
Payee	Amounts
Bequette & Billingsley	\$427,313
Mitchell Williams	414,322
Vedder Price	71,920
Court reporters	19,062
Hearing officers	16,233
Flynn Legal Services	6,519
Lassiter & Couch	4,810
ADR, Inc. (Note 1)	1,150
Total Legal Fees	\$961,329

Note 1: Provided mediation services involving District and Pulaski Association of Classroom Teachers

Source: District financial records

The District purchasing cycle is initiated by an applicable user department employee preparing a requisition, including specifications, for purchase of desired goods or services, which is sent to the Purchasing Department (Purchasing) for approval. Purchasing personnel review requisition and specifications to determine the proper procurement method. When appropriate, Purchasing personnel solicit, receive, and review quotations, bids, and proposals, as required by Ark. Code Ann. § 6-21-304.

When a bid is required, Purchasing personnel award the contract to the successful bidding vendor. If no bid is required, a purchase order is issued to the vendor. After the applicable user department receives goods or services, Accounts Payable Department is notified to pay the vendor.

The District also allowed the use of blanket purchase orders for purchases less than \$2,500 until the Board voted to discontinue this practice on September 14, 2010.

According to District policy, an emergency purchase is one which if not immediately initiated will endanger human life or health, District

property, or the functional capability of the school or department. Although emergency purchases should be kept to a minimum, occasionally an unforeseen situation arises that constitutes an emergency.

Prior Report reflected the following deficiencies regarding District purchasing procedures:

- Blanket purchases for small order purchases frequently exceeded \$1,000 per vendor monthly limit.
- Business purpose of goods purchased was not always documented.
- Excessive use of “emergency” purchase orders. Routine operating items purchased prior to purchase order being prepared were classified as “emergency,” however, documentation to support the nature of the emergency was not provided.

These deficiencies contributed to a former Maintenance Department employee misappropriating \$439,745 in District funds by abusing blanket purchase orders.

DLA staff review of 20 invoices related to District maintenance shop purchases, paid between July 1, 2010 and October 18, 2010, to verify compliance with District procedures revealed the following issues:

- Invoices reflected purchase order numbers previously assigned to blanket purchase orders. The District issued valid purchase orders to accompany the payment after the order had been secured.
- Invoices were not paid timely.
- Supporting documentation, such as a District work order, was not provided for all purchases.
- Five invoices denoted “Shop Stock” as location for items ordered.

In addition, DLA staff randomly selected 35 invoices, paid between July 1, 2010 and October 18, 2010, to review for compliance with District procedures. The following issues were identified:

- Seven instances of District personnel placing “Hold for Pick Up” on checks, meaning

checks were held at Central Office for pick up by, or hand delivered to, specific employees or vendors.

- Three emergency purchase orders issued to the Transportation Department without documentation to verify the emergency.
- Five purchase orders created after invoice date.
- Twenty-one invoices totaling \$593 for the period November 2009 through June 2010 that were assigned purchase orders in July 2010 and paid in November 2010.

Recommendation J

The District should strengthen and monitor procedures to ensure disbursements comply with District policies and procedures. Monitoring procedures should be expanded to ensure all purchases are legitimate, received, and used for District purposes. Detailed supporting documentation should also be retained for all disbursements and invoices should be paid timely. Further, reasons to justify the use of an emergency purchase order should be documented.

To deter misappropriation of funds, the District should not allow accounts payable checks to be picked up by employees or vendors or otherwise held.

Bids

The Board directed the District utilize competitive bidding by securing formal and informal bids from suppliers and awarding contracts to the lowest responsible bidder meeting specifications. Prior to awarding a bid, the Board further directed all bids exceeding \$25,000 be submitted to the Board for approval. Exceptions may be made in case of emergencies with Superintendent’s approval.

All purchases in excess of \$10,000, but less than \$25,000, may be approved by the Purchasing Director after notification, in writing, to all actual or prospective bidders or contractors who make a written request to the District for notification of opportunities to bid. The Purchasing Director is required to report these purchases to the Board quarterly.

Purchases in excess of \$5,000, but less than \$10,000, may be approved by Purchasing Director after three or more verbal or written informal bids have been obtained.

Purchasing Director may purchase items less than \$5,000 without bids.

During the 2009-10 school year, 26 items were solicited for purchase through the bid process. DLA staff randomly selected seven bids for review and determined all bids selected appeared to comply with District bid requirements and specifications listed in Request for Proposal (RFP).

Of the bids selected for review, only three appeared to have the required Board approval recorded in the Board Minutes. The other four bids were not specifically mentioned by vendor in the Board Minutes, but may have been included as part of the consent agenda, "award of bids," that the Board approved by motion. Therefore, for these four bids, DLA staff was unable to determine from Board Minutes if Board approval was obtained as Board policy requires.

Recommendation K

Board action concerning acceptance of a bid proposal should be clearly denoted in Board Minutes. To ensure vendor compliance with RFPs, the District should continue to monitor the conformity process.

Maintenance Department

As reported in Prior Report, a Maintenance Shop employee misappropriated funds totaling \$439,745 by purchasing items, for which the District paid, for personal gain. As a result, DLA staff performed an onsite inventory observation on November 22, 2010 to identify and locate nine items, in various quantities, ordered as "Shop Stock."

DLA staff and District personnel were able to locate seven of the items ordered; however, two of the items, paint rolling kits and floor mats, were not accounted for properly. Maintenance personnel indicated the items were probably distributed to District schools; however, a tracking system was not utilized to determine how "Shop Stock" is ordered, received, and shipped to schools.

Further, while conducting the observation, DLA staff identified numerous items such as a juke box, antique dresser, wrought iron fence post, and various other items that were not District property. Discussions with District personnel revealed these items belong to former Executive Director of Support Services who retired from District employment in September 2009. District personnel further indicated it had been common practice for this individual to store personal items on District property.

Recommendation L

To ensure proper accountability for purchases, District should develop an order and tracking system to be used by Maintenance Department personnel. In addition, the District should not allow property, other than District property, to be stored at the Maintenance Shop.

Division of Equity and Pupil Services

Disclosed in the Prior Report, a responsibility of the District's Division of Equity and Pupil Services is to assist in providing basic needs for homeless and foster care students. According to the Assistant Superintendent for Equity and Pupil Services, the District often purchases food for families who cannot afford it themselves, supplements meals provided at the Assisting People in Transition Center located at the District Learning Academy, and provides care packages to students during the holidays and spring break. During the 2009-10 school year, the District purchased 50 grocery gift cards with value of \$50 each and utilized these gift cards for such purchases.

Receipts to support these purchases were not always maintained. In addition, supporting documentation to reflect which families were assisted and employee responsible for using the gift cards was not maintained.

Documentation provided by the District reflected seven gift cards had not been used. Although these cards should have a \$50 balance, DLA staff determined, by contacting the grocery gift card services, that five cards had a zero balances and two had balances of less than \$5.

Further, seven reimbursements totaling \$5,052 for purchases of clothing, supplies, and food for homeless students were reviewed to ensure

adequate supporting documentation was maintained. Application for Assistance forms and receipts were available to support each reimbursement reviewed.

Recommendation M

Documentation to support purchases should be maintained. In addition, the District should establish a policy to ensure adequate internal controls exist regarding gift cards or other cash equivalent assistance provided to students.

Bell Schedule and School Buses

The District released a new bell schedule for elementary and secondary school classes for the 2010-11 school year on August 16, 2010.

District personnel indicated the new schedule, which increased the elementary school day by forty minutes, was initiated to comply with state regulations that teacher plan time be scheduled during the school day rather than before or after school. Previously, elementary school teachers' plan time was before or after the student day schedule.

The bell schedule change for secondary schools was necessitated since District buses run routes for both elementary and secondary schools. District personnel stated neither the manpower nor funds were available for additional buses to accommodate the new bell schedule.

Ark. Code. Ann. § 6-17-114(a)(1) stipulates school districts shall provide each teacher a minimum of two hundred minutes weekly for instructional planning and preparation in increments of no less than forty minutes. However, Code further states a school district is exempt from these provisions if it has collectively negotiated a contract through a local teachers' association and the contract expressly provides for a teacher's daily planning period. Since the District has a collectively negotiated contract, it is exempt from these Code provisions.

According to the current contract negotiated between the District and PACT, as well as Board policy, elementary teachers have the option of a 45 minute preparation period either before or after the student day.

Subsequently, certain teachers filed a lawsuit against the District citing violation of teachers'

contracts. A settlement was negotiated and the District was ordered by a Sixth Judicial District Circuit Court Judge to revert back to the previous bell schedule for elementary schools. The new bell schedule for the secondary schools remains in effect.

To implement the new schedules, the District required approximately 50 additional buses.

Although the Superintendent informed the LJAC's Standing Committee on Educational Institutions at its September 9, 2010 meeting that the District would lease, rather than purchase, these buses, the District purchased 39 used buses totaling \$760,500 on October 12, 2010.

The District did not solicit bids for the purchase of buses because the Superintendent declared the purchase an "emergency." The Director of Purchasing indicated that while the formal bid process was not followed due to declared emergency, prices were obtained from three vendors.

According to the Director of Purchasing, the Director considered purchasing new buses at a cost of \$65,000 each with a nine month delivery time period, leasing buses for one year which cost more than purchasing new buses, or buying used buses. After obtaining quotes from three vendors, the District purchased 39 used buses at a unit cost of \$19,500 each.

In addition, the District hired 35 additional part-time bus drivers, at a pay rate of \$40 per day, as of report date.

According to Board Minutes of August 16, 2010, the Superintendent stated the decision to lengthen the elementary school day was solely his and not that of the Board. The Superintendent further stated the decision was not in the Board's domain and did not need a vote of the Board. However, Board policy and the PNA dictate the length of the elementary school day.

Recommendation N

As governing body of District, the Board should ensure changes that affect students, faculty, and staff as well as obligate the District financially comply with Code and PACT negotiated contracts and are an appropriate use of funds.

Fixed Assets

According to District financial records as of June 30, 2010, the District had capital assets valued at approximately \$158 million, consisting of 5,312 items such as buses, computers, printers, copy machines, cafeteria equipment, etc.

District policies and procedures require equipment be capitalized and recorded on the balance sheet if its value exceeds \$1,000 or is a computer, printer, copy machine, VCR, TV, or office furniture.

According to District insurance records, 441 vehicles totaling \$4,658,720 were insured as of October 15, 2010. Those insured include 358 buses, 42 maintenance vehicles, and 41 other vehicles assigned to various departments as reflected in **Exhibit X**. According to District personnel, employees are not allowed to commute in District vehicles except for the Superintendent and in instances of inclement weather.

DLA staff compared the list of insured vehicles to the fixed assets listing. The following was noted:

- Eighteen buses on insurance records, at an average insured cost of \$39,605, that were not found on fixed assets inventory.

- Ten buses listed on insurance records that were listed on fixed assets inventory without identifying manufacturer, model, or serial number.
- Eight buses listed on fixed assets inventory that were not listed on insurance records. District personnel indicated these buses appeared to be fully depreciated.
- Two buses with conflicting serial numbers between insurance records and fixed assets inventory list.

In addition, a review of a fixed assets report noted 35 computers and a projector with total value of \$47,792 with a location of "Missing."

Fixed assets may not be adequately accounted for if the District did not accurately record the description and location of each item. Further, failure to properly record fixed assets information may result in an over- or understatement of District assets on the year-end financial statements.

Recommendation O

To comply with Board policy and safeguard assets, the District should establish procedures to ensure fixed assets inventory is accurate and updated timely so that year-end financial statements are fairly stated.

In addition, District should verify insurance coverage maintained for vehicles is adequate.

A policy should be implemented regarding employee use, including commuting, of District vehicles.

Inventory Control

The District maintains a Warehouse in close proximity to the District Central Office that houses inventory items such as school supplies, janitorial supplies, and frozen and non-perishable foods.

Exhibit X

Pulaski County Special School District (District) District Vehicles As of October 15, 2010		
Department	Number of Vehicles	Cost
Bus Shop	358	\$ 4,276,157
Maintenance	42	87,123
Food Service/Bakery	6	11,016
Management Information Systems	7	36,265
Plant Planning	2	25,825
Security	4	33,411
Superintendent	1	35,480
Support Services	1	5,060
Transportation	12	52,080
Warehouse	7	91,881
Workforce Education	1	4,422
Totals	441	\$ 4,658,720

Source: District fixed assets records

DLA staff performed an onsite inventory observation at the District Warehouse on November 22, 2010. An Inventory Status Report (Inventory Report) was provided to DLA staff by District Warehouse Manager; however, neither written policies nor procedures pertaining to inventory control were available.

According to the Warehouse Manager, all items received are counted and entered into the inventory system. Individual District schools order supplies from the Warehouse Secretary, by fax or via courier, who enters the items into the inventory system. The system generates an order ticket which is distributed to the Warehouse delivery drivers. Warehouse personnel deliver to eight schools in the District per week day. Drivers are to count items set aside for delivery to ensure the items agree with the order ticket. DLA staff was informed the receiving school is responsible for counting items received and signing the delivery ticket.

Warehouse Manager indicated to DLA staff that an inventory is performed each June and an inventory report, which was shown to DLA staff, is sent to the District Business Office. Personnel in District Business Office could not locate 2009-10 school year inventory report.

Upon review of a current Inventory Report, it was determined that the received date and cost for items were not documented; therefore, DLA staff could not determine the age or value of items in the Warehouse.

DLA staff observed several items covered in dust that appear to have been stored for a prolonged period of time.

Further, DLA staff determined the Warehouse is not under proper security surveillance. Cameras installed at the Warehouse appear to be only motion sensors that do not record daily activity.

Recommendation P

To ensure proper usage and safeguard against misappropriation, District should establish internal controls that account for receipt, storage, and distribution of inventory items. Written policies and procedures should be developed to ensure that all inventory is accounted for properly. The inventory system should record and report dates received and removed, as well as cost of items, features currently available in APSCN.

In addition, District may consider installing security cameras to monitor Warehouse activity to enhance protection of District property.

Cellular Telephones

The monthly cellular telephone bill for the District is reviewed by the Director of Purchasing, who initiated this procedure after he was hired July 19, 2010, to determine if charges are proper and to identify cellular telephones that are no longer needed by the District, whereupon service is cancelled. Before payment, District personnel separate the bill by department for approval by the respective department supervisors. However, Department Supervisors indicated, during interviews with DLA staff, that cellular telephone bills were not thoroughly reviewed prior to October 2010.

The District cellular telephone policy states:

- The supervisors of each department will, for their division, monitor and approve detailed cellular telephone bills.
- Each employee will review his/her cellular telephone bill each month and denote any personal and/or nonofficial calls. Reimbursement should be sent to the Business Office within 30 days.
- All long distance, roaming, and personal calls, as well as calls exceeding the allowable plan minutes will be paid by the employee. Personal calls not accounted for within 30 days may be deducted from the employee's next regularly scheduled payroll disbursement.

The District provided cellular telephones to administrative, transportation, warehouse, security, support, and certain nursing staff. District expenditures totaled \$70,718 for 92 cellular telephones and related services which included \$3,884 in usage charges, such as roaming and voice and data fees, not covered by the District's service plan for the period August 14, 2009 through September 10, 2010.

The District cellular telephone policy does not identify usage and eligibility requirements; therefore, DLA staff was unable to determine if District had adequate controls over the use and distribution of cellular telephones.

Recommendation Q

The District should determine the employees responsible for the charges of \$3,884 not covered in the District’s cellular telephone service plan and obtain reimbursement from the applicable employees.

Overpayments to Newly Hired Employees

DLA staff randomly selected four employees, whose employment with the District began after July 1, 2010, to determine if these employees were correctly entered in the payroll system based on information contained on Employee Recommendation Form (ERF), Support Staff Personnel Recommendation Form (SSPRF), and Certified Employment Recommendation Form (CERF).

Review revealed the District overpaid three of the four employees at least \$9,741 during the period July 1, 2010 through September 15, 2010, as reflected in **Exhibit XI**, for days which appear not worked prior to actual start date.

Exhibit XI

Pulaski County Special School District (District) Employees' Salary Overpayments July 1, 2010 through September 15, 2010	
Employee	Amounts
1	\$ 4,553
2	4,101
3 (Note 1)	1,087
Total Amounts Overpaid	\$ 9,741

Note 1: Employee is Superintendent's brother

Source: District payroll records

Employee 1

Review of ERF indicated employee effective date was originally July 8, 2010; however, Human Resources personnel changed the date to July 22, 2010 with notations that this was the actual first day of work. The Assistant Superintendent of Human Resources changed the date back to July 8, 2010 with no additional notation. ERF also reflected the Superintendent contacted three of the employee’s references on July 8, 2010.

DLA staff contacted the employee’s previous employer to determine the last official work day for the individual. According to the previous employer, the employee submitted his resignation on July 9, 2010 with an effective date of July 13, 2010. Due to conflicting information on the ERF, it appears the employee was paid for ten days that were not worked, resulting in an overpayment of \$4,553.

Employee 2

Review of SSPRF did not indicate the beginning date of District employment for the employee; however, payroll records reflect an effective date of July 1, 2010. The SSPRF did not contain references nor any indication the District contacted references. Email correspondence between the Superintendent and CFO on July 2, 2010, included in the employee’s personnel file, revealed the CFO was concerned that the contract was signed on July 1, 2010, but the employee was not to actually start work until July 19, 2010. The Superintendent directed the CFO not to change the effective date on the contract or charge the employee for ten days leave time. The Superintendent indicated the employee would make up the time through flex time on Fridays during the summer and other days that would originally be scheduled off during the school year. Further, prior to July 1, 2010, the employee served as a consultant to the District and District personnel indicated, and DLA staff confirmed, payment for consultant services was mailed overnight to the employee’s residence in Portland, Oregon on July 13, 2010. Based on this information, it appears the employee was paid for ten days that were not worked resulting in an overpayment of \$4,101.

Employee 3

Review of CERF reflected an effective start date of September 3, 2010 and payroll records reflected hire date of September 8, 2010; however, District personnel indicated references for the employee were checked on September 8, 2010. Further, District personnel indicated that the Superintendent stated on September 7, 2010 that this employee would be joining the District. Due to conflicting information between effective start date and hire date, it appears the employee, who is the Superintendent’s brother, was paid for at least three days that were not worked, one of which was a holiday, resulting in an overpayment of \$1,087.

Recommendation R

District should ensure new employee effective start dates accurately reflect the actual first date of work.

District should also obtain reimbursement from, or apply leave time to, those employees who were paid for days not worked.

Overtime Compensation

Prior Report disclosed excessive overtime compensation in the Maintenance Department. Although review of overtime compensation payments for the 2009-10 school year revealed a significant reduction in overtime pay, the following three employees received triple the amount of overtime from the previous school year.

- Insurance Specialist - \$18,483
- Payroll Specialist II - \$17,116
- Secretary to Superintendent and Board - \$10,081

Discussions with District personnel revealed the District is understaffed in the payroll and insurance departments. District employees are paid every two weeks; therefore payroll is processed one week and distributed the next week. In addition to the frequency of payroll disbursements, the District recently converted its financial records to APSCN and during the transition, dual payrolls were run which required additional overtime for the payroll and insurance specialists to ensure payroll was complete and accurate.

The District financial audit for the year ended June 30, 2009, revealed payroll duties were not adequately segregated. According to District management, the cost/benefit implications hinder the District's ability to segregate the payroll preparation among employees.

In addition, the Board Secretary is required to work overtime when Board meetings are held after regular school hours. During the 2009-10 school year, the Board held approximately 36 meetings, which resulted in over 200 overtime hours for the Board Secretary.

Recommendation S

To prevent excessive overtime, the District should continue to monitor payroll disbursements.

In addition, District should ensure that adequate segregation of duties exists in the payroll and benefits department.

Grant Writer

District personnel notified DLA staff of an internal investigation regarding allegations of misuse of District supplies by District Grant Writer, Dr. Deborah McAfee. According to file documents, the District determined, and this review confirmed, \$1,221 in questioned reimbursements to McAfee for supplies that may have been used by McAfee in her personal business, Grant It. The items in question include CD labels and cases, bubble mailers, ink cartridges, and address labels. These items, when used by the District, are ordered directly from the vendor through the District procurement process.

In addition, a vendor informed the Superintendent that McAfee stated the District would utilize the vendor's services in exchange for completing an application for a particular grant. After the District was awarded this grant, the vendor subsequently notified the Superintendent because the vendor's service were not used by the District as McAfee promised.

Further, DLA staff identified the following \$235 in questioned mileage reimbursements that are due the District:

- \$65 mileage reimbursement to McAfee for 187 mile round trip to Clarksville School District (CSD) on March 29, 2010. DLA staff contacted CSD and learned McAfee was writing a grant for CSD, not representing the District. Representatives of CSD further indicated McAfee was paid \$3,000 for grant writing services and returned to CSD on March 31, 2010 for grant writing assistance. DLA staff reviewed District employee leave records for McAfee and determined McAfee did not charge leave for either of the days away from the District for matters unrelated to the District.
- \$170 mileage reimbursement for 487 miles reported on previous in-district travel report.

In addition, DLA staff identified \$1,191 in reimbursements to McAfee for supplies for the period July 1, 2009 through August 3, 2010. District personnel neglected to include these

reimbursements due to McAfee having two vendor names (Deborah McAfee and Dr. Deborah McAfee) set up in APSCN.

DLA staff determined reimbursements totaling \$343 were questioned as to business purpose and included items such as card readers, scanning services, and picture frames.

DLA staff received permission from the Superintendent to obtain McAfee's District computer and email archives to perform a computer forensics review. Results of that review included the following:

- Email between McAfee and Acting Superintendent, dated June 2, 2010, indicated McAfee was teaching a workshop outside the District and requested to take "professional" leave for that purpose. McGill instructed McAfee that if she were paid to conduct the workshop she must take vacation days. DLA staff contacted two entities for which McAfee conducted three workshops on three different days and determined McAfee was paid to conduct each workshop and reimbursed for mileage and lodging. District leave records reflected McAfee charged a vacation day, a school business day, and a professional day as opposed to taking three vacation days as directed by McGill.
- Email between McAfee and District personnel reflected a District employee printed labels for a school district in Tennessee at McAfee's request. DLA staff review of McAfee's grant writing website revealed schools in Tennessee used McAfee's grant writing service.

Recommendation T

The District should require reimbursement from McAfee for items purchased totaling \$1,221 determined not to be for District use. Unless adequate documentation is provided, McAfee should also reimburse \$343 for supplies that DLA staff identified were not for a District purpose.

In addition, the District should obtain reimbursement of \$235 for mileage.

Further, District personnel should determine amount of leave time McAfee should have been charged while performing services unrelated to District.

DREAM

Dedicating Resources to Excel All Minds (DREAM) is a non-profit community based organization, in partnership with the District, committed to providing an environment that meets the academic and social needs of students and families from all cultural and economic backgrounds.

Jody Abernathy, Director of DREAM and daughter of a District Assistant Superintendent, stated DREAM provided academic support for 120 District students through pre-school and after school programs.

During the 2009-10 school year, DREAM supplied after school services to nine District schools and pre-school services to approximately 40 children.

Funding for DREAM was primarily through the federal Twenty-First Century Community Learning Centers grant program administered by ADE. DREAM also received funds from the Arkansas Better Chance pre-school program as reimbursement for meals and snacks served to children enrolled in the DREAM pre-school program.

Under terms of a contract, effective October 1, 2009 through June 1, 2010, signed by Abernathy and the District Director of Student Nutrition Services, DREAM was to reimburse the District for meals and snacks supplied by the District.

According to District records, DREAM was charged \$78,076 for meals and snacks for the period August 2008 through April 2010, but has reimbursed only \$50,885, leaving \$27,191 due the District.

Subsequently, Abernathy reimbursed an additional \$5,400 to the District via the District's attorney, leaving \$21,791 due the District as of report date. Abernathy further agreed, through a consent judgment, to reimburse the balance. The District executed an agreement to withhold execution of judgment as long as Abernathy continued to reimburse the District.

According to District personnel, the District Nutrition Department no longer provides services to DREAM, effective May 1, 2010.

Recommendation U

The District should continue to monitor reimbursements from DREAM and take appropriate action if the debt is not satisfied in accordance with the consent judgment.

Foreign Travel

In reviewing District financial records, DLA staff identified a payment of \$7,826 to China Travel Services on October 28, 2010. District provided a copy of the invoice which indicated the Superintendent, Board member Tim Clark, and six other District employees were traveling to Beijing, China from December 2 through December 10, 2010 for a 2010 Winter Chinese Bridge for American Schools program. Interviews with District personnel revealed the trip is sponsored by the University of Central Arkansas Confucius Institute (UCACI) and East China Normal University in Shanghai. The UCACI, in collaboration with ADE, is promoting the teaching of the Chinese language in Arkansas school districts.

Information provided to the District by UCACI indicated the District is responsible for half of the round trip airfare from China and will not be responsible for any additional travel costs associated with the trip such as lodging, meals, tour guides, and inter-city transportation costs. The District anticipates reimbursement of \$3,424 from UCACI.

In addition, because Board member Tim Clark paid his airfare directly to China Travel Services, the District is due a refund of \$978 from China Travel Services.

DLA staff was unable to determine if this trip was discussed with or approved by Board prior to payment of the airline costs.

Further, it was determined that even though only one Board member is attending, the entire cost of the trip was charged to the Board of Education Services accounting code.

Recommendation V

District personnel should refrain from obligating District financially for expenses outside of normal business without Board approval. In addition, District should ensure costs associated with trip are charged to the appropriate accounting code.

Further, District should ensure reimbursements of \$978 and \$3,424 from China Travel Services and UCACI, respectively, are received. Without Board approval, the District should not reimburse other expenses associated with trip.

Outstanding Checks

A review of District financial records revealed 151 outstanding accounts payable checks totaling \$62,428 were more than 120 days old as of September 30, 2010. One check totaling \$31,933, payable to a vendor, was given to a District employee who held the check for five months before notifying District Accounting personnel that the check was being held because the vendor had not fulfilled an order. Due to the District employee holding the check after the close of the 2009-10 school years, District personnel did not void the check; therefore, expenditures for the year were overstated. After notification from DLA staff, District personnel voided this check on November 4, 2010.

In addition, 39 of the 151 outstanding accounts payable checks, totaling \$4,938, were identified as issued in 2008.

Further review of District financial records revealed 185 outstanding payroll checks totaling \$40,889 were more than 120 days old as of June 30, 2010. Of these outstanding checks, 110 totaling \$26,895 and 60 totaling \$12,278 were issued in calendar years 2009 and 2008, respectively.

Although District checks denote "Check void after 180 days," discussions with District Accounting personnel indicate the District does not have a formal, clearly defined policy for voiding outstanding checks. However, District personnel indicated at the end of each school year, during the year-end closeout of financial records, the oldest checks are written off. District personnel strive to ensure outstanding checks were not older than two school years.

Recommendation W

The District should establish a formal, written policy to void stale outstanding checks. Such policy should establish scheduled aging dates with specified required action. At a minimum, checks outstanding over the established time period should be voided and reissued as needed.

In addition, District should discontinue the practice of allowing employees to intercept checks payable to vendors.

Manual Checks

A review of manual payroll checks revealed 148 checks were processed between July 1 through December 1, 2010. Of these checks, 146 were issued to employees for refunds of PACT dues withheld from paychecks in error.

The remaining two checks were issued to the Superintendent and a District principal who were to be out of town when direct deposits were scheduled to post to their bank accounts. At the request of the Superintendent, the District CFO authorized manual checks be issued in lieu of direct deposit.

According to District personnel, the District did not have a policy for issuing manual checks; however, the Director of Accounting/Auditing or the CFO may authorize a manual check.

Recommendation X

The District should implement a manual check policy and not issue manual payroll checks.

Arkansas Financial Accounting Handbook

The Arkansas Financial Accounting Handbook (Accounting Handbook) was developed to provide an accounting system to effectively manage local school district funds. According to ADE, it is a uniform chart of accounts and related codes established by ADE and used for accounting and financial reporting of school districts. The classifications contained in the Accounting Handbook describe financial transactions and provide consistency and comparability in local school district financial reporting throughout the state.

The District utilized incorrect classifications in coding various expenditures. Incorrectly classified expenditures not only inhibit comparability between local school districts, but also cause a potential misstatement of the financial statements.

Recommendation Y

Procedures should be implemented to ensure consistency in coding District expenditures.

Spending Practices

To demonstrate District spending practices, DLA staff provided examples of certain District expenditures, totaling over \$3.2 million, in **Schedule 3 on page 38**.

Internal Control Deficiencies

Internal control is a process consisting of five interrelated components – control environment, risk assessment, information and communication, control activities, and monitoring. Management is responsible for adopting sound policies and establishing and maintaining internal control that will ensure the achievement of the entity's objectives. The control environment sets the tone of an organization, which influences control consciousness of its employees, and is the foundation for all other components of internal control, providing discipline and structure.

District management is responsible for properly communicating values and behavioral standards to personnel through policy statements, codes of conduct, and example. District management and the Board are also responsible for establishing a "tone at the top" that demonstrates to personnel the necessity of standards and fiscal prudence.

This review and interviews with pertinent District personnel revealed several internal control deficiencies which could contribute to misappropriation of District funds as well as potential waste and abuse of District resources. In particular, these deficiencies indicate Administrative staff and the Board, at times, did not:

- Exercise proper management fiscal oversight responsibility or provide safeguards to prevent and timely detect misappropriation of funds and potential waste and abuse of District assets.
- Follow established District policies and procedures.

Recommendation Z

To reduce the risk of misappropriation of assets and potential waste and abuse of funds, the Board should, in conjunction with Administrative staff, continue to practice sound internal control policies, comply with applicable Code and IRS regulations, and monitor all accounting phases for adherence to established controls and procedures.

In addition, the Board should increase and maintain its knowledge and awareness of fiscal oversight, accountability, and fiduciary responsibilities. District management and the Board should strive to demonstrate to personnel the necessity of standards and fiscal prudence.

Matters Disclosed in Prior Report

Superintendent Salary Overpayment

District personnel recalculated former Superintendent James Sharpe's compensation for services to the District from July 2005 through March 2009 to determine if Sharpe was overpaid for the period. Accounting and payroll personnel calculated, and DLA staff verified, an overpayment totaling \$17,203 net of \$4,636 withheld from Sharpe's separation payment.

The overpayment was due primarily to the unauthorized retirement contribution amount paid directly to Sharpe each pay period, totaling \$13,569.

Superintendent's Travel Expenses

The District issued Sharpe travel advances, net of amount unused, and reimbursements totaling \$4,665 and \$265, respectively. In addition, Sharpe charged other expenses totaling \$15,688 to a District credit card he was authorized to use. Of the total travel expenses of \$20,618 paid to, or on behalf of, Sharpe, \$7,836 were unallowable expenses. These included duplicate charges, meals and conference registration fees for family members, gratuities, alcoholic beverages, meals at local restaurants, and taxi fares not adequately documented.

Status

The District filed a civil lawsuit against Sharpe seeking reimbursement of salary overpayment (\$17,203) and the unallowable travel expenses (\$7,836). Attorneys for the District and Sharpe are currently in negotiations regarding this matter and the civil suit is pending resolution in Sixth Judicial District Circuit Court.

Board Members' Travel

Board members' travel expenses for the period July 1, 2006 through March 3, 2009 included unallowable or undocumented expenses of \$7,349 and \$343, respectively. Three Board members reimbursed the District for unallowable

amounts (\$278) or provided an explanation for questioned expenses (\$70) and two other Board members provided adequate supporting documentation for a portion of their unallowable expenses (\$3,667). Unallowable and questioned travel expenses totaling \$3,677 remain due the District.

Status

The District was reimbursed for \$3,527 of the unallowable travel expenses and documentation to support the remaining \$150 was provided to the District.

Misappropriation of Funds

District Mechanical Systems Supervisor James Diemer misappropriated \$439,745 by purchasing items, for which the District paid, from three vendors for personal gain.

Status

Diemer entered, in federal court, a plea of guilty to theft of property from a government entity which received federal funds and was sentenced to 18 months imprisonment with three years supervised probation upon his release. Diemer was also ordered to pay restitution totaling \$387,442. During incarceration, he will pay 50 percent per month of all funds available to him and upon release, will pay 10 percent per month of his monthly gross income to satisfy restitution.

The Arkansas Governmental Bonding Board approved bond payment of \$249,000 from the bond trust fund as fidelity insurance coverage for this loss in July 2010.

The District maintains fidelity bond insurance coverage through Central Arkansas Risk Management Association with which a claim was filed in early November 2010. The District received payment of \$99,000 for this claim.

Jacksonville High School Activity Fund

District accounting personnel determined \$23,036 had not been deposited in the Jacksonville High School Activity Fund (Activity Fund) during the period August 2009 through January 2010.

In addition, gate receipts and change funds, estimated to total \$8,500, for eight athletic events during September 1, 2009 through January 15,

2010 were not deposited in the Activity Fund bank account.

The District contacted the Jacksonville Police Department to report funds not deposited. Subsequently, Rosalind Taylor, Activity Fund Bookkeeper, was charged with theft of property.

District Response

District accountants require school bookkeepers to make daily deposits for Activity funds. The Activity funds are accounted by fundraiser and monthly activity fund balances are reported in the Board Agenda book. Activity funds may not carry over more than \$4 per student to the next fiscal year without Board approval at the June meeting.

Status

Felony theft of property charges were filed against Taylor in Sixth Judicial District Circuit Court. A jury trial has been scheduled for January 2011.

CONCLUSION

Following presentation of the Prior Report on May 14, 2010, the Legislative Joint Auditing Committee (LJAC) requested DLA staff to determine and report corrective measures the District implemented regarding Prior Report findings. In addition, LJAC requested, at its June 11, 2010 meeting, DLA staff to prepare a follow-up report relating to selected transactions and activities of the District subsequent to the time periods of review for various components of the Prior Report.

Selected examples of the District's spending patterns during the period July 2009 through November 2010, totaling over \$3.2 million, are provided in **Schedule 3 on page 38**.

The employment contract for Superintendent Charles Hopson included use of a District vehicle and fuel credit cards for both business and personal purposes. Although the contract stipulated Hopson maintain records for personal use, these were not kept. Hopson's contract also contained clauses for services as a consultant prior to hire date, moving and relocation expenses of \$25,000, health and other types of

insurance premiums not allowed by Code nor certain IRS regulations, and reimbursement of \$56,357 for a portion of his cost to reinstate to ATRS.

Salaries and benefits for certain administrators are budgeted to increase by \$550,138 and \$162,777, respectively, in the 2010-11 school year from the previous school year.

Several Board members received training hours in excess of the number required. The District spent over \$176,000 for Board-related expenses, including boardroom renovations. In addition, Board members received unallowed reimbursements and use of a cellular telephone totaling \$1,360, which is due the District.

The District received \$20.5 million in desegregation funds of which \$16.2 million was expended in the 2009-10 school year.

Review of certain consultant contracts indicated two individuals, who are or will become District employees, were placed on contract for services prior to employment which appears to be to pay them above the salary level for the positions they hold or will assume.

The District expended \$961,329 for legal services, including fees for union disputes and an ongoing desegregation case.

The Prior Report disclosed numerous deficiencies in the District purchasing process. Although this review indicated improvements in purchasing practices, the District continued to have issues in that supporting documentation was not available for all disbursements; accounts payable checks were occasionally held for pick up by, or hand-delivered to, vendors; and some Maintenance Department purchases were not tracked properly.

The District's bell schedule was changed, at the direction of the Superintendent, resulting in the purchase of 39 used school buses at a cost of \$760,500 as well as hiring 35 additional part-time bus drivers.

Review of the District's fixed assets records and Warehouse inventory reports revealed several instances for which asset information was not accurate and inventory items were not adequately tracked. In addition, security measures at the Warehouse were not sufficient.

Three new employees were paid a total of \$9,741 for days not worked.

An internal review conducted by District personnel disclosed that the District's Grant Writer had misused District supplies. In addition, this employee received mileage reimbursement for travel unrelated to District business on District time.

DREAM, a vendor which provided before and after school programs, owes the District \$21,791 for meals and snacks provided by the District.

The District did not code all expenditures consistently or in accordance with ADE's accounting manual. In addition, the District did not timely void stale outstanding checks.

Matters disclosed and pending in the Prior Report, and the status thereof, are discussed on **pages 33 and 34**.

The District is due or potentially due \$66,807 from various Board members, employees, and vendors as shown in **Exhibit XII**.

District management is responsible for properly communicating values and behavioral standards to personnel through policy statements, codes of conduct, and example. District management and

the Board are also responsible for establishing a "tone at the top" that demonstrates to personnel the necessity of standards and fiscal prudence. This review and interviews with pertinent District personnel revealed several internal control deficiencies which could contribute to misappropriation of District funds as well as potential waste and abuse of District resources.

Response to the report provided by the Superintendent is presented in the **Appendix on pages A-1 through A-3**.

This report has been forwarded to Sixth Judicial District Prosecuting Attorney, Arkansas Department of Education, and Arkansas Governmental Bonding Board.

Exhibit XII

Pulaski County Special School District (District) Amounts Due/Potentially Due the District As of November 30, 2010	
Title/Vendor	Amounts Due/Potentially Due District
Superintendent	\$ 23,919
Board members	1,360
Chief Technology Officer	6,223
Consultant for Human Resources	1,974
Overpaid employees (3)	9,741
Grant Writer	1,799
DREAM	21,791
Total	\$ 66,807

Source : District financial records

Schedule 1

Pulaski County Special School District
Salaries and Benefits of Certain Administrators
For the 2009-10 and 2010-11 School Years

Position	Date Hired	Date Resigned	2009-10		2010-11	
			Salaries	Benefits	Salaries	Benefits
			(Note 1)		(Note 2)	
Superintendent	7/1/10				\$ 258,600	\$ 82,752
Acting Superintendent	3/11/09	06/30/10	\$ 167,391	\$ 53,565		
Chief Financial Officer	6/10/09		111,500	35,680	115,168	36,854
Chief Technology Officer	7/1/10				100,067	32,021
Director of Management Information Systems	5/12/99	1/15/10	47,972	15,351		
Dep. Supt. for Academic Accountability Region I	7/14/09		101,823	32,583	111,090	35,549
Dep. Supt. for Academic Accountability Region II	7/8/09				109,269	34,966
Asst. Superintendent for Human Resources	7/1/06		114,742	36,717	114,742	36,717
Asst. Superintendent for Equity/Pupil Services	3/14/07		114,496	36,639	117,242	37,517
Asst. Superintendent of Curriculum/Instruction	8/9/10				88,703	28,385
Director of Secondary Education	7/1/06	01/06/10	57,127	18,281		
Director of Elementary Education	7/1/06		102,110	32,675	105,469	33,750
Director of Federal Programs	9/9/10		84,517	27,045	91,270	29,206
Executive Director of Support Services	8/24/01	9/25/09	24,255	7,761		
Acting Executive Director of Support Services	5/7/09	6/30/10	92,408	29,570		
Executive Director of Operations	11/8/10				85,205	13,999
Director of Public Information and Policy	9/23/09	6/30/10	41,046	13,135		
Executive Director of Communications	7/1/10				67,881	21,722
Director of Educational Accountability	10/11/99	6/30/10	99,269	31,766		
Executive Director of Educational Accountability	7/1/10				101,642	32,525
Director of Pupil Services	7/1/10				77,374	24,760
Director of Human Resources	7/17/06		77,374	24,760	88,070	28,182
Director of Special Education	7/7/06	8/31/10	18,171	5,815		
Acting Director of Special Education	7/1/09	6/30/10	83,972	26,871		
Director of Special Education	7/1/10				87,815	28,101
Director of Workforce Education	9/26/05		74,909	23,971	77,374	24,760
Director of Counseling	7/11/07		79,919	25,574	82,550	26,416
Director of Gifted and Talented	8/10/05		85,265	27,285	88,070	28,182
Director of District Athletics	7/1/10				61,687	19,740
Acting Director of Educational Technology	7/1/09	6/30/10	79,305	25,378		
Director of Accounting and Auditing (Note 3)	12/24/86		85,459	27,347	85,707	27,426
Acting Director of Accounting and Auditing	7/1/10				71,402	22,849
Director of Purchasing	1/2/07	8/11/09	15,020	4,806		
Director of Purchasing	9/9/10	4/2/10	51,670	16,534		
Director of Purchasing	7/19/10				75,259	24,083
Director of Transportation (Note 4)	4/25/95		7,440	2,381	94,670	30,294
Director of Grants Administration	7/24/09		77,176	24,696	85,344	27,310
Director of Child Nutrition	8/4/08		75,511	24,163	78,029	24,969
Director of Plant Planning	8/26/87		98,249	31,440	98,535	31,531
Totals			<u>\$ 2,068,096</u>	<u>\$ 661,789</u>	<u>\$ 2,618,234</u>	<u>\$ 824,566</u>

Note 1: Actual amounts paid

Note 2: Amounts budgeted for 2010-11 school year

Note 3: Employee is on leave

Note 4: Employee was on military leave the majority of the 2009-10 school year

Source: District financial records

Schedule 2

Pulaski County Special School District (District) Board and Union Actions For the Period December 6, 2009 through October 12, 2010	
Date	Action
12/6/09	Tentative agreements between the District School Board (Board) and Pulaski Association of Classroom Teachers (PACT) were ratified.
12/8/09	Board voted to withdraw recognition of PACT and Pulaski Association of Support Staff (PASS), effective immediately.
12/10/09	Memo from Acting Superintendent Rob McGill indicated PACT contract for 2006-2009 would remain in effect and both certified and support staff employees would form a personnel policy committee in compliance with state law.
12/10/09	A number of certified teachers participated in a "one-day Fair Treatment Walkout."
12/15/09	PACT filed a complaint seeking declaratory judgment that the Professional Negotiations Agreement was effective by its terms until a successor agreement could be negotiated.
12/30/09	District filed a counterclaim seeking declaratory judgment that some members of PACT engaged in an "illegal one-day strike" on December 10, 2009.
3/5/10	Both parties entered into a Joint Stipulation of Facts for submission to the court.
3/8/10	Court ordered both parties to attend mediation.
3/24/10	Court was notified by the mediator that the mediation process was unsuccessful.
6/11/10	Board voted to give Attorney for District authority to hire additional legal counsel to assist in the union case.
10/12/10	Board voted to recognize PACT and PASS.

Source : District Board minutes and Sixth Judicial District Circuit Court order

Schedule 3

Pulaski County Special School District (District)
 District Spending Patterns
 For the Period July 16, 2009 through November 30, 2010

Item	Cost	Description
First Student, Inc.	\$ 760,500	Purchased 39 used buses as a result of bell schedule changes.
Administrators' salaries and benefits	712,915	Increases in certain administrators' salaries and benefits as compared to 2009-10. See Schedule 1 on page 36.
Consultant fees	96,126	Chief Technology Officer (\$11,808), Executive Director of Operations (\$51,144), and Consultant to Superintendent (\$33,174) were paid for consultant fees and other expenses prior to employment with District.
Pacific Education Group	294,451	Diversity Training Contract. \$282,000 to be paid during the 2010-11 school year.
Boardroom renovation	104,524	Boardroom renovations to convert to "paperless" Board meetings.
Grievance settlement (Note 1)	75,000	\$50,000 to Michael Nellums for grievance settlement; \$25,000 to Nellums for attorney fees.
Legal fees	961,329	Includes various expenses for legal representation. See Exhibit IX on page 22.
Cellular telephones	70,718	Cellular telephone charges for 92 District administrators and other personnel during the 2009-10 school year.
Performance <i>fact</i> , Inc.	42,000	Contracted to develop a three-year strategic alignment plan to be implemented in the 2011-12 school year.
Superintendent's vehicle	35,480	Purchased a 2010 Buick LaCrosse for Superintendent's use.
Superintendent's moving expenses	24,805	Board approved \$25,000 for moving/relocation expenses.
Superintendent's consultant fees	17,656	\$10,922 consultant services; \$5,880 airfare, rental car, hotel, and miscellaneous fees; and \$854 per diem paid prior to contract effective date.
iPads	15,852	Purchased 20 iPads for Board and Cabinet members.
China Travel Service (Note 2)	7,826	Airfare to Beijing, China for Superintendent, a Board member, and six other District employees to attend the 2010 Winter Chinese Bridge For American Schools program.
Chief Technology Officer moving expenses	5,899	Moving expenses from Portland, Oregon to Little Rock, Arkansas.
Total	\$ 3,225,081	

Note 1: \$25,000 of the \$50,000 is to be paid to Nellums in January 2011

Note 2: District anticipates reimbursement of \$3,424 from University of Central Arkansas Confucius Institute

Source: District financial records

APPENDIX

**Pulaski County Special School District
Response to Report
Dr. Charles Hopson, Superintendent**

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Response: A

The District will report all fuel cost incurred by Mr. McGill as income on his IRS Form W-2 for 2010.

Response: B and C

The District will recommend to the Board a policy requiring employees to maintain vehicle usage records for personal use of a District vehicle to comply with IRS regulations. The District will also recommend that the policy include the IRS 100% income inclusion for all District-provided vehicles should vehicle usage records not be provided.

The \$141 noted in the report as overpayment of disability insurance is incorrect. The District will review the total amount of \$6,590 in insurance premiums which were negotiated as part of Dr. Hopson's contract to ensure compliance with Arkansas Code.

The District has not expended any cost associated with Dr. Hopson's reinstatement of ATRS service. The District has referred this issue to legal counsel and the contract negotiator for the Superintendent. All said costs were negotiated as part of the Superintendent's contract.

The District will address the parameters of reasonable, necessary District car maintenance expenditures allowed in the Superintendent's contract.

All income paid to Dr. Hopson for technology services be will included as income on his 2010 IRS Form W-2, and all payments made on behalf of Dr. Hopson's technology services will be reimbursed by Dr. Hopson or included as income on his IRS Form W-2.

All moving and relocation expenses not meeting IRS regulations will be added as income on Dr. Hopson's 2010 IRS Form W-2. The District will not request reimbursement of moving and relocation expenses because they were negotiated as part of the Superintendent's contract.

Response: D

The Superintendent will recommend to the Board President consideration of procedures to be implemented to ensure Board members obtain required number of training hours.

Response: E

The District will seek reimbursements for mileage reimbursement overpayments of \$116 and \$21 from Board members Williams and Tatum, respectively. Before reimbursing Board members for mileage expense, the District will review and substantiate mileage forms submitted for reimbursement.

Response: F

The District will seek reimbursement for improper travel advances of \$95 and \$305 from Board members Tatum and Williams, respectively. The District will enforce the Board's policy of not advancing funds for travel expense.

Response: G

The District will request Board member Clark repay \$15 for duplicate meal reimbursement and seek \$6 from former Board member Gililand for improper expense reimbursements.

In addition, the District will require Williams reimburse \$802 for cellular telephone services the District paid on her behalf.

Response: H

The District has revised its travel reimbursement policy and now reimburses employee travel expenses on a per diem basis for meals.

Response: I

The District will review the \$6,223 not covered in the CTO's consultant contract. Moving expenses were agreed to by the Superintendent and CTO as a condition of employment. The CTO will reimburse the District \$13 in questioned expenses. In addition, employees will not be paid for days not worked.

The District will review reimbursement of \$1,974 paid the HR Consultant for mileage expenses for commuting, which was not included in the contract. The District will recommend that all contracts are in the best interest of the organization, approved prior to services performed, and adhered to properly. In addition, the organization will ensure that District personnel refrain from allowing services to begin and obligating District financially without Board approval.

The District will also evaluate employees in positions combined to allow an increase in salary to ensure they are continuing to perform the services which the new position entails.

Response: J

The District will continue to strengthen and monitor procedures to ensure disbursements comply with District policies and procedures.

The District will adopt a policy to discontinue allowing vendors to pick up checks or allowing employees to pick up checks for vendors. The policy will be presented at our January 12, 2011 Board meeting.

Response: K

Board action concerning acceptance of a bid proposal will be clearly denoted in Board minutes. To document vendor compliance with RFPs, the District will implement and document a conformity process.

Response: L

To ensure proper accountability for purchases, District will develop an order and tracking system to be used by Maintenance Department personnel. In addition, the District will not allow property, other than District property, to be stored at the Maintenance Shop.

Response: M

Documentation to support purchases will be maintained. In addition, the District will establish a policy to ensure adequate internal controls exist regarding gift cards or other cash equivalent assistance provided to students.

Response: N

As governing body of District, the Board will ensure changes that affect students, faculty, and staff as well as obligate the District financially comply with Code and PACT negotiated contracts and are an appropriate use of funds.

Response: O

To comply with Board policy and safeguard assets, the District will establish procedures to ensure fixed assets inventory is accurate and up-

dated timely so that year-end financial statements are fairly stated.

In addition, District will continue to verify that insurance coverage maintained for vehicles is adequate.

A policy will be implemented regarding employee use, including commuting, of District vehicles.

Response: P

To ensure proper usage and safeguard against misappropriation, District will strengthen internal controls that account for receipt, storage, and distribution of inventory items. Written policies and procedures will be developed to ensure that all inventory is accounted for properly. The inventory system will record and report dates received and removed, as well as cost of items, features currently available in APSCN.

In addition, District will enhance security methods to monitor warehouse activity to protect District property.

Response: Q

The District will seek to determine the employees responsible for the charges of \$3,884 not covered in the District's cellular telephone service plan and obtain reimbursement from the applicable employees.

Response: R

District will ensure new employee effective start dates accurately reflect the actual first date of work. District will seek reimbursement from, or apply leave time to, those employees who were paid for days not worked.

Response: S

To prevent excessive overtime, the District will continue to monitor payroll disbursements.

In addition, District will ensure that adequate segregation of duties exists in the payroll and benefits department.

Response: T

The District will require reimbursement from McAfee for items purchased totaling \$1,221 de-

terminated not to be for District use. Unless adequate documentation is provided, McAfee should also reimburse \$343 for supplies that DLA staff identified were not for a District purpose.

In addition, the District will obtain reimbursement of \$235 for mileage.

Further, District personnel will determine amount of leave time McAfee should have been charged while performing services unrelated to District.

Response: U

The District will continue to monitor reimbursements from DREAM and take appropriate action if the debt is not satisfied in accordance with the consent judgment.

Response: V

District personnel will refrain from obligating District financially for expenses outside of normal business without Board approval.

In addition, District will ensure costs associated with trips are charged to the appropriate accounting code.

Further, District will ensure reimbursements of \$978 and \$3,424 from China Travel Services and UCACI, respectively, are received. Without Board approval, the District will not reimburse other expenses associated with trip.

Response: W

The District will establish a formal, written policy to void stale outstanding checks. Such policy will establish scheduled aging dates with specified required action. At a minimum, checks outstanding over the established time period will be voided and reissued as needed.

The District will adopt a policy to discontinue allowing vendors to pick up checks or allowing employees to pick up checks for vendors. The policy will be presented at our January 12, 2011 Board meeting.

Response: X

The District will establish a procedure for the issuance of manual payroll checks. The new procedure will be presented at the January 12, 2011 Board meeting.

Response: Y

The District will continue to monitor all District expenditures to ensure proper coding.

Procedures will be implemented to ensure consistency in coding District expenditures.

Response: Z

To reduce the risk of misappropriation of assets and potential waste and abuse of funds, the Board will, in conjunction with Administrative staff, continue to practice sound internal control policies, comply with applicable Code and IRS regulations, and monitor all accounting phases for adherence to established controls and procedures.

In addition, the Board will increase and maintain its knowledge and awareness of fiscal oversight, accountability, and fiduciary responsibilities.

