

Investigative Report Update #2

Legislative Joint Auditing Committee

April 1, 2011

Review of Selected Transactions

Status of Matters

Pulaski County Special School District

INTRODUCTION

Numerous internal control deficiencies were identified at the Pulaski County Special School District (District) as indicated in the Division of Legislative Audit (DLA) Investigative Report Update – Review of Selected Transactions – Pulaski County Special School District (Report Update), dated December 6, 2010 inclusive of the period March 1, 2009 through November 30, 2010. In addition, the Report Update disclosed that District Superintendent Charles Hopson potentially owed the District \$23,919, questioned expenses totaling \$1,360 were incurred by District Board of Directors (Board), and three new employees were paid \$9,741 for days not worked.

HIGHLIGHTS OF REPORT

- Superintendent Hopson **continues to owe the District \$2,179 for unallowed expenses and \$2,288 for health and dental insurance premiums improperly paid** on his behalf. An addendum to Hopson's contract, approved January 2011, provides **an additional \$37,431 to his annual salary** of \$205,000.
- Board member Gwen Williams **continues to owe the District \$1,198** for mileage reimbursement overpayments, improper travel advances, and cellular telephone services. Chief Technology Officer **owes the District \$311** for unallowed expenses.
- District did not obtain reimbursement nor require documentation be submitted for **\$1,564 in questioned reimbursements** from Grant Writer Deborah McAfee.
- Balance due of **\$21,791 from DREAM has not been collected** and Board suspended terms of repayment agreement.
- **Uses of desegregation funds** are provided in Exhibit II on page 15.
- Legal fees totaled **\$162,152 for litigation between Board and Union** for the period January 1, 2010 through December 31, 2010. Board voted on March 8, 2011 to employ in-house attorney as a cost-saving measure.
- **District is due or potentially due \$37,617** from a Board member, employees, and vendors as reflected in Exhibit V on page 19.
- ADE notified the District that it had been **identified as a school district in fiscal distress** according to criteria in Ark. Code Ann. § 6-20-1904 and **could not incur "any debt"** without ADE approval.

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Following presentation of the Report Update on December 15, 2010, the Legislative Joint Auditing Committee (LJAC) requested DLA staff to determine and report corrective measures District implemented regarding Report Update recommendations.

In addition, LJAC members requested information regarding District use of desegregation funds; legal fees paid pertaining to issues regarding Pulaski Association of Classroom Teachers (PACT) and Pulaski Association of Support Staff Unions (Union); and District Apple® iPads™ (iPad) usage policy. Further, after receiving a complaint from a vendor concerning past due payments from the District, another LJAC member requested DLA staff research this matter.

DLA staff also consulted with Arkansas Department of Education (ADE) regarding fiscal distress status of the District.

OBJECTIVES

Objectives in conducting the investigative review were:

- Review District responses to Report Update recommendations A through Z and determine if District implemented corrective actions.
- Determine District use of desegregation funds.
- Identify legal fees paid regarding Union-related issues.
- Determine if District-issued iPads were used for personal purposes.
- Ascertain if District accounts payable invoices were paid timely.
- Determine ADE position regarding fiscal distress status of District.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period December 1, 2010 through February 24, 2011. Pertinent Board and District policies and District accounting records, including accounts payable invoices, were reviewed. Appropriate personnel were interviewed to assist in

determining the status of corrective actions implemented by the District in response to Report Update recommendations. ADE personnel were contacted to determine fiscal distress status of the District.

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.

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. 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 serve without compensation.

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

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

Pursuant to a request by the Commissioner of ADE and District Board for DLA to conduct a limited scope review of selected District transactions and activities, DLA issued the Investigative Report - Review of Selected Transactions - Pulaski County Special School District (First Report) dated April 28, 2010.

The First Report revealed former Superintendent James Sharpe was overpaid \$17,203 and \$7,836 was paid to, or on behalf of, Sharpe for unallowed expenses for the period July 1, 2005 through March 11, 2009. District filed a civil lawsuit against Sharpe seeking reimbursement, totaling \$25,039, of the salary overpayment and unallowed expenses. Attorneys for District and Sharpe are in negotiations regarding this matter and the civil suit is pending resolution in Sixth Judicial District Circuit Court.

In addition, First Report identified unallowed or undocumented travel expenses for Board members totaling \$7,692 for the period July 1, 2006 through March 3, 2009. Board members reimbursed the District for unallowed amounts (\$278), provided an explanation for questioned expenses (\$70), or provided adequate supporting documentation for a portion of their unallowed expenses (\$3,667), leaving a balance of \$3,677 due the District. Before the Report Update was issued, this balance was resolved.

Further, James Diemer, former District Mechanical Systems Supervisor, misappropriated \$439,745 by purchasing items, for which the District paid, for personal gain during a five-year period. In federal court, Diemer entered 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.

The First Report also disclosed numerous internal control deficiencies. Following presentation of First Report, LJAC requested DLA staff to determine and report corrective measures District implemented regarding First Report findings. An oral update was presented to LJAC on June 11, 2010.

In response to the oral update, LJAC requested DLA staff to prepare a follow-up report relating to selected transactions and activities of District subsequent to time periods of review of First Report. The Report Update was presented to LJAC on December 15, 2010.

The Report Update included DLA staff findings regarding various District transactions, activities, and internal control deficiencies. DLA staff recommendations pertaining to the findings were also listed in Report Update. District responses to the recommendations were reflected in the Appendix to Report Update.

RESULTS OF REVIEW

Results of this review relating to Report Update recommendations are discussed below. Each recommendation from Report Update is provided, followed by District response to that recommendation, previously provided in Report Update. Status updates pertaining to corrective

actions implemented by District as a result of the recommendations are also included following the responses.

District received \$20.5 million in desegregation funds of which \$16.2 million was expended in the 2009-10 school year as shown in **Exhibit I on page 14**. District programs and positions funded with desegregation revenue as well as other District uses of these funds are reflected in **Exhibit II on page 15**.

Legal fees pertaining to Union-related issues totaled \$162,152 for the period January 1, 2010 through December 31, 2010.

District provided iPads, regulated by District usage policy, to Board and Cabinet members. Although iPad users are able to access personal email and possibly store personal data, security restrictions prohibit downloading of applications not approved by District, thus limiting personal use.

Review of District accounts payable invoices revealed past due invoices. Of accounts payable invoices totaling \$14,824,270 for the period December 1, 2010 through January 31, 2011, current invoices totaled \$12,116,160 (81.7%), with the remaining \$2,708,110 (18.3%) representing past due invoices.

As reflected in **Exhibit III on page 16**, past due invoices include those paid more than 30, 60, 90, and 120 days after invoice date totaling \$1,440,747, \$344,541, \$244,642, and \$678,180, respectively.

As a result of findings disclosed in First Report, ADE notified the District, in September 2010, that two or more indicators of fiscal distress, at a nonmaterial level, had been identified and without intervention, the District could be placed in fiscal distress status.

On March 30, 2011, ADE notified the District it had been identified as in fiscal distress.

DLA staff recommendations that remain unresolved are summarized in **Exhibit IV on page 17**.

As shown in **Exhibit V on page 19**, the District is due or potentially due \$37,617 from a Board member, employees, and vendors.

Acting Superintendent

Recommendation A

The District should determine dollar value of fuel purchased for nonbusiness use and either obtain reimbursement from former Acting Superintendent Rob McGill or report this as income on his Internal Revenue Service (IRS) Form W-2 for 2010.

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

District Response

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

Status

McGill's IRS Form W-2 for 2010 included taxable fuel cost of \$2,422 as income.

Superintendent

Recommendation B

The District should obtain reimbursement of \$2,288 from Dr. Charles Hopson, Superintendent, for health and dental insurance premiums improperly paid on his behalf. Further, the District should discontinue contributing an insurance premium rate not allowed by Arkansas Code Annotated (Code).

Life and disability insurance premiums paid on behalf of 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 Arkansas Teacher Retirement System (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 telephone 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.

District Response

District response to Recommendation B is included with response to Recommendation C.

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.

District Response

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 will be 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.

Status

Although District discontinued contributing an insurance premium rate for Hopson not allowed

by Code, District did not obtain reimbursement of \$2,288 from Hopson for health and dental insurance premiums improperly paid on his behalf for the period July 1, 2010 through December 31, 2010. This amount is still due the District as shown in **Exhibit V on page 19**.

During the January 2011 Board meeting, an addendum to Hopson's contract was approved and states "In addition to the compensation provided herein, on December 31 and June 30 of each year during the term of this Agreement the District shall make a lump sum payment to the Superintendent for services rendered in the amounts of \$6,739 (December 31) and \$30,692 (June 30), respectively."

Hopson's annual salary totals \$242,431, which includes initial contract amount of \$205,000 and addendum of \$37,431.

Review of payroll records indicated District paid Hopson an additional \$6,739 on January 20, 2011.

District included full value of District vehicle use with no deduction for business use on Hopson's IRS Form W-2 for 2010, since vehicle mileage records were not maintained. DLA staff recommends District develop a policy that requires employees to maintain vehicle usage records for personal use of District vehicle to comply with IRS regulations.

District also included on Hopson's IRS Form W-2 for 2010, as additional income, moving expenses of \$20,386 not allowed by IRS regulations.

Further, Hopson reimbursed the District \$485 for undocumented relocation expenses.

District did not include the following amounts, totaling \$2,179, as additional income on Hopson's IRS Form W-2 for 2010 nor did Hopson reimburse the District as recommended in Report Update. Therefore, these amounts remain due the District as shown in **Exhibit V on page 19**.

- Undocumented airfare - \$855
- Cellular telephone - \$667
- Undocumented credit card charges - \$517
- Meals - \$79
- Additional day of per diem for meals - \$61

Board Member Training Hours

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.

District Response

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

Status

Board minutes dated December 20, 2010 reflect Board President stated all Board members are in compliance with required number of training hours. Board adopted a motion to suspend all out-of-state travel until further notice for Board members and District employees without 30-day prior approval by the Board.

Board-Related Expenses

Recommendations E, F, and G

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

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.

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

member Danny Gililand for improper expense reimbursements.

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

District Response

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.

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.

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.

Status

On February 1, 2011, Tatum reimbursed the District \$116 for mileage reimbursement overpayments and an improper travel advance.

District retained an attorney to assist in obtaining reimbursement totaling \$1,223 from Williams for mileage reimbursement overpayments, improper travel advances, and cellular telephone services.

Correspondence from the attorney to Williams, dated February 1, 2011, indicated legal remedies would be used to collect the debt owed unless payment was made within 10 days. Williams reimbursed \$25 on March 25, 2011. The remaining \$1,198, as reflected in **Exhibit V on page 19**, is due the District.

Board members Clark and Gililand reimbursed the District \$15 and \$6, respectively, for improper expense reimbursements.

Employee Travel Reimbursements/Expenses

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.

District Response

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

Status

Board minutes dated September 14, 2010 reflect approval of Business Procedure Manual revisions regarding local and out-of-district travel. Revised out-of-district travel procedures policy reflects District will reimburse the federal per diem rate for meals.

Consultant Contracts/Expenses

Recommendation I

The District should obtain reimbursement of \$6,223 from the Chief Technology Officer (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 Consultant to the Superintendent for Human Resources (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.

District Response

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.

Status

The CTO and HR Consultant reimbursed the District \$13 and \$2,604, respectively, on December 14, 2010.

District included \$5,899 as moving expenses on CTO's IRS Form W-2 for 2010.

District did not include \$311, identified as unallowed expenses, on CTO's IRS Form W-2 for 2010 nor receive reimbursement from CTO; therefore, this amount remains due the District as shown in **Exhibit V on page 19**.

In addition, review of CTO's leave records indicated District did not charge leave time nor receive reimbursement for the 10 days not worked. As noted in Report Update, email correspondence between Hopson and Chief Financial Officer (CFO) indicated Hopson would require CTO make up days through flex time on Fridays

during the summer and other days originally scheduled off work during the school year.

District response to Report Update indicated District would seek reimbursement from, or charge leave time to, employees for days paid which were not worked.

During this review, District personnel indicated Hopson stated CTO was working remotely in Portland, Oregon for 10 days prior to working onsite at the District and would not be charged leave time.

Subsequently, District Human Resource Director (HR Director) stated to DLA staff that the District would charge CTO 10 days of leave time. However, according to District records the CTO's leave balance was only 7 days on March 30, 2011. Therefore, the District improperly increased CTO's leave balance by 5 days, resulting in a leave balance of 12 days from which the aforementioned 10 days were deducted.

Overview of Purchasing Procedures for Goods and Services

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.

District Response

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.

Status

According to District personnel, a new purchasing system has been developed and implemented. Confirming purchase orders must be obtained prior to purchase and the vendor must include the purchase order number on the invoice at time of purchase.

The Business Procedures Manual includes an accounts payable check distribution policy, effective January 12, 2011, that states these checks will not be returned to the person requesting the check or invoice payment, but will be mailed directly to the payee from the Accounts Payable office. Approval from the CFO or designee is required when a situation requires special handling of a check.

DLA staff review of accounts payable invoices revealed several checks dated after January 12, 2011 were designated as "hold for pick up." Although check requests were signed by CFO or designee, no reason for special handling was indicated.

Bids

Recommendation K

Board action concerning acceptance of a bid proposal should be clearly denoted in Board minutes. To ensure vendor compliance with Request for Proposal (RFP), the District should continue to monitor the conformity process.

District Response

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.

Status

District personnel indicated there is a consent section on the Board agenda which includes an award of bids section. This section lists the bid name and number, low bidder name, and low bid amount.

Arkansas School Board Association (ASBA) handbook states board minutes should note every action of the board during a meeting.

District has not addressed inclusion of bids awarded, an action which occurs during Board meeting, in Board minutes as required by ASBA.

Maintenance Department

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.

District Response

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.

Status

Board approved, on September 14, 2010, the use of confirming purchase orders to assist the Purchasing Department in tracking purchases.

According to District personnel, personal items previously stored in the Maintenance area have been removed from District property.

Division of Equity and Pupil Services

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.

District Response

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.

Status

While a policy was not implemented, a memo dated February 24, 2011 from District Assistant

Superintendent for Equity and Pupil Services to the District CFO, indicated gift cards for purchases by the District has been permanently discontinued.

DLA staff again recommends implementation of a policy regarding District use of gift cards or other cash equivalent assistance provided to students.

Bell Schedule and School Buses

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.

District Response

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.

Status

DLA staff was unable to determine the status of corrective actions taken as described in District response due to time constraints between release of Report Update and this report.

DLA staff recommends District monitor actions to ensure compliance with Code and terms of PACT negotiated contracts.

Fixed Assets

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.

District Response

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

Status

District has developed a new policy regarding fixed assets to ensure all assets are accounted for properly.

District has not developed a policy regarding employee use of District vehicles for commuting to work.

DLA staff again recommends District implement a policy regarding employee use of District vehicles for commuting to work.

Inventory Control

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.

District Response

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.

Status

District has not developed written policies and procedures regarding inventory control, however District personnel indicated to DLA staff that instructional supplies are no longer inventoried at the District Warehouse. District food service products and janitorial supplies will continue to be stored and distributed from the Warehouse.

District has not enhanced security methods to monitor Warehouse activity.

DLA staff again recommends District develop written policies and procedures to ensure all inventory is accounted for properly.

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.

District Response

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.

Status

According to District personnel, monthly cellular telephone invoices are reviewed for excess telephone usage and roaming charges. Account adjustments and adding or deleting users cannot be made without permission from either Information Technology or Purchasing Director.

However, District has not determined which employees were responsible for \$3,884 in cellular telephone charges that were not covered in the District's plan as noted in Report Update. This amount remains due the District as shown in **Exhibit V on page 19**.

Overpayments to Newly Hired Employees

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.

District Response

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.

Status

Report Update disclosed three employees were paid \$9,741 for days not worked.

Employee 1

District changed the start date for Employee 1, paid for 10 days not worked, which should reduce the number of days under contract for which the employee will be paid.

Employee 2

As indicated in Recommendation I status section on page 8, District charged Employee 2 with 10 days of leave after improperly increasing this employee's leave balance.

Employee 3

District changed the start day of Employee 3, the Superintendent's brother who was paid for three days not worked, and deducted one day's pay totaling \$357. The remaining day not worked was a holiday for which the employee was not paid nor required to work.

HR Director, who worked for the District in a consultant capacity for three months prior to being hired as HR Director in December 2010, discovered the Superintendent's brother was inadvertently placed on an incorrect pay scale at time of hire, resulting in a higher level of pay. To correct the error, HR Director instructed Payroll Specialist to reduce employee's salary by \$1,182 by deducting \$197 for each of the remaining six pay periods.

Overtime Compensation

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.

District Response

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.

Status

While additional staff was not hired for the payroll and benefits department, the District submitted a plan that appears, if implemented, to adequately segregate duties with regard to authorizing, processing, and recording payroll transactions.

Grant Writer

Recommendation T

The District should require reimbursement from District Grant Writer, Dr. Deborah 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, 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.

District Response

The District will 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 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.

Status

District received reimbursement of \$235 from McAfee on December 17, 2010.

McAfee did not reimburse \$1,221 for items purchased not for District use. In addition, documentation was not provided to substantiate supplies purchased totaling \$343 were for a District purpose nor was reimbursement of this amount received.

McAfee still owes District \$1,564 for aforementioned items as shown in **Exhibit V on page 19**.

District deducted two days annual leave from McAfee on February 26, 2011.

DREAM

Recommendation U

The District should continue to monitor reimbursements from Dedicating Resources to Excel All Minds (DREAM) and take appropriate action if the debt is not satisfied in accordance with the consent judgment.

District Response

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.

Status

District has not received any further payments from DREAM, whose Director is the daughter of a District Assistant Superintendent, and has not taken any legal action. The \$21,791 remains due the District as shown in **Exhibit V on page 19**.

During the Board meeting on January 19, 2011, Board voted to suspend reimbursement payments from DREAM until District investigates alleged inequities between DREAM and other after-school programs.

Foreign Travel

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 University of Central Arkansas Confucius Institute (UCACI), respectively, are received. Without Board approval, the District should not reimburse other expenses associated with trip.

District Response

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.

Status

As of report date, District has not received reimbursement of \$978 and \$3,424 from China Travel Services and UCACI, respectively. Although District email correspondence indicates that UCACI intends to reimburse the District, as of report date, these amounts remain due the District as shown in **Exhibit V on page 19**.

Outstanding Checks

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.

District Response

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.

Status

The Business Procedures Manual includes a stale check policy, effective January 12, 2011, that states no check issued by the District shall be payable unless presented for payment at the bank within 90 days of issue date. Further, policy requires any check older than 90 days be submitted to Accounts Payable department for reissuance, if applicable.

Manual Checks

Recommendation X

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

District Response

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.

Status

District did not provide documentation that a procedure for the issuance of manual checks was established nor did District personnel indicate manual payroll checks would no longer be issued.

Arkansas Financial Accounting Handbook

Recommendation Y

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

District Response

The District will continue to monitor all District expenditures to ensure proper coding. Procedures will be implemented to ensure consistency in coding District expenditures.

Status

DLA staff randomly reviewed checks issued in December 2010 and January 2011 for proper

coding of expenditures. Expenditures reviewed appeared to be properly coded.

Internal Control Deficiencies

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.

District Response

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.

Status

As indicated in Recommendation N status section on page 9, DLA staff was unable to determine the status of corrective actions taken as described in District response due to time constraints between release of Report Update and this report.

DLA staff recommends District monitor actions to ensure internal controls are strengthened and in compliance with applicable Code and IRS regulations. In addition, District management should monitor all accounting phases for adherence to established controls and procedures.

Other Matters

Subsequent to presentation of Report Update, LJAC members requested additional information regarding District matters.

Specifically, three matters of interest included District use of desegregation funds, legal fees expended for litigation between District Board and PACT, and purchase of iPads for District Board and Cabinet members.

At the request of another LJAC member, DLA staff researched complaint by a vendor regarding past due payments from the District.

In addition, ADE notified the District, in September 2010, that two or more indicators of fiscal distress, at a nonmaterial level, had been identified and without intervention, the District could be placed in fiscal distress, which occurred on March 30, 2011.

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 District expended \$16,221,517 for the period July 1, 2009 through June 30, 2010, as reflected in **Exhibit I**, leaving a balance of \$4,277,973 at June 30, 2010.

At the request of Senator Jimmy Jeffress, District provided a list of programs and positions funded by desegregation revenue as well as other District uses of these funds for the period July 1, 2009 through June 30, 2010 as summarized in **Exhibit II**.

Legal Fees

Report Update revealed District paid legal fees totaling \$961,329 for the period July 16, 2009 through October 27,

2010, which included \$427,313 paid to Bequette & Billingsley Law Firm (Law Firm). This firm represents District and Board in various discrimination cases, a civil lawsuit against former Superintendent James Sharpe, as well as certain Union-related issues.

Representative Mike Burris requested DLA staff determine the portion of legal fees paid to Law Firm for litigation between the Board and the Union.

Exhibit I

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	16,221,517
Ending Balance	\$ 4,277,973

Note 1: Local Education Agency

Source: District financial records

Exhibit II

Pulaski County Special School District (District) Uses of Desegregation Funds For the Period July 1, 2009 through June 30, 2010	
Description:	
After school programs at interdistrict schools and Harris Elementary	
Consulting fees to Center for Research in Educational Policy	
Coordinator for Multicultural/Pathwise	
Dean(s) of Students at local schools	
Desegregation and equity-related field trips	
Formative Educational Process for School training/stipends	
Home School counselors/consultants	
Learning Academy intercessors	
Legal expenses	
Magnet School tuition and fees	
Multiage classrooms at seven elementary schools	
Pfeifer Camp	
Recruitment for interdistrict schools and specialty programs	
Saturday School	
Secondary in-school suspension programs	
Specialty programs at six schools	
Specialty themes at interdistrict schools	
Stipends for professional development for desegregation and equity-related training	

Source: District personnel

According to information provided by Law Firm, District paid \$162,152 for representation concerning Union-related issues for the period January 1, 2010 through December 31, 2010.

At the March 8, 2011 Board meeting, the Board voted to employ a staff attorney which will save the District money, according to the Superintendent, by eliminating the use of outside counsel for daily attorney needs.

iPad Usage by Board and Cabinet Members

At the request of Representative Tiffany Rogers, DLA Information Technology Staff (DLA IT staff) obtained District-issued iPads from Cabinet and

Board members to determine if iPads were being used for personal reasons.

Subsequent to DLA IT staff obtaining the iPads, District iPad User Agreement (Agreement) was revised to include "... these devices are District property and subject to audits at any time. A violation of this agreement could result in loss of privileges, termination or criminal charges."

After review of Agreement and discussion with District Information Technology personnel, DLA IT staff determined that iPad users were able to access personal email and plausibly store personal data. However, security restrictions prohibit users from downloading applications not approved by District, limiting most personal use.

Accounts Payable

Pursuant to request by Senator Bobby Glover, whose term ended December 31, 2010, DLA staff researched an issue regarding past due invoices. DLA staff also reviewed accounts payable invoices paid during the period December 1, 2010 through January 31, 2011, with the exception of payments for utilities, debt service, and reimbursements to employees. Invoices were examined to determine date of purchase or service rendered and generate an aging schedule of invoices illustrated in **Exhibit III**. In addition to invoice amounts paid within 30 days or less, amounts paid more than 30, 60, 90, and 120 days after the invoice date are provided.

Of accounts payable invoices totaling \$14,824,270 for the period December 1, 2010 through January 31, 2011, current invoices totaled \$12,116,160 (81.7%), with the remaining \$2,708,110 (18.3%) representing past due invoices.

As reflected in **Exhibit III**, past due invoices include those paid more than 30, 60, 90, and 120 days after the invoice date totaling \$1,440,747, \$344,541, \$244,642, and \$678,180, respectively. The past due invoices totaling \$678,180 over 120 days old include invoices, totaling \$515,480, from one vendor for textbooks.

The Director of Purchasing, who was hired in July 2010, indicated past due invoices were an issue with prior purchasing system of the District, but the majority of these outstanding invoices had been paid and a new purchasing system implemented.

The new purchasing system requires the issuance of a confirming purchase order prior to the purchase of goods or services, which enables the Purchasing Department to track outstanding invoices.

Fiscal Assessment and Accountability Program

The Arkansas Fiscal Assessment and Accountability Program, created by Ark. Code Ann. § 6-20-1901, requires ADE to identify, assess, and address school districts in fiscal distress.

As a result of findings disclosed in First Report, ADE notified the District, in September 2010, that two or more indicators of fiscal distress, at a nonmaterial level, had been identified and without intervention, the District could be placed in fiscal distress status.

On March 30, 2011, ADE notified the District that it had been identified as a school district in fiscal distress according to criteria in Ark. Code Ann. § 6-20-1904. According to ADE, the District was identified as one in fiscal distress because of

Exhibit III

Pulaski County Special School District (District) Accounts Payable Aging Schedule For the Period December 1, 2010 through January 31, 2011

Month	Total Accounts Payable	Current Invoices	Invoices Over			
			30 days	60 days	90 days	120 days
December 2010	\$ 7,787,673	\$ 6,771,928	\$ 720,939	\$ 191,994	\$ 54,618	\$ 48,194
January 2011	7,036,597	5,344,232	719,808	152,547	190,024	629,986
Totals (Note 1)	<u>\$ 14,824,270</u>	<u>\$ 12,116,160</u>	<u>\$ 1,440,747</u>	<u>\$ 344,541</u>	<u>\$ 244,642</u>	<u>\$ 678,180</u>
Percent of Accounts Payable		81.7%	9.7%	2.3%	1.7%	4.6%

Note 1: Does not include payments for debt service, utilities, or reimbursements to District personnel

Source: District financial records

“material state or federal audit exceptions or violations.” In addition, this identification of fiscal distress was based on “acts or violations determined to jeopardize the fiscal integrity of the district including without limitations failure to fully develop and implement adequate corrective actions for previously identified audit findings and deficiencies.”

The State Board of Education (SBE) will determine whether to classify the District as being in fiscal distress at its meeting scheduled for May 9, 2011. According to ADE, the District may appeal the classification of fiscal distress to the SBE within 30 days of notification of this status.

Ark. Code. Ann. § 6-20-1907 states that no school district identified by ADE as being in fiscal distress may incur any debt without prior written approval from ADE. According to ADE, “any debt” includes any employment contract, vendor contract, lease, loan, purchase, or any other obligation that will increase a district’s financial obligations, accounts payable, or liabilities.

RECOMMENDATIONS

Although District indicated new policies were or would be implemented in response to Report Update recommendations, DLA review revealed policies were not developed regarding all Report Update recommendations as reflected in **Exhibit IV**. Further, DLA staff noted noncompliance with certain of the newly developed policies.

DLA staff again recommends District obtain reimbursement of:

- \$4,467 from Superintendent for unallowed expenses (\$2,179) and health and dental insurance premiums paid on his behalf (\$2,288) in conflict with Ark. Code Ann. § 6-17-1117.
- \$1,198 from Board member Gwen Williams for mileage reimbursement overpayments, improper travel advances, and cellular telephone services.

Exhibit IV

Pulaski County Special School District (District)
Unresolved Recommendations
As of February 24, 2011

Recommendation	Description	Page Number
B	District has not developed a policy which requires employees to maintain vehicle usage records for personal use of District vehicles to comply with IRS regulations.	4
K	Board action concerning acceptance of bid proposals is not clearly denoted in Board minutes.	8
M	District has not developed a policy regarding gift cards or other cash equivalent assistance provided to students through the Equity and Pupil Services Department.	9
O	District has not developed a policy regarding employee use of District vehicles for commuting to work.	9
P	District has not developed policies and procedures to ensure all inventory in the District Warehouse is accounted for properly. Further, District has not enhanced security methods to monitor Warehouse activity.	10
X	District has not established procedures for the issuance of manual checks.	13

Source: District records and personnel

- \$311 from CTO for unallowed expenses.
- \$3,884 from employees responsible for cellular telephone charges not covered in District's plan.
- \$1,564 from District Grant Writer for items purchased not for District use.
- \$21,791 from DREAM, a vendor that provided before and after school programs, for reimbursement for meals and snacks supplied by District and whose Director is the daughter of a District Assistant Superintendent.
- \$978 from China Travel Services and \$3,424 from UCACI for reimbursement of travel expenses.

In addition, DLA staff again recommends District develop and implement policies:

- Requiring employees to maintain vehicle usage records for personal use of District vehicles to comply with IRS regulations.
- Requiring Board minutes clearly denote Board action taken during meeting.
- Regarding gift cards or other cash equivalent assistance provided to students.
- Regarding employee use of District vehicles for commuting purposes.
- Regarding receipt, storage, and distribution of inventory items to ensure that all inventory is accounted for properly.
- Regarding the issuance of manual checks.

District should also monitor compliance with established policies and procedures. Further, District personnel should periodically review new purchasing system process to ensure District invoices are paid timely.

CONCLUSION

Following presentation of the Report Update on December 15, 2010, LJAC requested DLA staff to determine and report corrective measures District implemented regarding Report Update recommendations. In addition, LJAC requested

information regarding District use of desegregation funds, legal fees paid pertaining to Union-related issues, District iPad usage policy, and past due vendor invoices.

As shown in **Exhibit V**, the District is due or potentially due \$37,617 from a Board member, employees, and vendors.

An addendum to Superintendent Charles Hopson's contract of \$205,000 that authorizes a salary increase of \$37,431 was approved by the Board in January 2011.

District did not obtain reimbursement from CTO nor provide explanation for \$311 identified as unallowed expenses; therefore, this amount remains due District.

District retained an attorney to assist in collecting \$1,223 from Board member Gwen Williams for cellular telephone services, unallowable mileage, gratuities, parking, and travel advances incurred from March 1, 2009 through July 31, 2010.

Report Update disclosed that the District Grant Writer had potentially misused District supplies totaling \$1,221 and DLA staff identified an additional \$343 in questioned supplies. Although District responded that reimbursement and/or documentation was required from the Grant Writer for these supplies, as of report date, no reimbursement has been made nor further documentation provided.

District has not determined, nor received reimbursement from, employees responsible for cellular telephone charges of \$3,884 not covered in District's service plan.

DREAM, a vendor that provided before and after school programs, owes the District \$21,791 for meals and snacks provided by the District. As disclosed in Report Update, Director of DREAM, daughter of a District Assistant Superintendent, agreed, through a consent judgment, to reimburse this amount. However, no further payments have been made and the Board voted to suspend these payments until further notice.

As of report date, District has not received reimbursement of \$978 and \$3,424 from China Travel Services and UCACI, respectively.

Unresolved Report Update recommendations are summarized in **Exhibit IV on page 17**.

District received \$20.5 million in desegregation funds of which \$16.2 million was expended in the 2009-10 school year. District programs and positions funded with desegregation revenue as well as other District uses of these funds are reflected in **Exhibit II on page 15**.

Legal fees pertaining to Union-related issues totaled \$162,152 for the period January 1, 2010 through December 31, 2010.

District provided iPads, regulated by District usage policy, to Board and Cabinet members. Although iPad users are able to access personal email and plausibly store personal data, security restrictions prohibit the downloading of applications not approved by the District, thus limiting personal use.

Of accounts payable invoices totaling \$14,824,270 for period December 1, 2010 through January 31, 2011, \$2,708,110 were over 30 days old reflected in **Exhibit III on page 16**.

In September 2010, ADE notified the District that two or more indicators of fiscal distress, at a nonmaterial level, had been identified and without intervention, the District could be placed in fiscal distress status.

On March 30, 2011, ADE notified the District that it had been identified as a school district in fiscal distress according to criteria in Ark. Code Ann. § 6-20-1904. According to ADE, the District may not incur any debts without prior written approval from ADE.

Exhibit V

Pulaski County Special School District (District) Amounts Due/Potentially Due the District As of February 24, 2011

Title/Vendor	Amounts Due/Potentially Due District
Superintendent	\$ 4,467
Board member	1,198
Chief Technology Officer	311
Employee(s) (Note 1)	3,884
Grant Writer	1,564
DREAM (Note 2)	21,791
China Travel Services	978
UCACI (Note 3)	3,424
Total	\$ 37,617

Note 1: Cellular telephone charges not covered in District's plan

Note 2: Dedicating Resources to Excel All Minds

Note 3: University of Central Arkansas Confucius Institute

Source: District financial records

Response to the report provided by the Superintendent and Board President is presented in the **Appendix on pages A-1 through A-4**.

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

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APPENDIX

**Pulaski County Special School District
Response to Report
Dr. Charles Hopson, Superintendent
Mr. Bill Vasquez, Board President**

**Pulaski County Special School District
Response to Report
Dr. Charles Hopson - Superintendent
Mr. Bill Vasquez - Board President**



PULASKI COUNTY SPECIAL SCHOOL DISTRICT

Office of the Superintendent

Arkansas Division of Legislative Audit
172 State Capitol
Little Rock, AR 72201

Pulaski County Special School District
925 East Dixon Road
Little Rock, AR 72206

April 1, 2011

Dear Legislative Audit Members,

The purpose of this letter is to address the Legislative Audit findings in the report of December 2010, and to specify with clarity how each finding was resolved by the Pulaski County Special School District (PCSSD).

- Finding: Superintendent Hopson continues to owe the District \$2,179 for unallowed expenses and \$2,288 for health and dental insurance premiums improperly paid on his behalf. An addendum to Hopson's contract, approved January 2011, provides an additional \$37,431 to his annual salary of \$205,000.
 - RESOLUTION: Dr. Hopson reimbursed \$140.00 of unallowed expenses on March 31, 2011.
 - RESOLUTION: See Attachment
- Finding: Board member Gwen Williams continues to owe the District \$1,223 for mileage reimbursement overpayments, improper travel advances, and cellular telephone services.
 - RESOLUTION: Board member Gwen Williams stated at the PCSSD Special Board meeting of March 31, 2011, that the balance due would be repaid within 10 days.
 - NOTE to Legislative Audit: Board member Mildred Tatum has repaid the District all funds due.
- Finding: Chief Technology Officer owes the District \$311 for unallowed expenses.
 - RESOLUTION: The District received check from Chief Technology Officer in the amount of \$311 on March 31, 2011.
- Finding: District did not obtain reimbursement nor require documentation to be submitted for \$1,564 in questioned reimbursements from Grant Writer Deborah McAfee.
 - RESOLUTION: Superintendent has 1) made a personnel recommendation to the Division of Human Resources and 2) directed the PCSSD attorney, Judy Wilber, to pursue recovery of District funds.

925 East Dixon Road ♦ Little Rock, Arkansas 72206
Phone: (501) 490-6201 ♦ Fax: (501) 490-0483 ♦ Email: chopson@pcssd.org

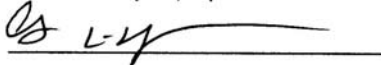
**Pulaski County Special School District
Response to Report
Dr. Charles Hopson - Superintendent
Mr. Bill Vasquez - Board President**

Continued from page A-1

- Finding: Balance due of \$21,791 from DREAM has not been collected and Board suspended terms of payment agreement.
 - RESOLUTION: PCSSD internal investigation is complete and Board directed PCSSD attorney to recover District funds in accordance with the Consent Judgment entered into between PCSSD and DREAM.
- Finding: Reimbursements of \$978 and \$3,424 are due from China Travel Service and UCACI, respectively.
 - RESOLUTION: District received a check in the amount of \$3,424 from UCACI.
 - RESOLUTION: District received a check in the amount of \$978 from China Travel Service.
 - NOTE to Legislative Audit: These debts were incurred as part of a teacher recruitment trip to China sponsored by the Arkansas State Department of Education.
- Finding: Legal fees totaled \$162,152 for litigation between Board and Union for the period January 1, 2010 through December 31, 2010. Board voted on March 8, 2011 to employ in-house attorney as a cost-saving measure.
 - RESOLUTION: Board voted on March 8, 2011 to employ in-house attorney as a cost-saving measure.

Educationally yours,

Dr. Charles Hopson, Superintendent



Bill Vasquez, Board President



Attachment

925 East Dixon Road ♦ Little Rock, Arkansas 72206
Phone: (501) 490-6201 ♦ Fax: (501) 490-0483 ♦ Email: chopson@pcssd.org

**Pulaski County Special School District
Response to Report
Dr. Charles Hopson - Superintendent
Mr. Bill Vasquez - Board President**

Continued from page A-2



PULASKI COUNTY SPECIAL SCHOOL DISTRICT

Office of the Superintendent

Memorandum

Date: March 31, 2011

To: Legislative Joint Auditing Committee

From: Dr. Charles Hopson, Pulaski County Special School District Superintendent
Bill Vasquez, Pulaski County Special School Board President

Re: Responsive Statement Regarding Dr. Hopson's Employment Contract

The following memo has been provided to all board members and the issues were presented and discussed at the Board Meeting on March 31, 2011. This memo represents finality on the issues identified in red italics below which were raised by the Legislative Audit Committee in connection with the Employment Contract of Superintendent Charles Hopson. The responsive statement follows each italicized issue.

1. Background and General Statement. The compensation package agreed upon by the Pulaski County Special School District (PCSSD) Board, the board's attorney, Jay Bequette, and Dr. Hopson's agent was fair and appropriate for a district the size of the PCSSD. All areas of concern have been addressed.
2. Health and dental insurance premiums were improperly paid by the District under Arkansas statutes. Dr. Hopson's employment contract states, "The Board will maintain health insurance, including dental coverage, on and for the benefit of the Superintendent and health insurance, including dental coverage, on and for the benefit of the Superintendent's spouse and dependent children; *provided, however, that upon the election of Superintendent the dollar amount of any health insurance premiums not paid by the District on or for the benefit of Superintendent or his dependents shall be paid to Superintendent as salary in addition to the salary established in paragraph 2 hereof.*" The highlighted language in the employment contract allows for payment of the amount of the health and dental insurance premiums above the amount paid for other employees to be paid to Dr. Hopson as salary. Dr. Hopson will be taxed on the \$2,288 as salary (and the same will be reported on his 2010 W-2 form). Please note that this section of the contract has been amended to move this extra compensation to a semi-annual bonus but the compensation has not been eliminated. This is a very common provision in superintendent employment contracts in districts the size of PCSSD, and should be provided in some form even if Arkansas statutes do not allow the premiums to be paid directly by the District. Also, the \$2,288 that was improperly paid by the District was recovered by a reduction in Dr. Hopson's contract addendum payment in January, 2011.
3. "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." We agree and never intended that this not be treated as income to the Superintendent. Due to the ambiguity in the ATRS rules and Arkansas code, no payments have been made for the payment of Dr. Hopson's ATRS reinstatement, therefore, there was no income to be added to the W-2.

**Pulaski County Special School District
Response to Report
Dr. Charles Hopson - Superintendent
Mr. Bill Vasquez - Board President**

Continued from page A-3

4. "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 telephone 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." Dr. Hopson was issued a cell phone during his transition to his job at the District in the summer of 2010. Immediately after starting work for the District he used the communications and technology allowance to obtain his own cell phone and began to use this. The District should have discontinued the service for the phone they issued to him at that time. We think the fair way of handling this issue would be for Dr. Hopson to reimburse the District for any actual usage costs for the District issued cell phone. He should not be responsible for standard monthly charges for a cell phone that he did not use.
5. "District did not include the following amounts totaling \$2,179, as additional income on Hopson's IRS Form W-2 for 2010 nor did Hopson reimburse the District as recommended in Report Update. Therefore, these amounts remain due the District."
- Undocumented airfare - \$855
 - Cellular telephone – \$677
 - Undocumented credit card charges - \$517
 - Meals - \$79
 - Additional day of per diem for meals - \$61"

It should be noted that it was always the parties' understanding that Dr. Hopson would be taxed on the moving and relocation allowance and expense reimbursements.

The \$855 air fare was incurred on one of the trips that the Board asked Dr. Hopson to make to the District during the discussion of his employment contract. Dr. Hopson made several of these trips. All of these were done at the request of the Board and should not be reimbursed by Dr. Hopson to the District.

In the spirit of transparency and cooperation, Dr. Hopson has paid the \$517 credit card charges but maintains that these were legitimate expenses under the very broad definition of the moving and relocation stipend in his employment contract.

Dr. Hopson has reimbursed the District for the meal expenses noted totaling \$140 and will reimburse the actual amount of cell phone usage of the District issued phone once that amount has been determined.

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For a copy of this report as well as the First Report and Report Update
visit Division of Legislative Audit Website at
www.arklegaudit.gov

Investigative Report
Legislative Joint Auditing Committee
May 14, 2010

Review of Selected Transactions
Pulaski County Special School District


INTRODUCTION

This report is issued pursuant to a request by the Commissioner of Arkansas Department of Education (ADE) and the Pulaski County Special School District (District) Board of Directors (Board) for the Division of Legislative Audit (DLA) to conduct a limited scope review of selected District transactions and activities. Specifically, ADE is interested in the financial settlement to which Mr. James Sharpe, former District Superintendent, was entitled. The Board also expressed concerns relating to certain financial operations of, and compliance with policies by, the District. These concerns as well as issues District personnel revealed to DLA staff are discussed in this report.

HIGHLIGHTS OF REPORT

- Financial settlement of \$269,529 initially paid to Superintendent James Sharpe upon resignation from the District conflicted with Board approved terms and amount of \$185,000. Sharpe reimbursed the overpayment of \$72,918 calculated by the District. District personnel indicated Sharpe received additional salary and benefits overpayments totaling \$17,203 during his tenure. In addition, Sharpe was reimbursed for, or charged on District credit card, unallowable, undocumented expenses totaling \$7,836.
- Unallowable and questioned travel expenses totaling \$7,692 paid to Board members. These expenses include overnight stay in a Little Rock hotel, Broadway play in New York, and gratuities.
- A Maintenance Shop employee misappropriated District funds totaling \$439,745. Internal control deficiencies and lack of oversight by District management contributed to this matter not being detected. Specifically, numerous purchase orders and invoices were approved using a "rubber stamp."
- Potential waste and abuse of District resources due to excessive use of emergency purchase orders and overtime compensation to employees in the Maintenance Department.
- District overpaid a vendor \$11,975. Director of Purchasing allowed vendor to repay District in installments and maintained this agreement "off-the-books."
- Administrative staff and the Board did not exercise proper management fiscal oversight responsibility nor demonstrate a "tone at the top" promoting commitment to financial prudence and consistency with policies and procedures.

ARKANSAS DIVISION OF LEGISLATIVE AUDIT
172 State Capitol, Little Rock, AR 72201
Phone: 501-683-8600 Fax: 501-683-8605
www.arklegaudit.gov
Report ID: IR SD 398 09 Report Date: April 28, 2010



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 16, 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 reimburse to ATRS of \$56,357; moving/relocation allowance of \$20,000; insurance benefits at a monthly cost of \$1,426; and technology and community/civic activities allowances of \$3,000 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 \$178,054 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 30 used school buses at a cost of \$769,500 as well as hiring 30 additional part-time bus drivers.
- Three new employees were paid a total of \$8,741 for days not worked.
- Examples of the District's spending patterns, totaling over \$2.2 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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