

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 **\$269,520 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.

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Exhibit D

OBJECTIVES

Objectives in conducting this investigative review were:

- Analyze pertinent contracts, including employment contracts and separation agreements, of certain District personnel;
- Verify methodology the District used to calculate financial settlement to Sharpe upon his resignation;
- Review selected financial transactions, including travel reimbursements, payments other than salary to selected employees, and credit card transactions;
- Ascertain if the District adhered to purchasing, travel, cellular telephone, and credit card usage policies;
- Determine if the District acted in accordance with Arkansas Code Annotated (Code) relating to solicitation of bids for certain purchases;
- Review selected purchases of goods and services to determine propriety;
- Determine validity of assertions by District personnel; and
- Assess internal controls relating to the purchasing and disbursement processes for adequacy.

SCOPE AND METHODOLOGY

Consisting of several components, this review was conducted inclusive of the period March 1, 2004 through February 19, 2010. Pertinent District accounting records, including accounts payable invoices, employment contracts, credit card statements and supporting documentation, and travel expense reports were examined. District operating and financial policies were also reviewed. In addition, appropriate personnel were interviewed and internal controls were assessed for adequacy. Information contained on computers of certain personnel was analyzed as were selected electronic mail and shared computer files.

Pertinent District personnel identified in this report are reflected in **Exhibit I** by name, position, and tenure.

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

- Superintendent:
 - Separation of service payment: March 2009.
 - Employment contract: July 1, 2005 through March 11, 2009.
 - Travel expenses: July 1, 2006 through March 11, 2009.
- Expenses relating to Board members: July 1, 2006 through March 3, 2009.

Exhibit I

Pulaski County Special School District (District) Pertinent District Personnel Identified in Report As of March 11, 2009		
Name	Position	Tenure
James Sharpe	Superintendent	February 2006 - March 2009
Larry O'Briant	Chief Financial Officer	December 2005 - March 2009
James Warren	Executive Director of Support Services	August 2001 - September 2009
Sinclair Winburn	Director of Purchasing	January 2007 - August 2009
James Diemer	Mechanical Systems Supervisor	August 1983 - (Note 1)

Note 1: As of report date, Diemer was on administrative leave without pay. His employment was terminated May 2010.

Source: District records

- Administration expenses: July 1, 2006 through March 3, 2009.
- Purchasing procedures and compliance with bid laws: September 29, 2006 through June 30, 2009.
- Unauthorized purchases: March 1, 2004 through May 19, 2009.
- Overtime payments: July 2006 through May 2009.
- Vendor overpayment: November 30, 2006 through May 28, 2009.
- Other disbursements: July 2008 through January 2009.
- Federal Aid Assistance: September 1, 2005 through July 31, 2006.
- Receipts not deposited - Jacksonville High School Activity Fund: August 1, 2009 through February 19, 2010.
- Daisy Bates Elementary - Parent Teacher Association: August 17, 2007 through March 12, 2009.
- Other issues: March 2009 through May 2009.

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 General of the United States.

BACKGROUND

Pulaski County Special School District is one of three public school districts in Pulaski County, Arkansas; others are the Little Rock and North Little Rock School Districts.

The District was established in 1927 by a legislative act joining thirty-eight independent school districts into a "special" school district. Currently, the second largest district in the state after the Little Rock School District, the District is among the 500 largest school districts in the United States.

The District contains 729 square miles and includes all areas of the county - incorporated and unincorporated (see **Schedule 1 on page 22**) - excluding areas within the city limits of Little Rock, Cammack Village, and North Little Rock.

The District encompasses nearly 3 million square feet of education and support service buildings, occupying more than 750 acres throughout Pulaski County. Presently, the District operates 39 educational facilities, including 8 high schools, 6 middle schools, 24 elementary schools, and a pre-kindergarten school as listed in **Schedule 1 on page 22**.

Students from Alexander, Cabot (some areas), College Station, Gravel Ridge, Ironton, Jacksonville, Little Rock, Mabelvale, Maumelle, McAlmont, North Little Rock, Scott, Sherwood, Sweet Home, Woodson, and Wrightsville are enrolled in the District.

Enrollment was approximately 17,615 students for the 2008-09 school year and the District employed 2,698 full- and part-time employees, including 128 administrators, 1,341 teachers, 943 support staff, and 286 bus drivers. Salaries and benefits of certain administrators for the 2008-09 school year are shown in **Schedule 2 on page 23**.

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

The District is governed by a seven member Board elected, by zone, to four-year terms. Board members, listed in **Exhibit II** as of June 30, 2009, serve without compensation.

Exhibit II

Pulaski County Special School District (District) Board Members As of June 30, 2009		
Zone	Board Member/Position	Years Served
3	Tim Clark, President	1
6	William Vasquez, Vice President	2
7	Gwen Williams, Secretary	13
1	Mildred Tatum	26
5	Danny Gililand	3
4	Charlie Wood	3
2	Shana Chaplin	2

Source: District records

RESULTS OF REVIEW

The financial settlement of \$269,520¹ initially paid to Superintendent James Sharpe upon resignation from the District conflicted with Board approved agreed-upon terms and amount of \$185,000.¹ When informed of the overpayment, Sharpe reimbursed \$72,918, which was calculated by District personnel.

Subsequently, Acting Superintendent Rob McGill requested District personnel recalculate Sharpe's compensation for services to the District from July 2005 through March 2009. District calculations reflected an additional overpayment totaling \$17,203 to Sharpe during his tenure. This civil matter is pending resolution in the Circuit Court of Pulaski County.

This review identified unallowable and questioned expenses of \$7,836 incurred by Sharpe for travel and other purposes. In addition, review of cash advances to Board members for travel costs revealed additional unallowable and questioned expenses of \$3,677.

Analysis of selected disbursements indicated instances in which adequate supporting documentation was not available and purchases were not for District purposes. Numerous deficiencies in District purchasing procedures were discovered as well as instances of noncompliance with Code relating to the bid process.

Unauthorized purchases of goods totaling \$439,745 were made by a Maintenance Department employee during the period March 1, 2004 through May 19, 2009. Subsequently, this employee waived indictment and entered a plea of guilty to theft of property from a government entity which received federal funds, a violation of Title 18, United States Code, Section 666.

Another example of management oversight inadequacy was approval of possible excessive overtime. Thirty-one employees in the Maintenance Department were compensated for overtime totaling \$193,279 during the period July 2006 through May 2009. However, project, number of hours worked, and services performed

were not provided on timesheets in several instances.

An overpayment of \$11,975 to a vendor in November 2006 was not fully reimbursed until May 28, 2009.

Absence of proper management oversight and internal controls relating to the purchasing process contributed to possible misuse and the misappropriation of District funds.

The District provided documentation indicating activity fund collections totaling \$31,536 were not deposited in the Jacksonville High School Activity Fund bank account. This criminal matter is pending resolution in the Circuit Court of Pulaski County.

The Board also expressed concerns relating to certain financial operations of, and compliance with policies by, the District. In addition, District personnel revealed issues of concern to DLA staff during interviews. Because these issues were beyond the scope of this review, DLA staff did not verify or otherwise substantiate these assertions. However, DLA staff provided Acting Superintendent Rob McGill a summary of issues and concerns revealed.

District management and the Board are responsible for properly communicating values and behavioral standards to personnel through policy statements, codes of conduct, and example. This review and interviews with pertinent District personnel revealed numerous internal control deficiencies.

Results of this review are discussed, as follows, by topic. The responses to the report provided by the Acting Superintendent, former Superintendent, and Board Members are presented in the **Appendix on pages A-1 through A-14.**

Superintendent's Separation Payment

Sharpe was hired as Superintendent on February 8, 2006, after serving as interim Superintendent since November 15, 2005, and resigned from District employment on March 11, 2009.

A Separation Agreement, Covenant Not to Sue and Release (Agreement) between the District and Sharpe indicated March 18, 2009 as date

¹These amounts are gross compensation before any applicable withholdings or adjustments.

executed. However, Sharpe, Board President, and Board Secretary signed the Agreement on March 11, 2009. Terms of the Agreement stipulated contract buyout of \$185,000, less applicable employee payroll tax withholdings. This amount also included any required Arkansas Teacher Retirement System (ATRS) contributions and payment for accrued and unused sick and annual leave days, but with a maximum amount of \$185,000.

According to District personnel, Sharpe requested payment of the contract "buy-out" from the Chief Financial Officer (CFO) on March 12, 2009. Although the CFO had no documentation for, nor directive to issue, such payment, he obtained a copy of the Agreement and, after consultation with the Director of Accounting and Auditing and a payroll department employee, calculated a final "buy-out" amount due Sharpe.

After reviewing Sharpe's employment contract and contract "buy-out" payments to previous Superintendents, which included payment for unused leave, District personnel concluded Sharpe was entitled to payment of unused leave and severance pay in addition to the \$185,000 approved in the Agreement and by the Board.

Subsequently, a payroll check totaling \$185,747, dated March 13, 2009, was issued to Sharpe as illustrated in **Exhibit III**. The gross amount of \$269,520 included:

- \$185,000 per Agreement;
- \$44,832 for 61 accrued sick leave days;
- \$33,073 for 45 accrued annual leave days; and
- \$6,615 for severance pay.

Exhibit III

Pulaski County Special School District (District) Analysis of Separation Payment to James Sharpe, Superintendent Resignation Date March 11, 2009			
	Amounts		
	Board Approved	Paid	Overpaid
Amount per Separation Agreement	\$ 185,000	\$ 185,000	
Accrued sick leave		44,832	\$ 44,832
Accrued annual leave		33,073	33,073
Severance pay		6,615	6,615
Subtotals Before Withholdings	185,000	269,520	84,520
Overpayment on 2008-09 year employment contract	(4,636)	(4,636)	
Withholdings (payroll taxes)	(25,285)	(36,887)	(11,602)
Annuities withheld	(42,250)	(42,250)	
Net Amounts Paid/Overpaid	\$ 112,829	\$ 185,747	\$ 72,918
Amounts Repaid From:			
James Sharpe (March 18, 2009)			\$ 51,918
Sharpe's annuity (VALIC) (April 9, 2009)			21,000
Total Amount Repaid			\$ 72,918

Source: District financial records

When informed of this payment to Sharpe, Board members immediately requested repayment of the amount exceeding the authorized separation amount of \$185,000. District personnel calculated, and DLA staff verified, \$72,918, reflected in **Exhibit III on page 5**, as net amount paid Sharpe in error due to unauthorized payment for unused sick and annual leave and severance pay. Sharpe reimbursed the District \$51,918 on March 18, 2009 and approved a \$21,000 reimbursement from his annuity account to the District. The check from the insurance company was receipted by the District on April 9, 2009.

Although Sharpe, who had attained the age of 65, began receiving retirement benefits from ATRS, he continued his employment with the District which Code allows. According to Ark. Code Ann. § 24-7-502, ATRS members age 65 or older are allowed to apply for benefits without termination of employment. Upon Sharpe's retirement in November 2008, the District was no longer required to pay a retirement contribution of 6% of his salary to ATRS.

According to Sharpe, he informed the Board President and the CFO, at the time, he was not willing to retire unless the District paid the 6% retirement contribution directly to him. Sharpe maintains the Board President indicated that since this would not cost the District additional money, he saw no reason not to pay the retirement contribution amount to Sharpe as part of his salary. The CFO confirmed this assertion by Sharpe.

However, neither formal Board action was taken nor was Sharpe's contract amended to authorize a 6% pay increase.

Board policy provides that individual Board members exercise authority over District affairs only as they vote to take action at a legal meeting of the Board. An individual member, including the president, will have power to speak or act for the Board only when the Board, by a vote, has delegated authority to him. The Board will make its members, the District staff, and the public aware that only the Board acting as a whole has authority to take official action.

In contrast to Sharpe's assertion, District personnel stated Sharpe issued instructions that he be paid, in addition to his salary, the 6%

retirement contribution the District paid on his behalf to ATRS. District personnel complied with these instructions, beginning with November 2008 payroll, through March 11, 2009 when Sharpe resigned.

Acting Superintendent Rob McGill, upon discovering Sharpe was paid the retirement contribution, directed District personnel to recalculate Sharpe's compensation for services to the District from July 2005 through March 2009 to determine if Sharpe was overpaid for the period (see **Exhibit IV on page 7**). Accounting and payroll personnel calculated, and DLA staff verified, an overpayment totaling \$17,203 net of the \$4,636 withheld from Sharpe's separation payment (see **Exhibit IV on page 7**).

The overpayment was due primarily to the unauthorized retirement contribution amount paid directly to Sharpe each pay period, totaling \$13,569. Further, although Sharpe's employment contract provided for monthly payment of health insurance premiums, his health insurance was terminated in July 2006. Sharpe began receiving compensation in lieu of these premiums in January 2007. Board minutes for January 9, 2007 indicated approval of this change, but Sharpe's contract addendum, dated January 10, 2007, and signed by Board President, Secretary, and Sharpe stated the District would pay for health insurance on *behalf* of the Superintendent.

The District sent Sharpe a letter, in August 2009, informing him of the overpayment and requesting reimbursement of \$17,203. As of report date, Sharpe has not responded to this letter.

Subsequently, the District filed a civil suit, on February 26, 2010, seeking reimbursement of \$17,203 from Sharpe for unauthorized compensation. The suit maintains the retirement contribution totaling \$13,569 was paid Sharpe without approval of the Board and contrary to terms of his employment contract. The suit further alleges Sharpe was not entitled to the compensation he received in lieu of payment of health insurance premiums. This civil case is pending resolution in Circuit Court of Pulaski County.

Sharpe's response, made by his legal counsel, to this review is provided in the **Appendix on pages A-4 through A-9**.

Exhibit IV

Pulaski County Special School District (District)
 Analysis of Employment Contracts/Salary Overpayment
 James Sharpe, Superintendent
 For the Period July 1, 2005 through March 11, 2009

	Years Ended June 30,			July 1, 2008- March 11, 2009	Totals
	2006	2007	2008	(Note 1)	
Contract	\$130,563	\$168,000	\$176,400	\$ 126,412	\$601,375
Vehicle allowance	4,375	10,200	10,200	7,454	32,229
Total Contract Amounts	134,938	178,200	186,600	133,866	633,604
Amounts Paid:					
Salary	133,923	164,826	176,400	131,048	606,197
Vehicle allowance	4,375	9,550	10,200	7,454	31,579
Health insurance (Note 2)		858	1,872	1,368	4,098
Extra 6% (Note 3)				13,569	13,569
Total Amounts Paid	138,298	175,234	188,472	153,439	655,443
Total Amounts Over/(Under) Paid	\$ 3,360	\$ (2,966)	\$ 1,872	\$ 19,573	\$ 21,839
2009 overpayment withheld from payment of separation agreement				(4,636)	(4,636)
Total Over/(Under) Payment	\$ 3,360	\$ (2,966)	\$ 1,872	\$ 14,937	\$ 17,203

Note 1: Prorated 244 day contract for 172 days worked

Note 2: District previously paid insurance premiums; later paid directly to Sharpe without Board authorization

Note 3: District previously paid Sharpe's 6% retirement contribution to Arkansas Teacher Retirement System; later paid directly to Sharpe without Board authorization

Source: District financial records

Superintendent's Travel Expenses

District personnel, when traveling for District purposes, are to adhere to policies set by the Board. Although District Board of Education Policies Manual does not set a dollar limit for travel expenses, policy does state ". . . persons who travel at District expense will exercise the same economy as a prudent person traveling on personal business" The District Business Procedures Manual details policies regarding out-of-district travel reimbursement for District employees. These policies include:

- A \$25 per diem meal allowance can be claimed for reimbursement without receipts.
- Receipts are required if daily meal costs exceed \$5 for breakfast, \$8 for lunch, and \$12 for dinner.

- Alcoholic beverages are not reimbursable.
- Taxi or limousine fares are to be explained, showing points of travel.
- Names and company affiliation of persons contacted by long distance telephone will be included on expense report.
- Receipts must be provided for any expenditure of \$25 or more.
- Receipt must show amount, date, name of establishment, and itemization of costs incurred.
- Tips for meals cannot exceed 15% of cost of meal.

Based on Ark. Const. art. 14, § 2 which states, in part, "No money or property belonging to the public school fund . . . for the benefit of schools . . . shall ever be used for any other than for the respective purposes to which it belongs," gratuities do not appear to benefit the District and, therefore, are not an allowable expense.

To further support this determination, DLA staff also considered Op. Att'y Gen. no. 1998-277 in which the Attorney General relied on a separate constitutional provision, Ark. Const. art. 12, § 5, to opine that a mayor could not treat tips paid as reimbursable expenses. Op. Att'y Gen. no. 1998 - 277 provides, in part, "It is my conclusion . . . that "tipping" would in all likelihood generally be deemed to accomplish a private purpose as it inures primarily to the benefit of private individuals"

Sharpe's employment contract stated his *reasonable* expenses incident to his participation in professional activities, such as workshops and seminars, would be reimbursed by the District. The contract limits these reimbursements to \$3,600 per contract year. The contract also stated the District would reimburse the Superintendent for travel expenses incurred in the course of his professional duties.

As District Superintendent and a member of various educator organizations, Sharpe attended numerous conventions for which expenses the District paid. The District issued Sharpe travel advances, net of amount unused, and reimbursements totaling \$4,665 and \$265, respectively. Travel expense forms were submitted as documentation for expenses incurred. In addition, Sharpe charged other expenses totaling \$15,688 to a District credit card he was authorized to use.

Exhibit V reflects total travel expenses of \$20,618 paid to or on behalf of Sharpe during the period July 1, 2006 through March 11, 2009. Unallowable expenses include duplicate charges, meals and conference registration for family members, gratuities, and alcoholic beverages. Also included are expenses for meals at local restaurants and taxi fares that were not adequately documented. Unallowable expenses of \$7,836 due the District are based on Ark. Const. art. 14, § 2 and District policies.

DLA staff reviewed all checks, and supporting documentation, issued to Sharpe and U.S. Bank, issuer of District's credit card Sharpe used, for travel expenses during the aforementioned time period. The following unallowable transactions totaling \$7,836 were noted.

Exhibit V

Pulaski County Special School District (District) Analysis of Superintendent James Sharpe's Travel Expenses For the Period July 1, 2006 through March 11, 2009			
	Totals	Allowable	Unallowable
Types of Expenses:			
Out-of-District:			
Travel advances (Note 1)	\$ 4,665	\$ 1,716	\$ 2,949
Travel reimbursements	126		126
Credit card charges	14,547	11,066	3,481
In District:			
Travel reimbursements	139		139
Credit card charges	1,141		1,141
Total Travel Expenses	<u>\$ 20,618</u>		
Total Allowable Expenses		<u>\$ 12,782</u>	
Total Unallowable Expenses/Due District			<u>\$ 7,836</u>

Note 1: Net of Sharpe's reimbursements of unused cash advances

Source: District financial records

- \$277 for out-of-district expenses claimed, and paid to Sharpe, on travel expense form, but also charged to District credit card.
- \$4,688 for unallowable out-of-district expenses, including meals and conference registration for family members, gratuities, and alcoholic beverages.
- \$383 for a rental car to travel to St. Louis, MO for a conference, yet Sharpe received an \$850 monthly vehicle allowance.
- \$64 for fuel purchased en route to St. Louis. However, there was a \$25 charge for fuel on the District credit card utilized by Sharpe at the same location and purchased only a few minutes after the \$64 charge.
- \$1,242 for meals at local restaurants without documentation of individuals in attendance or business purpose.
- \$1,182 for taxi fares for which receipts did not reflect dates nor points of travel.

Sharpe's response to this review is provided in the **Appendix on pages A-4 through A-9.**

Board Member Expenses

The District expended \$117,620 for Board travel, association fees and dues, mileage reimbursements, meals for Board meetings, and other miscellaneous expenses for the period July 1, 2006 through March 3, 2009. **Exhibit VI** summarizes various Board expenses by type or vendor and amount. Discussed in detail below are Board member expenses relating to cellular telephone and internet services, catering and food for meetings, and travel.

Cellular Telephone and Internet Services

The District paid for cellular telephone and internet access services totaling \$6,113, as reflected in **Exhibit VI**, for two Board members during the period July 1, 2006 through February 28, 2009. The policy for Board member expenses was revised in December 2008 and states, in part, "Board members will NOT be

Exhibit VI

Pulaski County Special School District (District) Summary of Board Expense For the Period July 1, 2006 through March 3, 2009	
Description	Total
Arkansas School Boards Association	\$ 14,831
Board Member travel advances	37,855
Board Member mileage and miscellaneous expenses	2,695
Carlson Wagonlit Travel	8,381
Catering/Meals for Board meetings and workshops (Note 1)	8,544
Cellular telephone and internet access (Note 2)	6,113
Louisiana School Boards Association	930
National Alliance of Black School Educators	3,110
National Black Caucus of School Board Members	285
National School Boards Association	33,610
Texas Association of School Boards	738
TQ Navigant Travel Solution	528
Total Board Member Expenses	\$ 117,620
Note 1: Amount is not all inclusive	
Note 2: Services for Board members Mildred Tatum and Gwen Williams for the period July 1, 2006 through February 28, 2009	

Source: District financial records

provided with . . . cell phone . . . internet access . . . computer”

Prior to this revision, District policy did not address whether cellular telephone and internet access services provided to Board members would be reimbursed to the District.

Catering and Food Expenses for Meetings

As indicated in **Exhibit VI on page 9**, expenses for food and catering purchases for workshops and Board meetings totaled \$8,544 during the period July 1, 2006 through March 3, 2009. Board policy does not address the purchase of food for meetings nor impose limits on such purchases.

Travel

The District Business Procedures Manual provides procedures regarding reimbursement for expenses Board members incur in performance of official duties. These procedures indicate Board members will be reimbursed for actual expenses incurred while in travel status and require a receipt for expenses of \$25 or more.

Interviews with Board members and District personnel revealed it was common practice for District to reimburse gratuities. Final expense report forms used by the District reflect meal “tips” to be itemized as allowable expenditures. As previously mentioned on page 8, DLA determined gratuities to be unallowable based on Ark. Const. art. 14, § 2.

To determine if cash advances of \$37,855 to nine Board members for expenses incurred on behalf of the District were appropriate, DLA staff examined available supporting documentation for all checks issued to those individuals during the period July 1, 2006 through March 3, 2009. Illustrated in **Exhibit VII on page 11**, unallowable or undocumented travel expenses of \$7,349 and \$343, respectively, were revealed. These expenses included:

- \$557 for gratuities;
- \$320 for Little Rock hotel room for a Board member who lives in Little Rock;
- \$116 for Board member to attend a Broadway play in New York; and

- \$70 for transportation provided by a valet service.

DLA notified six Board members with questioned or unallowable expenses. Four of six members notified provided responses, which are located in the **Appendix on pages A-10 through A-14**. Three Board members reimbursed the District for the unallowable amounts (\$278) or provided explanation for the questioned expenses (\$70). In addition, two other Board members provided adequate supporting documentation for a portion of their unallowable expenses of \$1,955 and \$1,712.

Unallowable and questioned travel expenses totaling \$3,677 remain due the District as summarized in **Exhibit VII on page 11**.

Administration Expenses

A cursory review of payments to local hotels and food vendors revealed the District spent approximately \$53,590 for catered meals, administrative workshops, training, and award ceremonies during the period July 1, 2006 through March 3, 2009. The disbursements were reviewed to determine if expenses complied with District policy. The following was revealed:

- District policy does not provide guidelines for provision of food for workshops, training seminars, or award ceremonies, nor impose limits on such purchases.
- District incurred expenses exceeding \$1,000, on at least four occasions, to host training classes outside District facilities.

During review of credit card statements, DLA staff also noted supporting documentation was not retained for some charges. Further, a business purpose could not be determined for other purchases that included:

- Flowers and plants - \$175;
- 10 book bags and 12 luggage tags - \$781;
- Decorative items - \$592; and
- Cellular telephone accessories - \$267.

In addition, the District paid credit card fees totaling \$366 and \$210, respectively, for finance and late payment charges.

Exhibit VII

Pulaski County Special School District (District)
Analysis of Board Member
Travel Advances, Improper Transactions, and Amount Due District
For the Period July 1, 2006 through March 3, 2009

Board Member (Note 1)	Travel Advance (Note 2)	Improper Transactions				Unallowable/ Questioned Amount Potentially Due District (a+b-c-d)
		Unallowable/ Due District (a) (Note 3)	Questioned/ Potentially Due District (b) (Note 4)	Subsequently Provided Documentation/ Explanation (c)	Amount Reimbursed District (d)	
Mildred Tatum	\$ 13,572	\$ 4,613	\$ 130	\$ 1,955		\$ 2,788
Gwen Williams	7,893	476	143			619
Danny Gililand	4,753	149			\$ 149	
Debbie Murphy	2,773	93	70	70	93	
Charlie Wood	2,773	36			36	
Pam Roberts	1,982	1,982		1,712		270
Shana Chaplin	1,982					
Tim Clark	1,400					
James Bolden	727					
Totals	\$ 37,855	\$ 7,349	\$ 343	\$ 3,737	\$ 278	\$ 3,677

Note 1: Of 13 Board members serving during the review period, 9 received advances for District related travel

Note 2: Represents travel advances for both allowable expenses and improper transactions

Note 3: Includes alcohol, gratuities, meals over daily allowance, and undocumented amounts

Note 4: Documentation existed in various forms; however, business purpose was unknown

Source: District financial records

Overview of Purchasing Procedures for Goods and Services

The District expended approximately \$43.4 million for goods and services, excluding payroll related expenses, during the 2008-09 school year.

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 ap-

proval. 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 allows the use of blanket purchase orders for purchases less than \$2,500. The Blanket Order Policy states "At the discretion of the Purchasing Director, blanket orders may be issued for purchases against term contracts, purchases of items exempt from bidding requirements, and small order purchases." The policy also states "Blanket orders for small order purchases are limited to \$1,000 per month to each vendor."

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.

Review of District purchasing procedures identified the following:

- 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.

Bids

The Board directed the District utilize competitive bidding by securing formal and informal bids from suppliers and awarding contracts to the lowest responsible bidders meeting specifications. 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 made by District 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 quarterly to the Board.

Purchases in excess of \$5,000, but less than \$10,000, may be made by the 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.

Purchases Requiring Bids - September 29, 2006 through June 30, 2008

DLA staff analyzed six purchases exceeding \$10,000 to determine if District personnel complied with bid laws and policies. While it appears bid laws and District policies were followed for three purchases, the remaining three bids revealed the following:

- DLA staff could not determine if two items, costing \$52,415 and \$105,961, for projects awarded to general contractors complied with District policies and bid laws since Request for Proposal (RFP) did not clearly state contract requirements.
- Bid laws were not followed regarding payments to, and contract with, media communications vendor (Communications Vendor).

An RFP for communication and advertising services could not be located. According to Ark. Code Ann. § 19-11-801(c), political subdivisions of the State may elect not to use competitive bidding for other professional services not listed in Ark. Code Ann. § 19-11-801(b)² with a two-thirds vote of the political subdivision's governing body. The District could not provide any Board action to indicate communications services and advertising were approved to be considered professional services and, therefore, not require competitive bidding.

Board meeting minutes dated August 8, 2006, indicated the media contract with Communications

²Competitive bidding shall not be used for the procurement of legal, financial advisory, architectural, engineering, construction management, and land surveying professional consultant services.

Vendor was not to exceed \$60,000 for the period July 1, 2006 through June 30, 2007.

Without obtaining bids, the District paid:

- \$123,103 to Communications Vendor for the aforementioned period which included \$55,000 for retainer fees and \$68,103 for services relating to Board workshop materials, recruitment and retention, advertising, test score campaigns, benchmark charts, and Superintendent media letters.
- \$197,198 to Communications Vendor for the 2007-08 school year which included \$50,000 for retainer fees and \$147,198 for services similar to those provided during the previous school year.

Furthermore, the District could not provide a contract with Communications Vendor. Waste and abuse of District funds may occur when contracting a vendor, but not using the bid process or obtaining an actual contract, both of which Code require.

Purchases Requiring Bids - 2008-09 School Year

During the 2008-09 school year, twenty-two items were solicited for purchase through the bid process. Four bids were randomly selected for review. Of these bids, three appeared to comply with District bid requirements and specifications listed in RFP. Also, payments did not exceed contract amounts. However, review of one bid for lawn care services revealed the District did not:

- Require vendor to provide monthly inspection reports as required in the RFP.
- Ensure vendor performed services according to schedule provided in the RFP.
- Solicit bids for installation of a sprinkler system costing \$14,995 not included in the RFP.
- Pay the vendor in accordance with contract terms. The vendor was paid \$209,553; however, contract amount was only \$169,000.

Board voted to suspend the rules regarding RFP for lawn care services in August 2009, and awarded the bid to three lawn care vendors who previously responded to RFP.

Maintenance Department

The Maintenance Department consists of approximately 50 employees and is managed by the Executive Director of Support Services, who oversees an additional 800 support services employees in other areas such as transportation, food services, and warehouse. Responsibilities of Maintenance Department employees include maintaining and managing electrical and mechanical systems and general maintenance of all District facilities.

Interviews with District personnel indicated that Maintenance Department employees were excessively submitting emergency purchase orders and abusing the District "blanket" purchase order policy. In addition, District personnel suggested that several employees in Maintenance Department received overtime pay for work unrelated to District projects.

Common practice of approving an invoice for payment did not include invoice review. As long as an invoice had the supporting cover sheet and proper signatures, it was paid. The former CFO indicated many invoices were paid using the "rubber stamp" method.

Discussed in detail below are situations in which Maintenance Department employees made unauthorized purchases and received overtime compensation without adequate documentation.

Unauthorized Purchases

A review of email correspondence between Director of Purchasing and Executive Director of Support Services revealed several emails pertaining to the amount of purchases made from Grainger, Inc. (Grainger), an industrial supply business. In addition, email correspondence between Budget Coordinator and Executive Director of Support Services revealed 91% of the plumbing budget for the 2008-09 school year was spent during the first quarter of the school year.

As a result of reviewing aforementioned email correspondence, DLA staff analyzed Grainger invoices for the period November 2008 through March 2009 to determine the individual(s) responsible for purchase of goods and approval of invoices as well as business purpose of items purchased. The majority of purchases were made by Mechanical Systems Supervisor James

Diemer and approved by Executive Director of Support Services.

DLA staff selected 34 items purchased from Grainger for the period July 2008 through March 2009 to observe during an unannounced inventory at the District Maintenance Shop (Shop) on May 12, 2009. Only four of the 34 items were located at the Shop, therefore, District personnel contacted Diemer, who was off work, but invited a District representative and DLA staff to his personal residence to assist in locating the remaining 30 items. Two items were located in a District work truck used by Diemer, who indicated another item on the list had "burned up," however, he could not account for the remaining 27 items. The following day, DLA staff returned to the Shop and discovered seven items on the inventory list had been returned.

Diemer admitted, on May 15, 2009, to DLA staff and an investigator of the Twenty-second Judicial District Prosecuting Attorney's Office he purchased numerous items from Grainger and Allied Supply, Inc. (Allied), a local plumbing and industrial supply company, with District funds. Diemer also acknowledged manipulating the District purchase order system to obtain items and later sell or trade those items for personal gain. Further, Diemer indicated he could order items *without question* provided the purchases were limited to \$2,500 or less.

As a result of the interview with Diemer, DLA staff expanded the scope of invoice review and several law enforcement agencies, including the Federal Bureau of Investigation (FBI), investigated the unauthorized purchases made by Diemer.

A review of purchases from Allied and Grainger revealed Diemer purchased goods ranging in price from \$10 to \$2,400, including a 16 ft. utility trailer, lawn mowers, cordless combination tool kits, generators, 23-drawer tool boxes, and free standing ice makers. Types of items purchased are illustrated in **Exhibit VIII**. Additional review of invoices from vendors utilized by the Maintenance Department revealed Diemer ordered additional questioned items from Little Rock Winnelson (Winnelson), another local plumbing supply store.

Discussions with Allied office staff revealed Diemer primarily used Allied as a pass-through

Exhibit VIII

**Pulaski County Special School District (District)
Examples of Questioned Items Purchased
From Grainger, Inc., Allied Supply, Inc.,
and Little Rock Winnelson by James Diemer
For the Period March 1, 2004 through May 19, 2009**

Allied Supply, Inc.

Item Description	Quantity*	Average Cost
Cordless Combination Kit	223	\$ 536
Battery Pack (16-18 volt)	67	182
Generator (gas 5.5 kw)	5	443
Ice Maker (25 & 60 lb)	7	620
Job Site Radio	23	132
Reciprocating Saw & Kits	75	15
Truck Tool Box Chest	4	501

Grainger, Inc.

Item Description	Quantity*	Average Cost
Cordless Combination Kit	43	\$ 546
Battery	90	87
Generator	3	1,091
Ice Maker	12	837
Accessory Kits (100 piece)	47	49
Job Site Radio	5	98
Truck Tool Box Chest	3	450

Little Rock Winnelson (Note 1)

Item Description	Quantity*	Average Cost
Cozy Infrared Heater	12	\$ 229
Whirlpool Tub Skirt	1	240
Nickel Faucets	3	147
Nickel Tub Bypass Door	1	725
Chrome Sink Faucets	6	110
60" White Shower	1	421

* Approximate quantity

Note 1: Items purchased from Winnelson were for the period January 1, 2006 - May 19, 2009

Source: District financial records and vendor invoices

company to conceal ordering additional items from Grainger.

FBI requested DLA staff identify and summarize purchases Diemer made, for which the District paid, from Grainger and Allied for the period March 1, 2004 through May 19, 2009. DLA staff obtained invoices electronically from Grainger and analyzed items purchased by Diemer for propriety. Allied provided paper invoices which were also scrutinized for appropriateness. Since Winnelson was another vendor frequently used by Diemer, DLA staff obtained paper invoices from this vendor and examined for correctness during the period January 1, 2006 through May 19, 2009. Purchases from these three vendors are illustrated in **Exhibit IX** by vendor, time period, and amount.

Of the \$512,557 purchased from Grainger, Allied, and Winnelson by Diemer, \$439,745 was identified as questioned and unlikely procured for District use.

On January 21, 2010, Diemer waived indictment and entered a plea of guilty to theft of property from a government entity which received federal funds, a violation of Title 18, United States Code, Section 666. Diemer is scheduled to be sentenced at a hearing on June 8, 2010.

The Director of Purchasing and Executive Director of Support Services retired from District employment in August and September 2009, respectively. Initially, Diemer was placed on administrative leave without pay. After pleading guilty to theft of property, Diemer's employment with the District was terminated.

Exhibit IX

Pulaski County Special School District (District) Purchases from Grainger, Inc., Allied Supply, Inc., and Little Rock Winnelson by James Diemer, Mechanical Systems Supervisor For the Period March 1, 2004 through May 19, 2009						
	Grainger, Inc.		Allied Supply, Inc.		Little Rock Winnelson (Note 1)	
	Amounts Purchased					
Time Period	Total (a)	Questioned (b)	Total (c)	Questioned (d)	Total (e)	Questioned (f)
March 1 - December 31, 2004	\$ 14,727	\$ 13,405	\$ 11,460	\$ 7,613		
Year ended December 31: 2005	22,267	20,618	51,720	42,777		
2006	32,097	31,405	69,076	58,192	\$ 5,147	\$ 966
2007	25,934	25,721	69,372	51,706	3,124	2,325
2008	55,101	54,073	65,655	57,818	13,529	6,858
January 1 - May 19, 2009	25,428	25,236	41,034	38,684	6,886	2,348
Totals	\$ 175,554	\$ 170,458	\$ 308,317	\$ 256,790	\$ 28,686	\$ 12,497
Total Amounts Purchased (a+c+e)					\$ 512,557	
Total Questioned Purchases (b+d+f) (Note 2)					\$ 439,745	
Note 1: Invoices obtained from this vendor for the period January 1, 2006 through May 19, 2009						
Note 2: Questioned amounts calculated using auditor judgement regarding items that appear not to have a business purpose or items in excessive quantities that may have a business purpose						

Source: District financial records and vendor invoices

Overtime

Exhibit X on page 17 summarizes the amount of overtime compensation, in excess of \$1,000, received by Maintenance Department employees which totaled \$193,279 during the period July 2006 through May 2009. Adequate documentation itemizing project, number of hours worked, and services performed was not always available.

Interviews with District employees suggested that several employees in the Maintenance Department received overtime pay for work performed at the Shop for projects unrelated to the District as well as at locations other than District property. Evidence to support these allegations could not be obtained, but three employees who received the most overtime compensation worked in positions that normally would not require overtime.

Two of these three employees received overtime compensation of \$34,833 and \$26,568, respectively, as cabinet makers. The other employee, who worked in the paint shop, received \$17,949. Employees with a higher skill level and hourly pay rate received overtime for tasks (e.g., moving furniture) which appeared to be appropriate for less trained and paid personnel. In addition, a roofer and a custodial supply and equipment coordinator received overtime pay of \$10,642 and \$10,417, respectively.

Furthermore, two other employees who received \$5,632 and \$1,726, respectively, for overtime were renting homes owned by the Executive Director of Support Services, who approved overtime hours. The approval of overtime compensation for the aforementioned employees by the Executive Director of Support Services, who received financial gain, could present a potential conflict of interest.

The District may have a situation of waste and abuse of funds because employees with higher pay rates received overtime compensation for performing mundane duties and applicable supporting documentation was not adequate.

Vendor Overpayment

A review of email correspondence between Director of Purchasing and CFO revealed the District overpaid a telephone equipment vendor

(Vendor) \$11,975 on November 30, 2006. The Director of Purchasing agreed to allow Vendor to repay the District in \$500 installments as opposed to an immediate refund of the full amount.

Review by DLA staff revealed Vendor reimbursed the District only \$2,500. Subsequently, invoices submitted by Vendor for work performed at the District were not paid; rather, the invoiced amount was deducted from the amount Vendor owed the District.

Further, the amount due from Vendor was not posted to District records as a receivable; rather repayment by Vendor was kept "off-the-books" by the Director of Purchasing. Consequently, the District paid Vendor an additional \$632 for services provided in July 2008, at which time Vendor still owed the District \$4,700. As of May 28, 2009, the amount of overpayment had been absorbed by invoices submitted by Vendor.

Other Disbursements

A sample of seventeen disbursements for supplies and employee travel reimbursement, for the period July 2008 through January 2009, was randomly selected to determine if adequate supporting documentation was available. The following issues were identified:

- An employee was reimbursed for hotel expense and meals at a conference, however lodging and meals were included in conference fees.
- An employee was provided funds to purchase items for United Way, but receipts were not provided to document actual expenses.

Although the remaining fifteen disbursements were properly documented, four contained inconsistencies regarding required signatures on supporting documents.

Federal Aid Assistance

Interviews with District personnel suggested that Federal aid received by the District for hurricane relief was misused. ADE awarded Emergency Impact Aid to the District for Hurricanes Katrina and Rita Displaced Students for a grant period September 1, 2005 through July 31, 2006.

Exhibit X

Pulaski County Special School District (District)
Overtime Hours Paid to Maintenance Employees
For the Period July 2006 through May 2009

Maintenance Department	2006-07		2007-08		2008-09		Totals Paid
	Hours	Amounts Paid	Hours	Amounts Paid	Hours	Amounts Paid	
Employee (Note 1)							
1	606.25	\$ 14,282	415.00	\$ 10,510	376.50	\$ 10,041	\$ 34,833
2	633.25	12,888	407.75	8,892	210.00	4,788	26,568
3	362.00	6,664	262.00	5,232	288.50	6,053	17,949
4	81.00	2,183	244.75	5,817	110.50	2,642	10,642
5	152.50	4,706	285.50	5,711			10,417
6			127.25	2,987	173.50	4,341	7,328
7	135.50	3,698	59.00	1,272	73.75	2,244	7,214
8	37.50	1,301	107.00	3,835	38.50	1,415	6,551
9	168.00	3,109	129.75	2,523			5,632
10	166.00	5,205					5,205
11	61.00	2,100	59.00	2,349	16.50	681	5,130
12	35.25	880	57.00	1,592	90.00	2,604	5,076
13	61.50	1,669	95.25	2,769	12.00	378	4,816
14	94.00	2,095	39.50	978	40.75	1,047	4,120
15	37.00	1,128	54.00	1,797	26.50	903	3,828
16	66.50	1,240	12.00	246	96.75	2,228	3,714
17	43.00	1,097	52.00	2,033	5.00	209	3,339
18			29.50	553	143.00	2,781	3,334
19	49.00	1,566	48.00	1,219	21.50	503	3,288
20	36.00	603	65.50	1,174	71.50	1,398	3,175
21	103.00	1,872	46.00	1,249			3,121
22			65.25	1,175	73.00	1,314	2,489
23			87.50	2,183	1.00	27	2,210
24			10.00	390	44.00	1,736	2,126
25	9.00	375			36.50	1,620	1,995
26			49.50	691	58.00	1,035	1,726
27	1.00	28	52.50	1,536	2.00	61	1,625
28	26.50	453	67.75	1,158			1,611
29			20.00	320	68.00	1,133	1,453
30	34.25	1,440					1,440
31	23.00	476	15.00	231	20.00	617	1,324
Total Overtime: Hours	3,022.00		2,963.25		2,097.25		
Paid		\$ 71,058		\$ 70,422		\$ 51,799	\$ 193,279

Note 1: Employees 1 and 2 work in the cabinet shop and Employee 3 works in the paint shop
Employee 4 is a roofer and Employee 5 was a Custodial Supply and Equipment Coordinator
Employees 9 and 26 rented homes owned by Executive Director of Support Services

Source: District financial records

During this period, the District received \$844,125 for compensation of personnel, including teacher aides, dealing with these displaced students. The District issued checks totaling \$48,000 to individuals and schools for reimbursement of items purchased for displaced students.

DLA staff review of documentation provided by District personnel revealed questioned purchases by a high school home school counselor and approved by the Assistant Superintendent for Equity and Pupil Services. These purchases were:

- \$311 at Dillard's Department Store for women's undergarments;
- \$464 at Lady Foot Locker for athletic apparel; and
- \$194 at Finish Line for two pairs of athletic shoes.

The District should obtain reimbursement of funds from applicable personnel for the apparent misuse of federal aid.

Jacksonville High School Activity Fund

District personnel notified DLA staff in January 2010 concerning discrepancies between bank account deposits and activity cash count sheets relating to the Jacksonville High School Activity Fund (Activity Fund). According to District accounting personnel, the Activity Fund Bookkeeper, Rosalind Taylor, was responsible for, and custodian of, Activity Fund money.

To document collection of funds for school activities, District required applicable sponsors complete and sign cash count sheets. These sheets and pertinent funds were remitted to Taylor who provided the sponsor a receipt to corroborate the exchange of funds.

After comparing documentation supporting collection of funds from various activities to Activity Fund bank account deposits, District accounting personnel determined \$23,036 had not been deposited in the 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, Taylor was charged with theft of property by the Sixth Judicial District Prosecuting Attorney on March 30, 2010.

The District placed Taylor on leave without pay awaiting outcome of this criminal matter pending resolution in the Circuit Court of Pulaski County.

Daisy Bates Elementary Parent Teacher Association

At the request of Acting Superintendent Rob McGill, DLA staff reviewed certain documents pertaining to the Daisy Bates Elementary Parent Teacher Association (Daisy Bates PTA). Daisy Bates Principal expressed concern due to telephone calls regarding unpaid PTA bills.

DLA staff reviewed bank statements and available supporting documentation for expenditures for the period August 17, 2007 through March 12, 2009. The following items were noted:

- Checks, totaling \$2,408, issued without adequate supporting documentation;
- Cash expenditures totaling \$1,716;
- Check issued to "Cash" for \$500 without supporting documentation;
- Checks, totaling \$265, issued for donations to individuals; and
- Multiple checks with only one signature.

DLA staff also noted receipts for funds collected were not maintained by Daisy Bates PTA.

Two internal audits were conducted by Arkansas PTA audit committee members for the periods July 1, 2007 through June 30, 2008 and July 1, 2008 through March 31, 2009, respectively. While findings in the internal audit reports include checks written for cash, checks written to individuals for donations, and checks with only one signature, the following issues were also addressed. The Daisy Bates PTA did not have an approved budget, meeting minutes indicating

its board's approval of amounts expended, or financial fidelity bonding insurance. The internal audit report for the period July 1, 2008 through March 31, 2009 also disclosed outstanding invoices that had not been paid.

According to Arkansas PTA President, state and national dues collected by Daisy Bates PTA have not been remitted to Arkansas PTA.

In addition, the Principal provided an unsigned letter, purportedly from the Principal, instructing the bank in which PTA maintained a bank account that the PTA Treasurer, a teacher at Daisy Bates, would be the sole signatory on the bank account. This fabricated letter was in direct opposition to a letter to the same bank the Principal indicated he wrote and signed removing the PTA Treasurer and listing the PTA President and Vice President as co-signatories.

Currently, according to the Principal, Daisy Bates PTA is not an active organization. One company is still owed for outstanding invoices and state and national dues have not been remitted to Arkansas PTA.

Other Issues

Other than the matters previously discussed in this report, the Board also expressed concerns relating to certain financial operations of, and compliance with policies by, the District. In addition, District personnel revealed issues of concern to DLA staff during interviews. While these issues were beyond the scope of this review, DLA staff provided Acting Superintendent Rob McGill a summary of issues and concerns revealed during the period March through May 2009. DLA staff did not verify or otherwise substantiate the following assertions.

- Desegregation funds were used for purposes other than designated programs and were being "saved" for use in another school year.
- Board members received goods and services from the District and District personnel for matters unrelated to the District.
- Executive Director of Support Services used District employees and vendors for purposes not related to District projects.

- Security measures over the food warehouse were careless. According to District personnel, surveillance cameras located in the frozen food area had been broken for several years.
- District equipment could be "checked out" by employees for personal use.
- Maintenance Department did not address work order requests timely.
- Employees were allowed to commute to work in District vehicles without the District reporting the value of this fringe benefit to Internal Revenue Service (IRS) on an IRS form W-2 or 1099 - Misc.
- Numerous instances of upper management being out of the office without cause.
- Numerous support service staff were tardy to work. These employees were also allowed leave time without reporting it on timesheets.
- Fundraiser proceeds were not properly recorded or tracked.

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.

While gaining an understanding of the District's internal control components as related to issues discussed in this report and reviewing selected records, certain transactions and events that appeared to compromise the District's commitment to integrity and ethical values came to the attention of DLA staff.

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

This review and interviews with pertinent District personnel revealed numerous internal control deficiencies, which contributed to the misappropriation of District funds as well as potential waste and abuse of District resources. In particular, these deficiencies include Administrative staff and the Board not:

- Exercising proper management fiscal oversight responsibility or providing safeguards to prevent and timely detect misappropriation of funds and potential waste and abuse of District assets.
- Following established District policies and procedures.
- Establishing a "tone at the top" that demonstrated to personnel the necessity of standards and fiscal prudence.

District travel policies and procedures were not followed, including:

- Expenses were not always documented.
- Unallowable expenses including alcoholic beverages, gratuities, Broadway play tickets, and meals for family members were reimbursed/paid.
- Business purpose/attendees were not documented for in-district meal expenditures.
- Hotel and meal expenses reimbursed, although these charges were included in conference fees.
- Taxi fares were paid without points of travel included.
- Receipts were not always included for meals in excess of per diem.

District purchasing policies and procedures were not followed, including:

- Department Directors/supervisors did not adequately examine supporting documentation for goods and services purchased.
- Business purpose for goods purchased was not always documented.
- Blanket purchases for small order purchases frequently exceeded \$1,000 per vendor monthly limit.

- Excessive use of "emergency" purchase orders.
- Approval on numerous purchase orders and invoices was in the form of a "rubber stamp."
- Purchasing laws pertaining to solicitation of bids were not always followed.
- An overpayment to a vendor was not accounted for properly nor was a refund requested.

District weaknesses concerning overtime compensation included:

- Supporting documentation did not always contain project, number of hours worked, and services performed.
- Using more highly skilled and paid employees to perform routine tasks.

RECOMMENDATIONS

To reduce the risk of future misappropriation of funds, the Board should, in conjunction with Administrative staff, establish and practice sound internal control policies and comply with applicable Code.

Specifically, the District should:

- Exercise proper fiscal oversight responsibilities.
- Strengthen procedures to ensure disbursements comply with District policies and procedures.
- Expand purchasing policies to ensure all purchases are legitimate, received, and used for District purposes.
- Develop a comprehensive policy regarding District food purchases. This policy should establish specific guidelines regarding proper and allowable disbursements and require documentation of business purpose and individuals in attendance.
- Require detailed supporting documentation be submitted and retained for all disbursements.

- Periodically evaluate RFPs to ensure vendors adhere to contract terms.
- Provide accounting/purchasing personnel instruction necessary to properly perform work duties.
- Ascertain compliance with District ethics and conflict of interest policies as well as those provided by Code.
- Review and revise Business Procedures Manual, where applicable.
- Discontinue the practice of cash advance for out-of-district travel.
- Ensure travel expenses for Board members and District personnel reflect actual expenses incurred by applicable parties, are for District purposes, and adhere to District policy.
- Establish monitoring procedures to ensure compliance with District policy and internal controls.

Further, individual Board members should refrain from obligating the District, formally or informally, without full Board approval recorded in minutes of meetings.

To enhance overall attitude of the District, management and the Board should strive to demonstrate values and behavioral standards to personnel through example and policy statements.

CONCLUSION

As provided in **Exhibit III on page 5**, the District initially paid a financial settlement of \$269,520 to Superintendent James Sharpe upon resignation from the District. This payment conflicted with Board approved terms and amount of \$185,000. Therefore, Sharpe reimbursed \$72,918 which was calculated by District personnel.

Sharpe also received salary/benefits overpayments totaling \$17,203 for the period July 1, 2005 through March 11, 2009 (see **Exhibit IV on page 7**). This civil matter is pending resolution in the Circuit Court of Pulaski County. In addition, Sharpe was reimbursed for, or charged on District credit card, unallowable, undocumented ex-

penses totaling \$7,836 as shown in **Exhibit V on page 8**.

In addition, review of cash advances to Board members for travel costs revealed additional unallowable and questioned expenses of \$3,677 (see **Exhibit VII on page 11**).

District Mechanical Systems Supervisor James Diemer misappropriated \$439,745 by purchasing items, for which the District paid, from three vendors for personal gain (see **Exhibit IX on page 15**). On January 21, 2010, Diemer waived indictment and entered a plea of guilty to theft of property from a government entity which received federal funds. Diemer is scheduled to be sentenced at a hearing on June 8, 2010.

Thirty-one employees in the Maintenance Department were compensated for overtime totaling \$193,279 during the period July 2006 through May 2009 as presented in **Exhibit X on page 17**. Management approval of possible excessive overtime could result in waste and abuse of District funds.

Also, an overpayment of \$11,975 to a vendor in November 2006 was not fully reimbursed until May 28, 2009.

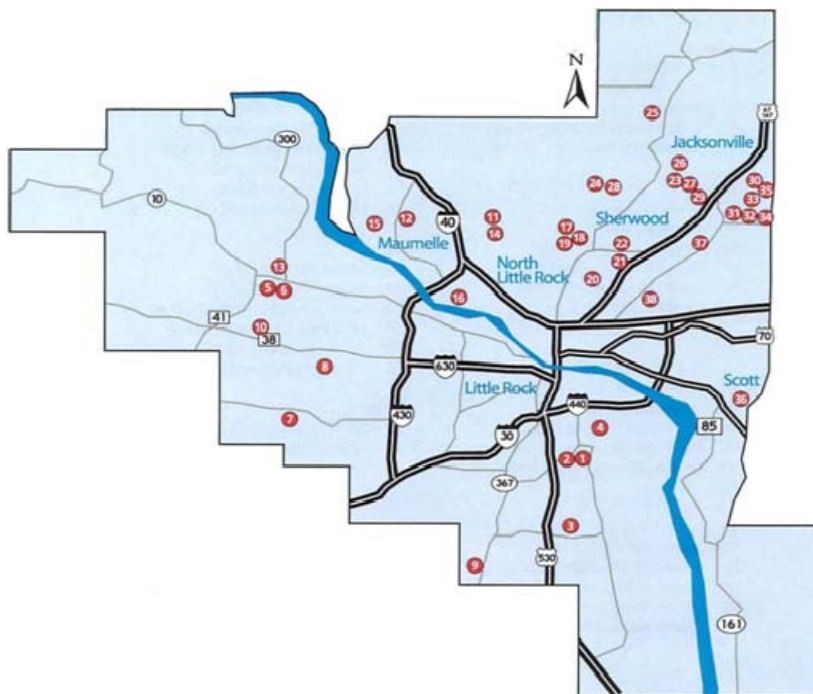
The District provided documentation indicating activity fund collections totaling \$31,536 were not deposited in the Jacksonville High School Activity Fund bank account. Bookkeeper Rosalind Taylor was charged with theft of property which is pending resolution in the Circuit Court of Pulaski County.

This review and interviews with pertinent District personnel revealed numerous internal control deficiencies, particularly lack of proper management fiscal oversight responsibility and safeguards to prevent and timely detect misappropriation of funds and potential waste and abuse of District assets. District management and the Board are responsible for establishing a "tone at the top" that demonstrates to personnel the necessity of standards and fiscal prudence.

This report has been forwarded to Federal Bureau of Investigation, Sixth Judicial District Prosecuting Attorney, Twenty-second Judicial District Prosecuting Attorney, Arkansas Department of Education, Arkansas Governmental Bonding Board, and Pulaski County Sheriff's Office.

Schedule 1

**Pulaski County Special School District
School Locations by Zone
As of June 30, 2009**

**Zone 1**

- 1 Mills University Studies High School
- 2 Fuller Middle School
- 3 Bates Elementary School
- 4 College Station Elementary School and Learning Academy (Note 1)

Zone 2

- 5 Robinson High School
- 6 Robinson Middle School
- 7 Lawson Elementary School
- 8 Baker Elementary School
- 9 Landmark Elementary School
- 10 Chenal Elementary School

Zone 3

- 11 Oak Grove High School
- 12 Maumelle High School
- 13 Robinson Elementary School
- 14 Oak Grove Elementary School
- 15 Pine Forest Elementary School
- 16 Crystal Hill Elementary School

Zone 4

- 17 Sylvan Hills High School
- 18 Sylvan Hills Middle School
- 19 Sylvan Hills Elementary School
- 20 Sherwood Elementary School
- 21 Clinton Elementary School
- 22 Oakbrooke Elementary School

Zone 5

- 23 North Pulaski High School
- 24 Northwood Middle School
- 25 Bayou Meto Elementary School
- 26 Arnold Drive Elementary School
- 27 Tolleson Elementary School
- 28 Cato Elementary School
- 29 Dupree Elementary School

Zone 6

- 30 Jacksonville High School
- 31 Jacksonville Middle School- Girls
- 32 Jacksonville Middle School- Boys
- 33 Jacksonville Elementary School
- 34 Taylor Elementary School
- 35 Pinewood Elementary School

Zone 7

- 36 Scott Elementary School
- 37 Adkins Pre-K Center
- 38 Harris Elementary School

Note 1: Two separate schools on the same campus, which results in a total of 39 schools

Schedule 2

Pulaski County Special School District (District)
Salaries and Benefits of Certain Administrators
For the 2008-09 School Year

Position	Hire Date	Resignation Date	Salary (Note 1)	Benefits
Superintendent (Note 2)	2/8/06	3/11/09	\$ 148,803	\$ 29,452
Acting Superintendent	3/11/09		44,690	9,875
Deputy Superintendent	5/10/06	6/30/09	95,873	21,859
Assistant Superintendent for Equity and Pupil Services	3/14/07		113,154	26,979
Assistant Superintendent for Human Resources	7/1/06		114,192	27,264
Chief Financial Officer (05-09)	12/6/05	3/20/09	80,740	18,868
Acting Chief Financial Officer	3/30/09	6/9/09	2,019	
Chief Financial Officer (09-Current)	6/10/09		6,506	1,936
Director of Federal Programs	7/1/07	3/29/09	93,918	21,493
Director of Secondary Education	7/1/06		103,401	16,849
Director of Elementary Education	7/1/06		101,837	23,081
Executive Director of Support Services	8/24/01	9/16/09	109,002	26,251
Acting Executive Director of Support Services	5/7/09		2,089	
Director of Community Affairs	7/1/07	6/30/09	57,804	15,573
Director of Accountability	10/11/99		90,181	22,459
Director of Human Resources	7/17/06		77,398	19,819
Director of Special Education	7/7/06		91,474	22,695
Director of Workforce Education	9/26/05		74,345	18,459
Director of Counseling	7/11/07		78,891	19,894
Director of Educational Technology	1/12/00		91,830	20,919
Acting Director of Educational Technology	7/1/09			
Director of Management Information Systems	5/12/99		90,073	20,818
Director of Accounting and Auditing	12/24/86		84,372	14,555
Director of Purchasing	1/2/07	8/11/09	69,812	18,127
Director of Transportation	4/25/95		99,749	24,785
Director of Child Nutrition (79-08)	7/1/79	1/18/08		
Director of Child Nutrition (08-Current)	8/4/08		51,494	15,927
Director of Plant Planning	8/26/87		96,191	23,693

Note 1: Salary includes vehicle allowance, if applicable

Note 2: Includes supplemental payment for insurance and retirement contribution, but does not include Superintendent contract buy-out of \$185,000

Source: District financial records

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APPENDIX

**Pulaski County Special School District
Responses to Report
Acting Superintendent, Former Superintendent, and Board of Directors**

A

[Exhibit D](#)

**Pulaski County Special School District
Response to Report
Acting Superintendent - Robert McGill**



Robert E. McGill, Acting Superintendent

May 10, 2010

Pulaski County Special School District's Management Response to Legislative Audit Findings

It is important to note for the time period investigated there have been many personnel changes to include replacement of Superintendent, Chief Financial Officer, Deputy Superintendent, Executive Director of Support Services, and the Director of Purchasing. In response to the Investigative Report of the Pulaski County Special School District (PCSSD), the following actions have been implemented or plan to be taken:

- PCSSD management will remain in consultation with the District's legal counsel in efforts to resolve the Superintendent's separation overpayment. The District has filed a civil suit seeking reimbursement of \$17,203 from Sharpe for unauthorized compensation.
- The PCSSD School Board approved a travel policy that aligns with the Federal rates by city for per diem on meals during business travel. The Board also approved a policy that increased the number of allowed conferences for Board members to three per year. Policy revisions are being developed to outline rules and guidelines for in-state and out-of-state travel procedures. District management for the past year has enforced the policies as listed in the District's Business Procedure Manual and Board policy. For example, the District no longer accepts hand written receipts by the individual requesting reimbursement.
- The PCSSD School Board adopted a policy which states that Board members are not permitted to have paid mobile services or internet services and these services are no longer provided by the District.
- District management has adopted sound accounting policies and established internal control that will initiate, authorize, record, process and report transactions consistent with management's assertions embodied in the District's Business Procedure Policy Manual and will safeguard PCSSD's assets with a concentrated focus on review of:
 - Administrative Expenses;
 - Maintenance Purchasing Procedures;
 - Bid Procedures; and
 - Other Disbursements.
- District management replaced the Director of Purchasing. Bid awards and tabulation charts are placed in the Board agenda book for review and approval by the Board. Strict adherence to state law and Board policy is followed for bid procedures. District management has implemented quarterly training for School Bookkeepers to address financial duties and responsibilities, procurement processes, payroll requirements and implications of audit findings. District management has designed a process for on-site financial auditing in conjunction with scheduled academic school-based audits. District Accountants monitor expenditures on a continuous basis to detect fraud and abuse in compliance with proper procedures. Lawn care vendor contract was terminated.

Continued on page A-2

**Pulaski County Special School District
Response to Report
Acting Superintendent - Robert McGill**

Continued from page A-1

- District management has employed a Director of Public Information and Policy to oversee District communication, media coverage, advertisement and event planning for the organization. As of April 30, 2010, the agreement with Communications Vendor and the previous Superintendent was terminated.
- District management has replaced the Executive Director of Support Services and Mr. James Diemer has been terminated. The new Executive Director has developed internal procedures to ensure District policies and procedures are followed. Effective July 1, 2009, Maintenance work orders are now generated through School Dude which tracks repairs and preventive maintenance requests by building. All invoices for purchased parts and materials are attached to a School Dude form to validate the expenditure. The Building Administrator is responsible for verifying that work orders are completed. A tool room has been organized to account for District purchased inventory where tools are signed in and out based upon need. District Budget managers have been trained to identify suspicious purchase and/or procurement activities. Such as, if multiple purchases of like items are requested in a short time period the request for purchase is flagged and investigated. All Purchase Orders are now signed and stamped signatures are no longer allowed. District management is now utilizing state contracts for purchasing as the need arises.
- District management now provides monthly financial reports for all expenditures and revenues on the District's website. These reports include:
 - Current fiscal year budget;
 - Revenue Reports by fund;
 - Expenditure Reports by fund; and
 - Vendor Payments.
- District management conducts budget workshops with the Board and Administrators to outline financial requirements and internal control procedures.
- The District employed a Federal Budget Manager in the Business Division to provide oversight and maintain financial records to substantiate the Federal expenditures submitted for payment. This person also serves as a contact person for responding to ADE, Federal authorities and local employees who may need assistance with Federal reporting and expenditure requirements. The Federal Budget Manager receives on-going training to remain abreast of rules and regulations governing Federal funds, as well as, ensuring compliance.
- The vendor overpayment to telephone equipment vendor has been reconciled. District management will transition all financial data to the Arkansas Public School Computer Network (APSCN) system effective July 1, 2010. This will offer a more transparent system of financial accountability. District employees are in on-going training in preparation for the move. To achieve effective internal control over financial reporting, accounting duties will be distributed among appropriate employees.
- District management will address overpayments by properly monitoring accounts payable and properly monitoring the APSCN vendor payment reports.
- District management will adopt and adhere to policies related to overtime. The Executive Director of Support Services and the District's Payroll Specialist II completed an internal audit of maintenance personnel overtime. Time cards and work logs were reviewed. The audit revealed that some employees were not accurately reporting the overtime hours. Payroll hours were adjusted to correct discrepancies.

Continued on page A-3

**Pulaski County Special School District
Response to Report
Acting Superintendent - Robert McGill**

Continued from page A-2

- District management requested an internal audit by the Arkansas Parent Teacher Association (PTA) with regard to the matter of mismanagement of PTA funds. The matter will be handled by the Arkansas PTA.
- Desegregation funds are being expended properly for the 2009-2010 school year. The Chief Financial Officer conducted an analysis to determine where all expenditures were allocated in the fiscal 2010 budget. Desegregation expenditures are currently being tracked separately by fund within the Operation budget.
- Security measures have been increased at the Warehouse to include repairing the surveillance cameras.
- Employees can no longer use District vehicles for personal use, to include, driving from home to work. The exception to this is the anticipation of inclement weather days for identified employees.
- The Executive Director of Support Services meets with Maintenance staff each morning to assign work orders for the day. This process provides accountability and oversight. These procedures have helped to improve timeliness of personnel reporting to work and response time to work orders.
- District Accountants now require school Bookkeepers to make daily deposits for Activity funds. The Activity funds are accounted for by fundraiser and monthly activity fund balances are reported in the Board Agenda book. Activity funds may not carry over more than \$4.00 per student to the next fiscal year without Board approval at the June meeting.

Response to Recommendations:

- For the past year, the District has exercised proper fiscal oversight responsibilities.
- Utilizing the APSCN system will strengthen District procedures and strictly adhere to all District policies and state/federal guidelines.
- District management updated Business Procedure policies in July 2009 to ensure purchases were legitimate, received, and used for District purposes.
- District management will update policies regarding District food purchases as recommended in this report.
- Throughout the 2009-2010 school year District management has required detailed supporting documentation be submitted and retained for all disbursements for employees and Board members. Travel advances have been discontinued for employees.
- District management has retrained accounting personnel through APSCN.
- PCSSD Accountant currently conducts financial audits where procedural or non-compliance violations occur. Beginning the 2010-11 school year, on-site financial audits will be completed at each school.
- Board policy for travel has been updated to utilize the Federal per diem rate by city for meals and incidentals.

925 E. Dixon Road • Little Rock, Arkansas 72206
Phone: 501-490-6201 • Fax: 501-490-0483 • E-mail: RMCGILL@pcssd.org

**Pulaski County Special School District
Response to Report
Former Superintendent - James Sharpe**

MELVA HARMON
ATTORNEY AT LAW

STEPHENS BUILDING
111 CENTER STREET
SUITE 1200
LITTLE ROCK, AR 72201

April 26, 2010

PHONE: 501-372-1133
FAX: 501-688-8477
RES. PHONE: 501-227-6845

By fax to: 683-8605 and
First class mail

Ms. Kim Williams, CPA, CFE
Deputy Legislative Auditor
Arkansas Legislative Joint
Auditing Committee
172 State Capitol
Little Rock, AR 72201

Re: James Sharpe

Dear Ms. Williams:

Thank you and members of your staff for meeting with me on April 2, 2010. I have a better understanding of the issues you raise in your letter to Mr. Sharpe of March 19, 2010 and have some additional information in response to your letter.

The Alleged \$13,569.00 Overpayment

Mr. Sharpe told me his recollection is that the six percent contribution which the School District stopped paying to the Arkansas Teacher Retirement System after he began drawing retirement benefits from ATRS was paid into an IRS Section 457(b) deferred compensation plan that he had with VALIC. I am enclosing a portion of his quarterly statement for the quarter ending March 31, 2010, account number 8111214, which shows the plan contract date was September 26, 2006. Mr. Sharpe turned 65 on August 7, 2006. He opened the section 457 account in anticipation of deferring taxes on retirement income including funds previously paid to the ATRS. He is not sure when he actually became eligible to receive teacher retirement because of both age and years of service requirements or if all of the six percent was deposited with VALIC since he does not have those records available to him at this time. He has requested records from VALIC, but has not yet received them.

I am also enclosing a copy of the check Mr. Sharpe received with his severance pay which shows a contribution from the District to his "VALIC 457B" Plan account. The six percent contribution was not paid directly to Mr. Sharpe as part of his salary. This was simply a change of the six percent contribution the District owed him under his employment contract from one retirement fund to another retirement account.

**Pulaski County Special School District
Response to Report
Former Superintendent - James Sharpe**

Continued from page A-4

This change was made at least with the approval of the School Board President as explained in the statement of Larry O'Briant. He does not know whether the Board President acted on his own or had the approval of the other members of the Board.

Mr. Sharpe continues to dispute that he received an overpayment when contributions ceased being made on his behalf to the ATRS.

The Payment to Mr. Sharpe for Health Insurance Coverage

As discussed in my previous letter, Mr. Sharpe became eligible for Medicare coverage when he turned 65 on August 7, 2006. He then purchased a Medicare supplemental policy from Blue Cross and Blue Shield.

I am enclosing portions of some of his bank statements from Simmons First Bank which show drafts on his account from "ARK BCBS MED D and for other premiums. The earliest statement he found so far looking back at his old statements is October 3, 2006. Also enclosed are statements dated November 3, 2006, December 3, 2009 and March 3, 2010 as representative samples. The larger deduction is for his wife's health insurance. His wife had received dependant coverage under his coverage with the school district. When his medical insurance was not longer provided by the District, it was necessary to also purchase insurance for his wife. I believe the other two drafts are for Mr. Sharpe's coverage.

It is Mr. Sharpe's contention that this change was approved in Executive Session at the Board Meeting of January, 2007 as explained in my previous letter. Mr. Sharpe continues to dispute that he received an overpayment from the District when they paid him directly \$156.00 per month for health insurance.

Mr. Sharpe contacted Blue Cross for additional records, but has not yet received them.

Alleged Overpayment for Travel Related Expenses

Mr. Sharpe continues to believe that the out of district travel procedures memo dated March 1, 2001 you furnished did not apply to the superintendent since the superintendent reported directly to the School Board. This is what he was told when he became superintendent. He also recently spoke with Larry O'Briant about this issue and was told in essence that Mr. O'Briant had not applied the per diem to the superintendent.

As previously discussed, the memo states for example that travel on district business must be authorized in advance by either the employee's immediate supervisor or appropriate assistant superintendent. The memo also says the out-of-district final expense report must be approved by the employee's immediate supervisor and appropriate assistant superintendent.

This language indicates to me that the memo was to apply only to employees below the superintendent level. Mr. Sharpe contends that his employment contracts, the Board Policy DKC, and any applicable law govern his travel expenses.

**Pulaski County Special School District
Response to Report
Former Superintendent - James Sharpe**

Continued from page A-5

I previously furnished copies of his 2006 contract which states in summary that reasonable expenses including travel expenses related to attending meetings, seminars and workshops will be reimbursed by the District. Board policy DKC states in part that "[p]ersons who travel at District expense will exercise the same economy as a prudent person traveling on personal business and will differentiate between expenditures for business and those for personal convenience." As you know, Article 14, section 2 of the Arkansas Constitution states that "no money or property belonging to the public school fund, or to this State for the benefit of school or universities, shall ever be used for any other than the respective purposes to which it belongs"

Mr. Sharpe denies that he knowingly used any school funds improperly, but after considering the items you listed in the draft of your letter dated March 19, 2010, Mr. Sharpe is willing to repay the District any sums he received which have the appearance of a personal expense as well as some other expenses discussed below. He is willing to voluntarily reimburse the District for the following expenses listed in your letter:

1. For the November, 2006 Orlando conference, the \$277.00 which was inadvertently listed twice on the expense report and charged on the credit card.
2. For any registration fee, the District paid on his spouse
3. The \$30.00 charge for alcoholic beverages for the 2007 Minneapolis conference or any other alcoholic beverage charge you found. As previously mentioned he never intended to charge for alcoholic beverages and always tried to be billed separately for such charges.
4. Although he disagrees that he may not charge for certain miscellaneous items such as newspapers, etc. when he is out of town on business, he is willing to reimburse the District for the charges you listed as miscellaneous in your letter.
5. Although he disagrees with your staff's opinion that he should have flown or used his own automobile to travel to St. Louis rather than rent a car, he agrees to reimburse the District for this expense plus the \$64.00 charge for gasoline for the rental car since this might be construed as an expense incurred in part for his personal convenience. He should be given credit, however, for the round trip cost of an airline ticket between Little Rock and St. Louis.

He continues to dispute some of the items listed in your letter as being reimbursable:

1. He contends the telephone calls he made from his hotel room while away were appropriate because he did not have adequate cell phone reception.
2. Because tips/gratuities are considered a legitimate business expense by the IRS and were considered by the District to be a legitimate business expense, he does not agree to reimburse the District for those charges.
3. I understand the amounts you list for undocumented transportation were for cab fare while he was away for educational conferences. It is also my understanding that he did turn in receipts for the cab fare, but the issue is that he failed to state on the receipt that he traveled from

Continued on page A-7

**Pulaski County Special School District
Response to Report
Former Superintendent - James Sharpe**

Continued from page A-6

the airport to the hotel or from the hotel to somewhere else and so forth. I did not find that the IRS requires this level of documentation on a taxi or limousine receipt. Further if he was out of town for a legitimate business purpose and did not have his personal vehicle, he was required to use some means of transportation so he continues to dispute that he should reimburse the District for this item.

4. Your letter lists \$3,077.00 for "meals without receipts/over daily allowance". Mr. Sharpe continues to dispute that he should reimburse the District for this amount, but he would like to resolve this issue if possible. I did not look at the individual receipts, but I understand in general that there is no dispute that he turned in receipts and credit card charges for meals when he was out of town. Instead the issues are whether the \$25.00 per diem applies and that he did not list the names on the receipts for individual with whom he shared meals. For the reasons we gave earlier we dispute the \$25.00 per diem applies. Mr. Sharpe also told me that board members were present at some of these conferences, and he paid for their meals on occasion. Also if his wife or a family member accompanied him on a trip, his practice was to pay for their meals separately along with alcoholic beverages. If you know of situations that show he treated his wife's meals as a District expense, he will reimburse the District for any of those charges. Otherwise, I request that you look at this expense again and perhaps send us a more detailed explanation of why particular charges are considered inappropriate.

5. For the reasons discussed in my earlier letter, Mr. Sharpe does not think he must eat a meal included in the registration fee rather than eat at a restaurant either when it is more appropriate for his diet or to discuss business with board members or other superintendents.

Finally I understand that you no longer consider the \$1,586.00 for lunches purchased inside the District to require reimbursement.

Again, thank you. We would like to resolve this if possible or at least as much as we can. I think I discussed each item that you listed in your letter, but if I did not, please let me know. Also, if you have additional questions or seek certain records that you believe might be important for the report, please let me know. I also request that you send us a final draft report before the May meeting to see if there are other issues on which we can agree. I do not think I will be able to get additional information from either VALIC or Blue Cross by the end of the week, but I will try if you think it is important and will let me know what you need.

Sincerely,



Melva Harmon

Enclosures
Cc: James Sharpe

**Pulaski County Special School District
Follow-Up Response to Report
Former Superintendent - James Sharpe**

STEPHENS BUILDING
111 CENTER STREET
SUITE 1200
LITTLE ROCK, AR 72201

MELVA HARMON
ATTORNEY AT LAW

May 3, 2010

RECEIVED
10 MAY -5 PM 2:00
DIVISION OF
LEGISLATIVE AUDIT

PHONE: 501-372-1133
FAX: 501-688-8477
RES. PHONE: 501-227-6845

By fax to: 683-8605 and
First class mail

Ms. Kim Williams, CPA, CFE
Deputy Legislative Auditor
Arkansas Legislative Joint
Auditing Committee
172 State Capitol
Little Rock, AR 72201

Re: James Sharpe

Dear Ms. Williams:

I am writing to correct some mistakes or misunderstandings in my April 26, 2010 letter.

The Alleged \$13,569.00 Overpayment

After I received Beverly Thwing's email on April 29, 2010, Mr. Sharpe spoke with Connie Laster at the School District to verify that he received the six percent in his paycheck that was previously paid to the Arkansas Teacher Retirement System. With the following exceptions, this is correct. Ms. Laster stated that:

For check 1275116, \$250 was paid to a section 403(a) Met Life account and \$250.00 was paid to the section 457(b) VALIC account;

For check 1278449, \$500.00 was paid to a section 403(a) account and \$250.00 was paid to the section 457(b) account;

For check 21281783, \$500.00 was paid to a section 403(a) account and \$250.00 was paid to the section 457(b) account.

These deductions are recorded as "Other" in the printout attached to the email.

He is still waiting for documents from VALIC and Blue Cross/Blue Shield.

Continued on page A-9

**Pulaski County Special School District
Follow-Up Response to Report
Former Superintendent - James Sharpe**

Continued from page A-8

As explained previously, Mr. Sharpe still contends that this money was part of his total compensation package. He did not receive any additional money nor did he do anything improper. The six percent contribution was just paid to him in a different form than previously. As Board President Wood stated, it did not cost the District any additional money. This was also approved by the board president and with full knowledge of the chief financial officer who instructed business office staff to make the changes.

Business Lunches Purchased Inside the District:

On page 4 of my April 26th letter I stated it was my understanding that you no longer questioned whether \$1586.00 spent for in-district lunches was appropriately documented. I apologize, but I misunderstood the phone conversation. I now understand that you have revised that figure, but you still contend that some of the charges for these meals on the expense reports were not properly documented. Since I have not seen the receipts which were turned in, we are willing to discuss this further when we look at the receipts for meals eaten during out-of- district travel.

Although the School District agreed to release Mr. Sharpe from all potential claims when he resigned in March, 2009, he is still willing to pay for those expenses discussed in my letter of April 26, 2010 because he feels an ethical obligation to reimburse the District for any expense that might be construed by someone as a personal expense. By doing so, he does not waive any defense he may have that the School District released him from any and all claims when he resigned. If you will let me know the proper procedure to pay for the items he agreed to pay in my April 26th letter, Mr. Sharpe will write a check for that amount.

In conclusion, I want to emphasize that all of the policies and practices regarding travel and expense reimbursement were in place before Mr. Sharpe became superintendent. Whenever he turned in an expense report, no one from the business office to the chief financial officer to the District's independent auditors ever questioned his documentation of business expenses.

Thank you for discussing these issues with us prior to their submission to the Joint Legislative Auditing Committee.

Sincerely,



Melva Harmon

Cc: James Sharpe

Pulaski County Special School District
Response to Report
Board of Director Member - Mildred Tatum

March 25, 2010

Mrs. Kim Williams
Deputy Legislative Auditor
Division of Legislative Audit
Arkansas Joint Legislative Committee
Little Rock, Arkansas 72201

RECEIVED
10 MAR 29 AM 7:38
DIVISION OF
LEGISLATIVE AUDIT

Dear Ms. Williams:

I recently received a certified letter from your office dated March 18, 2010. I shall briefly offer this written response and will be available by phone if you have any additional questions. It is my intent to start by addressing specifics within your letter and offer responses as such.

In November 2007, I did attend the National Association of Black School Educators Conference in Nashville, Tennessee, and was issued a travel advance in the amount stated in your correspondence. However, as customary, upon my return I submitted a final out of district expense form as required to the superintendent's secretary. Board members have been instructed by the superintendent and business office that upon our return from conferences, we are to submit our reports to the Superintendent's secretary. She then, is responsible for forwarding those reports to the Superintendent and the Chief Financial Officer. The report for the NABSE conference trip was appropriately submitted to the district in a timely manner.

From your review, I hope your office has reached the following conclusion. I have, as a normal procedure submitted out of district final reports from conferences attended in a fashion consistent with board policy. My attendance at the NABSE conference in 2007 would not have been the exception.

As I address the other items you listed in your audit, please be aware that the district had at that time not imposed any restrictions on reimbursing board members for the items or services in question being purchased or rented at conferences. Additionally, the Superintendent is responsible for pre-approving all conferences board members attend and the related expenses. Further, upon the submission of the final out of district expense forms, the Superintendent nor Chief Financial Officers for the district have ever indicated, nor brought to my attention that any of the claimed expenses were not allowable under law. As a matter of record, none of the expense claims were ever denied.

Over the last several years, in my official capacity as board member and as an officer for several national organizations, I have traveled to Orlando Florida, San

Continued on page A-11

**Pulaski County Special School District
Response to Report
Board of Director Member - Mildred Tatum**

Continued from page A-10

Francisco California, New York City, New Orleans Louisiana, and Atlanta Georgia. However, the Superintendent of the district allowed and approved not only the trips but all of the items you listed including meals, travel, and wheel chair and luggage expenses. Upon my return, all receipts were turned in to the Superintendent's office as required for the expenses incurred during those conferences.

According to one of our past Chief Financial Officers, our books are audited yearly by the State. I am concerned that no one from the State has ever brought this to the attention of the Acting Superintendent concerning what is and what is not considered an allowable expense for board members who attend conferences. He is our chief executive officer and is responsible for disseminating this type of information to the board members individually and collectively. Had I been adequately informed, it would not have been my practice to spend outside of the guidelines allowed by law, even for items such as wheelchair rentals, tipping luggage handlers, and/or food service providers.

Ms. Williams, I appreciate your thoroughness and diligence in reviewing the operation and expenses of the district. I however, have complied with the requirements of my position by always turning in my receipts in a timely manner, and sought the Superintendents approval before attending these conferences, and always been accessible for him to review any questionable expenses. In my 27 years as board member, that has never happened once.

If I can be of further assistance, please feel free to call me at my home phone, (501) 897-4842.

Sincerely,

Mildred C. Tatum
Board Member
Pulaski County Special School District

C: Michelle Atchley

**Pulaski County Special School District
Response to Report
Board of Director Member - Gwendolyn Williams**

March 25, 2010

Kim Williams
Deputy Legislative Auditor
Legislative Joint Auditing Committee
172 State Capitol
Little Rock, AR 72201-1099

RECEIVED
10 APR -2 PM 2:44
DIVISION OF
LEGISLATIVE AUDIT

Dear Mrs. Williams,

This letter is in response to the certified letter that I received from you regarding travel expenses. Per our conversation on the phone with Michelle Atchley, I respectfully submit to you and the committee that even though I did travel to the conferences listed I however was not aware that I was not to use any of the advance travel expenses on gratuities. There was also a mention of a miscellaneous charge which I do not know what that is.

I would also like to know what undocumented transportation that you are referring to. In the 13 years as a Board member I have always tried to make sure that I have spent the taxpayers money wisely. I was never informed by any of our Superintendents or Fiscal officers that I was not use any of my travel expenses for gratuity. Whenever I have returned from a trip I have always tried to return to the District unspent money.

Now that I am aware of this I will certainly not use in travel for gratuity. In respect to owing the District I feel this is in error, due to the fact that I was never inform of this and the fact that I have always reimbursed the District of any unspent funds and I have always reimbursed the District after returning from a Conference. As I have said before all my advance travel was approved by the Superintendent and the CFO.

If any money is to be paid back then we maybe should be asking one of them to reimburse the District, because it seems that it was their error.

Respectfully Submitted
Gwendolyn Williams
PCSSD Board Member, Zone 7

CC: Michelle Atchley
Staff Auditor

Pulaski County Special School District
Response to Report
Board of Director Member - Danny Gililland

Danny Gililland
1037 Lantrip Road
Sherwood, Arkansas 72120
501 834-0286 Phone 501 834-9197 Fax
pcssdzone5@msn.com E-mail

RECEIVED
10 MAR 31 PM 3:27
DIVISION OF
LEGISLATIVE AUDIT

March 30, 2010

Ms. Kim Williams
Legislative Joint Auditing Committee
172 State Capitol
Little Rock, AR 72201-1099

Dear Ms. Williams,

I am in receipt of your certified letter dated March 18, 2010. I have sent a check to Ms. Farver at the PCSSD, dated March 30, 2010 in the amount of \$149.00 to reimburse the district for the expenses that your committee recommended be reimbursed or found to be unallowable.

I was unaware that state law did not allow gratuity and was only turning in expenses that our district **expense report form** asked for, which included in **other expenses**, tips. Also, since the airport parking expense is "*questionable*," I would rather just pay it, than cause any problems!

It was simply an oversight on my part for the \$14 alcoholic beverage being left on my expense report. I am aware that "adult beverages" are not a reimburseable expense.

If you should need anything further from me, please do not hesitate to give me a call.

Sincerely,


Danny Gililland

ENCLOSURE

CC: Robert McGill, PCSSD Acting Superintendent
Anita Farver, PCSSD Chief Financial Officer

**Pulaski County Special School District
Response to Report
Board of Director Member - Debbie Murphy**

Ms. Kim Williams
Deputy Legislative Auditor
172 State Capitol
Little Rock, AR 72201-1099

Dear Ms. Williams,

During my service as a board member of the Pulaski County Special School District, policies explaining member expense rules and regulations were not provided in writing or verbally. Upon being notified by Legislative Audit that expenses paid to me as a board member were not within the legislative guidelines, I fully reimbursed all expenses totaling \$93.00 promptly including per diem expenses paid to me by the school district. I appreciate the help and guidance of Legislative Audit in bringing this information to my attention for final resolution.

Debbie Murphy

