

**OFFICE OF THE NEW YORK STATE  
COMPTROLLER  
DIVISION OF INVESTIGATIONS**



**KATONAH-LEWISBORO SCHOOL DISTRICT:  
AN INVESTIGATIVE REPORT**

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ALAN G. HEVESI  
Comptroller,  
State of New York

ROBERT T. BRACKMAN  
Deputy Comptroller  
For Investigations

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## **EXECUTIVE SUMMARY**

### **KATONAH-LEWISBORO SCHOOL DISTRICT AN INVESTIGATIVE REPORT**

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The Katonah-Lewisboro Union Free School District (District) is located approximately 45 miles north of New York City in the northeastern part of Westchester County. It serves the northern one-third of the town of Bedford including the hamlet of Katonah, the town of Lewisboro, and portions of the towns of Pound Ridge and North Salem. The District operates six schools with approximately 3,900 students and has a workforce of about 650 employees. For fiscal year 2004-2005, the District's general fund budget was approximately \$85 million.

In November 2004, the New York State Comptroller's Division of Investigations (DOI) received several anonymous allegations of possible employee misconduct occurring within the District and commenced an investigation. The investigation, conducted jointly with the Public Integrity Unit of the Office of the New York State Attorney General, examined potential misconduct that occurred as early as 1998 through June of 2005, and uncovered significant concerns relating to a lack of internal controls at the District which, in turn, led to instances of waste, abuse and possible fraud.

The investigation initially focused on allegations involving employee misuse of District charge cards<sup>1</sup> and a District employee receiving personal benefits in exchange for favorable treatment afforded to certain District vendors. After a thorough review of relevant documentation and multiple interviews of individuals and witnesses, there was no credible evidence to support allegations that any current or former District employees received favorable treatment from any District vendors, and there was no finding of conflicts of interest between Board members and district contractors. The investigation was expanded to include a review of the District's Individual Benefits Fund (IBF). The Fund is administered by the District and is supported by revenue from the District's general fund. The IBF provides reimbursement to eligible District employees for certain incurred expenses relating to vision, life insurance, physical examinations, organizational dues, wellness and continuing education programs. Weaknesses in the District's internal controls over the use of charge cards and the administration of the IBF program were found. These weaknesses left the District vulnerable to errors, and

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<sup>1</sup> Prior to this investigation, in response to concerns raised by the District's External Auditor in the 2003-2004 fiscal year audit, the District cancelled all but one of its charge card accounts. Currently, the District maintains one charge card which is to be used solely by the Deputy Purchasing Agent in emergencies and situations where charge cards are the only accepted method of payment.

created an opportunity for fraudulent behavior, particularly in the context of IBF reimbursements.

During this review, credible evidence of potential fraudulent conduct in connection with the IBF was, in fact, discovered. Based upon these apparently fraudulent submissions, certain individuals may have wrongfully obtained reimbursement from the District. These individual cases have been referred to the New York State Attorney General's Office for continuing investigation, and for a determination as to whether criminal prosecutions are appropriate.

Substantial deficiencies with the IBF reimbursement process itself were also identified. Out of the 135 reimbursement claims reviewed, 125 were reimbursed without proper receipts or proof of payment. Many claims were reimbursed without original documentation or the required paperwork. Other claims were reimbursed without the necessary pre-approval, and one employee was reimbursed twice for the same claim. IBF administrators admitted poor enforcement of the written rules and failed to catch employees who did not follow them.

During the review of District charge card usage, no credible evidence was found to corroborate allegations of fraudulent charge card usage. Nonetheless, considerable evidence of avoidable waste and abuse of District assets was uncovered. The District, despite issuing charge cards to employees for over two decades, had no written charge card policy. District charge card purchases were not properly reviewed, and little to no guidance was provided to District employees on appropriate charge card usage. Indeed, the District's Internal Auditor, who was responsible for reviewing these claims and purchases conceded, among other things, that she did not know how to conduct a proper review of these transactions.

In the period examined, over one half (57%) of the charge card purchases examined were paid by the District without supporting documentation. The District also overpaid for items by paying taxes on 75 out of what should have been 113 tax exempt purchases. Moreover, top level administrators in the District were able to and did use their District charge cards to bypass normal District procurement procedures. Many administrators purchased items directly from vendors in contravention of good procurement practices and shipped those items to personal residences rather than the District. Such unchecked practices prevented the District from adequately tracking and accounting for purchases. In fact, the District was unable to locate numerous items purchased using District charge cards, including two computers that were purchased by a District administrator at a cost of over \$5,000. Further, this investigation uncovered and revealed that the District was unaware that 39 other items worth several thousand dollars were off-site at the home of the same District administrator. The review also uncovered several questionable District charge card purchases made by the same District Administrator, including such items as photo/sound equipment from a Target Store in Maryland and an H&R Block e-solutions software package.

Many of the problems uncovered at the District and the possible fraudulent conduct that may have occurred were exacerbated by inadequate oversight. There was virtually no functioning system of internal controls in place to review District charge card use. The IBF controls were also wholly inadequate.

### **Five Point Plan**

In January 2005, Comptroller Hevesi introduced his Five Point Plan to strengthen auditing, training and financial oversight by school districts across New York State. Aimed at enhancing school district accountability and restoring public confidence, the Five Point Plan sets forth strong internal controls to prevent mismanagement and corruption within school districts.

Specifically, the Plan recommended:

1. Required training for school board members on their financial oversight responsibilities, including six hours of training covering the basics of financial oversight, accountability and fiduciary responsibilities.
2. Establishment of an internal audit function within each school district.
3. Creation of audit committees in school districts.
4. Mandated competitive RFP process for selecting audit firms when contracts expire or at least every five years.
5. Improvement of the effectiveness of annual external audits by requiring direct school board involvement; a formal school district response to issues raised by the external auditor; and a corrective action plan for any reportable conditions.

The Comptroller's Five Point Plan was recently enacted into law by the New York State Legislature in the form of a school finance reform bill. By expressly implementing the Plan, this legislation requires school officials to take a more active role in the financial management of their districts and provides school districts with the tools to deter corruption and facilitate the discovery of wrongdoing when it does occur.

The investigative findings in Katonah-Lewisboro clearly demonstrate the need for such school district reform legislation. Had the District implemented the type of controls recommended in the Comptroller's Five Point Plan, (and now the law, which we urge the district to rigorously follow in the future) many of the problems referred to above and identified in more detail in this report may well have been avoided. Going forward, the Katonah-Lewisboro School Board and administrative personnel will be required, by law,

to establish a strong system of internal controls and become directly involved in the financial management of their District.

## **Recommendations**

Consistent with the recommendations outlined in the Comptroller's Five Point Plan, the District should:

1. Require training for school board members on their financial oversight responsibilities, establish an internal audit function to develop an annual risk assessment for fiscal operations, review financial policies and procedures, test internal controls, and recommend improvements to strengthen controls and reduce risks.
2. The District should have clear, written guidelines for the IBF, and consider adopting a written policy on District charge card usage.
3. Review and revise its internal audit policy to better define the duties and responsibilities of the internal auditor, and require the internal auditor report directly to the Board.
4. The District should create an audit committee to ensure audit findings and other accountability issues receive adequate oversight.
5. The District should, if appropriate, seek reimbursement for those IBF reimbursements that were improperly obtained and any questionable District charge card purchases.

In addition, the New York State Attorney General's Office should determine whether criminal prosecutions are appropriate.

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## BACKGROUND

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The Katonah-Lewisboro Union Free School District (District) is located approximately 45 miles north of New York City in the northeastern part of Westchester County. It serves the northern one-third of the town of Bedford including the hamlet of Katonah, the town of Lewisboro, and portions of the towns of Pound Ridge and North Salem. The District operates six schools with approximately 3,900 students and has a workforce of about 650 employees. For fiscal year 2004-2005, the District's general fund budget was approximately \$85 million.

The District's Board of Education (Board) has overall responsibility for District operations, with the Superintendent of Schools (Superintendent) and other administrative staff having responsibility for overseeing and managing day-to-day operations. Responsibilities relating to the District's finances, accounting records and reports are largely those of the Assistant Superintendent for Business. In 2005, the District created the title of Assistant Superintendent for Business and hired a new professional to fill the position. Prior to December 2004, the responsibilities of the Assistant Superintendent for Business were handled by the Director of Administrative Services<sup>2</sup>, a position that has subsequently been abolished. Pursuant to section 1709 of the Education Law, on an annual basis, the Board is required to appoint an internal auditor. Once the internal auditor has been appointed, the powers and duties of the Board with respect to auditing, allowing or rejecting all accounts, charges, claims or demands against the school district are delegated to the internal auditor. Additionally, the District's financial statements annually undergo an audit by the District's external auditor.

In November of 2004, the Division of Investigations (DOI) received three anonymous complaints regarding possible improprieties committed by several District employees. Among other things, these complaints alleged that a District employee

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<sup>2</sup> The Director of Administrative Services retired in December of 2004 and served as a District consultant until June 31, 2005. For the purposes of this report, we refer to this individual as the Director of Administrative Services even during the period he served as a consultant (February 2005 to June 2005).

was receiving personal benefits in exchange for favorable treatment afforded to District software and construction vendors. It was also alleged that District employees were misusing District charge cards. Following receipt of the complaints, DOI commenced an investigation, which included background checks, a review of business filings, building permits, District financial statements and Board minutes.

As a result of this investigation, DOI was unable to find credible support for the allegations regarding personal benefits in exchange for favorable treatment. One of the more serious allegations originally received by DOI suggested that a District administrator was using District construction contractors to perform work on his home. DOI obtained all building permits filed for this District administrator's home and compared the contractors named on the permits with a list of District contractors and were unable to find any overlap. Background checks on the contractors who worked on the home also failed to reveal ties to any District contractors.

The investigation did reveal, however, weaknesses in the District's internal controls over charge card usage as well as over the Individual Benefits Fund (IBF), a fund that provides reimbursement for certain expenses relating to vision, life insurance, physical examinations, organizational dues, wellness and continuing education programs for eligible District employees. Such weaknesses in internal controls left the District vulnerable to errors and irregularities. Additional documentation was therefore requested from the District regarding charge card use and IBF reimbursements. A review of these documents identified several areas of concern. Based on these concerns, further investigation was conducted together with the Attorney General's Public Integrity Unit.

The objectives of this investigation were to determine if fraud, waste or abuse occurred in the reimbursement of benefits through the IBF or in the use of District charge cards. The investigation of the IBF claims covered the period of July 1998 to June 2005. The scope of the charge card investigation encompassed the period of May 2001 to September 2004. In conducting this investigation of the IBF and District charge card use, twelve current and former employees as well as the District's external auditor were interviewed. DOI investigators and investigative auditors also reviewed District policies, procedures and Board minutes; performed transactional testing

of IBF transactions and analytic and transactional testing of District charge cards; independently verified transactions with vendors; and attempted to physically verify that items purchased using District charge cards were on site at the District.

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# INTERNAL CONTROLS

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A good system of internal controls includes a coordinated set of policies, practices and procedures which provide reasonable assurances that an organization will achieve its objectives. The bedrock of any internal control system is an effective control environment or management's attitude toward and support for internal controls, and control activities designed to help ensure that all employees follow an organization's policies and procedures. Regular monitoring is equally important to ensure the controls are working effectively and enabling the organization to reach its goals.

## A. Control Environment

The control environment or the "tone at the top," in particular, is a vital component of any internal control system. This investigation revealed that the control environment was weak at the Katonah-Lewisboro School District. At times, through its own actions and conduct, management avoided rather than supported internal controls. The School Superintendent and the Director of Administrative Services as well as other upper level administrators set a "tone at the top" that suggested internal controls were not a priority. Despite being responsible for establishing and implementing internal controls, these upper level administrators on multiple occasions throughout the period under investigation bypassed District policies, practices and procedures. For example:

- The District had policies and procedures in place for employees to receive IBF reimbursement. The investigation found, however, that reimbursement was made to District administrators while routinely ignoring District policies and procedures.
- Regular District practice required items purchased by the District to be shipped to the District itself. The Superintendent purchased six items which were shipped directly to his home and not the school. The Director of Administrative Services purchased five items which were

shipped directly to his home and not the school. Although the District provided an acceptable explanation that justified the Superintendent's use of school owned equipment at his residence, the shipping of such items directly to a private home circumvented the controls necessary to ensure that the items were properly purchased and received by the District.

- Many District charge card purchases by administrative personnel, including the School Superintendent and Director of Administrative Services, bypassed normal District procurement procedures, which require that an official purchase order and requisition be completed prior to purchase.

While in most cases, other than the IBF, these "bypasses" of normal District policies, procedures and practices appeared to be done for "convenience," and not intentionally for any personal gain, they nonetheless contributed to the poor control environment. The actions of management have a direct effect on the behavior of the entire organization. Management cannot expect other employees to abide by a strict standard of ethical behavior and compliance with organizational policies, procedures and practices while simultaneously ignoring these same policies, procedures and practices themselves.

## **B. District Policies and Procedures**

Control activities at the District were also found to be weak. Control activities are the policies and procedures that help ensure management directives are carried out. The investigation found that certain policies and procedures at the District were vague, dated and contradictory, while others, such as the charge card policy, were non-existent. Moreover, District employees indicated to DOI investigators that most of the policies in existence were unclear and confusing. Nevertheless, and specifically with respect to the District's IBF program, weak internal controls do not excuse the intentional and knowing disregard of procedures for personal gain.

## **C. Lack of Monitoring**

The Board, District management and the Internal Auditor were largely responsible for ensuring that the internal controls system was working effectively. For the majority of the period under

investigation, however, these parties failed to provide the necessary accountability. Minimal guidance was provided to the Internal Auditor by the District. The District's internal audit policy was inadequate in that it failed to explicitly set forth the role and responsibilities of the internal auditor. The internal auditor was unaware herself of the role and responsibilities of an internal auditor. She did not properly review claims and conceded that she did not know how to conduct a proper review. Further, she failed to bring questionable claims to the Board as adherence to good internal controls would dictate.

Had the Board and school administration set the "tone at the top," hired an effective internal auditor and properly instructed her as to her responsibilities, the District may very well have avoided becoming the subject of numerous anonymous complaints.

## **Recommendations**

Consistent with the recommendations outlined in the Comptroller's Five Point Plan and set forth in the recently enacted school district reform bill, the District should:

1. Require training for school board members on their financial oversight responsibilities.
2. Establish an internal audit function to develop an annual risk assessment for fiscal operations, review financial policies and procedures, test internal controls, and recommend improvements to strengthen controls and reduce risks.

In addition, the District should:

3. Review and revise its internal audit policy to better define the duties and responsibilities of the internal auditor and require the internal auditor report directly to the Board.
4. Review questionable charge card purchases and seek reimbursement where appropriate.

The remainder of this report discusses specific problems identified in the investigation of IBF reimbursements and District charge card use.

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# INDIVIDUAL BENEFITS FUND

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## Background

The Individual Benefits Fund (IBF) is a contractual benefit<sup>3</sup> offered to eligible District employees.<sup>4</sup> At the time of this investigation, approximately 37 District employees participated in the program. Under the program, eligible employees may be reimbursed for up to \$4,600 in expenses annually in the following categories: life insurance, physical examination, wellness, organizational dues, tuition and eye care.<sup>5</sup> For each individual category listed there are limits on the maximum amount that can be spent.

Pursuant to written guidance provided by the District, claims for reimbursement are payable upon submission by an eligible employee of a receipt that clearly indicates that a reimbursable expense was incurred.

During the 2003-2004 fiscal year audit (July 1, 2003 to June 30, 2004) of the District by the District's external auditor, testing was performed on the IBF. The external auditor found several discrepancies with a portion of the supporting documentation submitted to the IBF for reimbursement, including three claims from three different employees worth \$7,240 that were reimbursed with insufficient supporting documents. The External Auditor therefore recommended to the District in an August 31, 2004 Management Letter<sup>6</sup> that during the next negotiation of the July 1997 contract (which provided eligible employees with the IBF benefit) a more detailed explanation of

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<sup>3</sup> The District has not had an employment contract since the Katonah-Lewisboro Association of Supervisors and Administrators Contract of July 1, 1997 to June 30, 2000. The IBF benefit has been renewed by a series of Memorandums of Agreement, the most recent dated February 2005. The IBF benefit was also modified by addendum in a Letter of Understanding dated July 2005 and retroactive to July 1, 2003, which entitles participants in the IBF to receive the balance of their IBF allocated amount that is not used for benefit coverages.

<sup>4</sup> The following District employees are eligible to participate in the IBF program: District administrators, supervisors and confidential business employees.

<sup>5</sup> The IBF guidelines provided by the District failed to explicitly define the items and/or services included under each category of reimbursement.

<sup>6</sup> A Management Letter is a letter issued by an auditor when problems in internal control are identified that may increase the risk that misstatements in an organization's financial statements may occur.

the IBF be used and that “supporting documentation requirements are addressed to be in keeping with good business practices.” In response to the External Auditor’s recommendation, the District added an additional person to review these expenditures prior to disbursement.

As the lack of appropriate supporting documentation can be an indicator of fraud, the investigators, as part of DOI’s initial documentation request, asked the District for copies of the supporting documentation cited by the External Auditor. The supporting documentation reviewed included invoices, receipts, and copies of checks submitted by District employees to obtain reimbursement.

As part of the testing, DOI investigators reviewed all IBF claims and supporting documentation submitted in fiscal year 2002-2003 (July 1, 2002 to June 30, 2003) as well as a judgmental sample of claims and supporting documentation from fiscal year 2002 to the present, and certain employee claims from July 1998 to June 2005. A total of 135 transactions were tested. For claims with irregular supporting documentation, DOI attempted to verify the accuracy of the claims with the vendors listed on the submissions to the IBF. In addition, DOI interviewed multiple program participants, program administrators, the External Auditor, the Internal Auditor who approved IBF claims, and the purported vendors listed on the claims forms. Certain irregularities were uncovered during the review, including some receipts that may have been false and/or counterfeit, and have been referred to the Attorney General’s Office for appropriate action.

The investigation identified IBF submissions by at least two IBF participants of apparently fraudulent invoices. Based upon these apparently fraudulent submissions, these individuals may have wrongfully obtained reimbursement from the District in the aggregate of several thousand dollars. In light of the fact that a referral of the details of these findings has been made to the Attorney General’s Office for a determination as to whether criminal prosecutions are appropriate, it would be inappropriate in this report to comment any further on those findings.

## Other Findings

In addition to the potentially fraudulent claims detected above, multiple other issues with IBF claim reimbursements were identified. The investigation found:

- 125 of 135 claims were reimbursed without the required receipt or other proof of payment.
- 116 of 135 claims were reimbursed without original documentation.
- Three individuals were reimbursed \$4,650 for claims in fiscal year 2002-2003 (July 1, 2002 to June 30, 2003) even though the contractual maximum was \$4,600.
- One individual was reimbursed \$4,650 for tuition without any evidence of the required pre-approval.
- One individual was reimbursed \$1,100 for a joint health club membership although only \$550 of the membership was eligible for reimbursement.
- One individual was reimbursed \$78 for what appears to be a duplicate claim for contact lenses. For the first claim the individual submitted an invoice and for the second claim a receipt was submitted.

Claims by multiple District administrators, including the Superintendent and the Director of Administrative Services, were paid without the completion of paperwork required for other employees.

## Cause

Many of the problems that the investigation identified with IBF reimbursement were facilitated by poor internal controls. Many of the District's written policies were last revised over eighteen years ago, and differed from the terms of the contract that established the IBF. For example, a memo from the Director of Administrative Services set the IBF maximum annual reimbursement at \$4,650, whereas the contract that established the IBF set the maximum annual reimbursement at \$4,600.

Monitoring over the program was also insufficient, as normal control measures were not consistently followed, including always calling for proof of payment and original documentation.

In fact, IBF administrators admitted to poor enforcement of the written rules and failed to catch employees who did not follow them. Additionally, the Internal Auditor, who began reviewing IBF claims two years ago, appeared to defer to the program administrators on whether or not to pay a claim.

Moreover, in 2004, the external auditor brought several claims to the District's attention because the claims exceeded the contractual maximum and category limits for fiscal year 2003-2004 (July 1, 2003 to June 30, 2004). These claims were not reviewed by the Board. Instead, the Director of Administrative Services reviewed the claims along with the IBF administrator and found that no further inquiry was necessary. When asked, the external auditor stated it was the normal District practice to discuss specific audit findings with the Director of Administrative Services and not the Board, although a presentation of general findings was made to the Board. Adherence to good internal control practices dictate external auditors present audit results directly to school boards given the boards' financial oversight responsibilities.

As a result of the District's failure to effectively monitor claims, certain IBF participants may have submitted false and/or counterfeit receipts and may have wrongfully obtained reimbursement from the District.

## **Recommendations**

1. The District should have clear, written guidelines for the IBF. These guidelines should include information on its limitations, uses and documentation necessary for reimbursement.
2. The District should provide eligible employees with written guidance for the IBF and require employees to sign a statement certifying they have received the information.
3. The District should require that the External Auditor present audit results directly to the Board and create an audit committee to ensure audit findings and other accountability issues receive adequate oversight.

4. The District should, if appropriate, seek reimbursement for those IBF reimbursements that were improperly obtained.

In addition, the New York State Attorney General's Office should determine whether criminal prosecutions are warranted.

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# CHARGE CARDS

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## Background

Based upon allegations of inappropriate use of District American Express cards (charge cards) by District administrators, charge card expenditures from May 2001 to September 2004 were examined.

For the period under review, six District administrators were assigned charge cards. During the 2003-2004 fiscal year (July 1, 2003 to June 30, 2004) audit by the District's external auditor, concerns were raised by the auditor about District charge card use and charge documentation. In response, the District asked the four administrators with charge cards to return them to the District.<sup>7</sup> After discussions among the Assistant Business Administrator, the Treasurer and the external auditor, a decision was made to cancel the returned cards and to open a new account with only one charge card. This new card was provided to the Deputy Purchasing Agent who was instructed that the card was to be used only for emergencies and situations where a charge card was the only accepted method of payment.

The District has never had a written policy on charge card use and the assignment of charge cards. The District also has never established charge card limits. However, according to the District's Assistant Superintendent for Business, the establishment of a charge card policy is being considered by the Board's policy subcommittee.

## Findings

DOI investigators examined all charge card transactions from May 2001 to September 2004, the time when District administrators returned their charge cards to the District. During this period, 449 charges totaling \$93,918 were incurred by the District. Of the \$93,918 in expenses, the District paid \$48,129 (258 charges) or approximately 57% without the required supporting documentation. Of the \$48,129 in unsupported charges, the District paid \$38,400 (217 charges) without any

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<sup>7</sup> Two of the six card holders had retired prior to September 2004 and relinquished their charge cards at the time of retirement.

explanation of the business purpose behind the expenditure. These charge card purchases were made by top level administrators including the Director of Administrative Services. For the period under investigation, the Director of Administrative Services used his District charge card for 142 transactions. Although some of these transactions were found to be legitimate, many items purchased by the Director of Administrative Services were located outside of the District at his home. In fact, the District was unaware of these purchases and that the items were located at the Director's home.

The District, which is a tax exempt entity, also overpaid for items by paying taxes on 75 out of 113 transactions with sufficient supporting documentation. The investigators were unable to determine the amount of overpayment on the 75 transactions and whether tax was paid on the remaining 258 transactions because the District failed to maintain adequate records for District charge card purchases.

Many purchases made with District charge cards were from regular District vendors and should have been purchased through the District's normal procurement procedures. For example, over the three year period reviewed, six District administrators purchased \$13,856 of office supplies from District vendor Staples using District charge cards. District administrators stated that they preferred using charge cards for these and other purchases because it was quicker and easier than following the normal procurement process, which requires prior approval or a purchase order.

The investigation revealed that, among other items, four personal computers were purchased using District charge cards. One such computer was purchased by the Superintendent in 2001 and was sent to his home. The three other computers were purchased by the Director of Administrative Services in 2001, 2002 and 2003, respectively. Of the three computers purchased by the Director of Administrative Services, one was delivered to his home and the remaining two were brought to his home from the place of purchase. All four computers were purchased with extended warranties (two of which were not activated) despite the general District practice of not purchasing such guarantees.

During the investigation, DOI attempted to locate these four computers. Based on District records, the following was determined:

- The computer purchased by the Superintendent is currently located at his home, however, pursuant to his employment contract, the Superintendent is entitled to maintain a District computer at his residence.
- The computer purchased in 2003 by the Director of Administrative Services, who was not contractually entitled to maintain a District computer at home, was located in his home, but he returned it after DOI's inquiry to the District regarding the whereabouts of this computer.
- The computer purchased by the Director of Administrative Services in 2002 could not be located. The Director of Administrative Services was not certain where this computer was, but he believed that he returned it to the District warehouse. The warehouse, however, did not have a record of this computer. This computer was purchased in 2002 at a cost of \$1,833.69.
- The Director of Administrative Services stated that he returned the computer he purchased in 2001 to the District, but he did not recall the exact date of the return as he did not keep a record. Only the monitor for this computer was located at the District warehouse. Neither the warehouse nor the District had any record of the computer itself. The computer and monitor were purchased in 2001 at a cost of \$3,264.80.

While the Superintendent is entitled under his employment contract to have a computer, printer and appropriate software at his home, the general practice of shipping District items to a personal residence or taking District items from the place of purchase to a personal residence is not standard District procedure. Typically, such items are shipped to the District warehouse prior to delivery to the homes of District employees. This enables the items purchased to be tagged or physically identified as belonging to the District, and allows the District to maintain a record of the asset. More importantly, such procedures protect District assets from loss, and may prevent situations like the one above where the District is unable to

account for two computers purchased by the Director of Administrative Services using his District charge card.

When DOI investigators asked why the Superintendent shipped the computer to his home rather than the warehouse, he stated that it was for convenience. He added that at the time he had not realized that his action might be perceived negatively. In addition to the computers, five other computer related items worth approximately \$1,400 were purchased by the Superintendent using his District charge card and shipped to his home. Two other items worth approximately \$1,750 were purchased by the Director of Administrative Services using his District charge card and shipped to his home.

Unlike the Superintendent, the Director of Administrative Services, who retired in December of 2004 and was serving as a District consultant until June 31, 2005, was not contractually entitled to have a District computer at his home. According to the Director of Administrative Services, however, he needed to use a District computer at home because a majority of his District work was completed from home, including the preparation of District budgets. The Director of Administrative Services also did not seek approval for a home computer from the current Superintendent or the Board. Nonetheless, the Superintendent stated that if such a request had been made, he would have approved it due to the amount of work the Director of Administrative Services performed at home. The Superintendent also indicated that he would have expected any District computer and/or equipment used at home to be returned to the District at the time the Director of Administrative Services retired and before he became a consultant. (Note: The current Assistant Superintendent of Business expected that the computer and other equipment would be returned after the Director of Administrative Services' consulting agreement ended).

In addition to the four computers, DOI investigators also attempted to locate another seventeen items that were purchased using District charge cards. These items included two printers, two zip drives, a palm pilot, a computer monitor, and various software titles and books. Five items worth \$571 could not be located; another nine items worth \$2,741 were found at the home of the Director of Administrative Services and three items worth \$2,088 were present at the District. Along with the previously mentioned nine items, thirty other items

purchased by the District were also kept at the home of the Director of Administrative Services. Included among these additional items were a copier, printer, fax machine, and multiple software titles and books worth several thousands of dollars. These items were returned to the District following DOI's recommendation that the since retired Director of Administrative Services return all District property in his possession.

When provided with a list of District property, which included software titles and books, that was in the possession of the Director of Administrative Services, the Superintendent stated he was unaware that these items were at the home of the Director of Administrative Services. Contrary to the Superintendent's earlier statement that he would have authorized home use of a computer had the Director of Administrative Services asked, the Superintendent indicated that he did not and would not have authorized these computer-related items to be off-site at the Director of Administrative Services' home. Further, with the exception of the computer that was returned to the District, the District had no record that these items were at the home of the Director of Administrative Services.

Moreover, for some of the items purchased by the Director of Administrative Services, the explanation of the business purpose behind the expenditure appears questionable. For example, the Director of Administrative Services purchased two copies of a software package to produce forms for approximately \$1,270. One copy was kept at the home of the Director of Administrative Services and the second copy was placed on his secretary's computer. In a one and a half year period, this package was used to produce only two District forms – only one of which was actually implemented by the District. Other examples of questionable charge card purchases made by the Director of Administrative Services include such items as photo/sound equipment from a Target Store in Maryland (\$190.02), and an H&R Block e-solutions software package (\$39.90).

## **Cause**

Many of the problems that were identified with District charge card usage were the direct result of poor internal controls. The District had no written policy on charge card use and the assignment of charge cards. There were also no established

dollar limits for charge cards. District card holders were not required to obtain approval or authorization prior to a purchase. Verbal guidance was also limited. For instance, one card holder stated that when he received his charge card he was told only that he should not buy liquor with it when he dined out.

Additionally, there was a lack of accountability for charge card purchases. Two District charge card holders, the Director of Administrative Services and the Director of Communications allowed another staff member, the Coordinator of Technology Services, to use their charge card numbers. When the investigators presented the Director of Communications with the charges made on his card, he stated that he did not recognize some of the charges, adding that he assumed they had been made by the staff member with access to the charge card number.

Finally, oversight of purchases was lacking. Staff members informed DOI investigators that the Director of Administrative Services was responsible for reviewing and approving payment of all charge card charges, including his own. According to the Director of Administrative Services, however, he only approved the charge card charges for payment, and did not review any charges other than his own. Instead, he believed that the Account Clerk and the Internal Auditor were responsible for reviewing charges. The Account Clerk stated that while she sent copies of each card holder's charges to them for review and self-certification of the charges, she did not review any of their charges herself. In her view, this was a function of the Director of Administrative Services.

The Internal Auditor informed the investigators that she reviewed charge card bills prior to payment, but her review was limited to determining whether the charge card bill had been approved by the Director of Administrative Services; whether the address on the District check was correct; and whether sales tax was paid. Prior to the current year, the Internal Auditor did not review individual charge card transactions or examine receipts and supporting documentation. According to the Internal Auditor, it had not occurred to her to review individual transactions, receipts and supporting documentation. Only after attending three fraud seminars in the past year did she realize that such a review might be appropriate. Thus, for the majority of the period under investigation, District charge

card holders were able to use the charge cards without any effective oversight or monitoring.

While school district charge card use can be a proper and efficient form of purchasing, it must be monitored to prevent inappropriate spending and abuse. The Comptroller, as part of his procurement reform legislation, has recommended that charge card use be contingent upon the establishment of appropriate safeguards. Such safeguards include requiring each board of education to adopt a specific charge card policy and ensuring that other statutory safeguards, such as audit of claims and proper authorization and appropriation, are not compromised by charge card use.

## **Recommendations**

1. The Board of Education should adopt a written policy providing guidance on charge card assignments, maximum limits and uses of District charge cards.
2. The District should ensure that other statutory safeguards are not compromised by requiring, among other things, that the Internal Auditor review every claim to ensure that each claim contains sufficient supporting documentation which complies with District policy and procedure, and that the amounts claimed represent actual and necessary District expenses.

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## CONCLUSION

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Throughout the course of this investigation, District officials and Board members were cooperative, forthcoming and candid with the Comptroller's investigators, and have already begun to implement recommendations that will strengthen internal controls and serve to deter improper conduct.

In addition, we wish to extend our appreciation to the Office of the New York State Attorney General and his Public Integrity Unit, whose staff has worked tirelessly with this office, and whose insights and efforts have been invaluable.

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## MAJOR CONTRIBUTORS TO THIS REPORT

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Samantha M. Biletsky, Assistant Comptroller/Chief Investigative Counsel

Joseph Fiore, Chief of Investigations

Stacy Marano, Senior Investigative Counsel

H. Tina Kim, Forensic Auditor

Anne Marie Miller, Investigative Auditor

Raymond Russell, Investigator

Marcia Hinds, Investigator

We also extend our appreciation to the staff of the State Attorney General's Public Integrity Unit for their invaluable assistance.