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Monroe County School District

Final Forensic Investigation Report

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I. Executive Summary

On March 27, 2009 the Monroe County School Board (“MCSB” or “the Board”) approved the CPA firm of Berkowitz Dick Pollack and Brant Certified Public Accountants and Consultants, LLP (“BDPB”) to perform forensic accounting investigative services relating to allegations of questionable purchasing card (“P-Card”)¹ charges as well as to investigate allegations of missing cash and other questionable financial transactions. Specifically, there were allegations of unauthorized P-Card transactions and other fraudulent activity conducted by Monroe County School District’s (“MCSD”) Adult Education District Coordinator. The Board sought to have an independent forensic investigation into this matter and also to determine whether any other P-Card abuses existed in the MCSD. In addition to our investigation into potentially questionable P-Card charges, we were also asked by the Board to investigate cash receipts in the Adult Education Department, employee travel, and allegations of a hostile work environment/fear of intimidation.

BDPB issued its preliminary report on June 9, 2009 and invited the MCSB and MCSD employees to provide additional information or comments regarding the factual findings in the preliminary report. Additional information and documentation was made available by select MCSD employees that impacted some of the findings in the preliminary report. The additional information and documentation is included in this final investigative report. Additionally, the Board requested additional factual findings with respect to the former Superintendent and other selected MCSD employees to assist the Board in taking potential disciplinary actions and to make other employment decisions. These additional factual findings are contained in the Employee Compliance and Other Factual Findings section of this report. The facts contained in this report supersede those contained in the preliminary investigative report.

¹ Purchasing card or “P-Card” refers to a “Type One” credit card issued to Monroe County School District employees. Type One credit cards have restrictions on the types of vendors for which the P-Card can be used.

A. Investigation of Selected P-Card Charges

Our review of the sample P-Card transactions (excluding those of the former Adult Education District Coordinator) revealed a limited number of transactions that were made for personal purposes. In all these cases, the P-Card holder reimbursed the MCSD. There was one charge (approximately \$778) which appeared on the P-Card of the Director of Maintenance and Custodial Services that was unauthorized and not reimbursed to the MCSD; however, the P-Card holder did not initiate the transaction and was not aware of it until after the charge was made. This charge was one of a number of charges made by the former Adult Education District Coordinator that did not promote a proper public purpose as further described in the report of the Auditor General and herein.

We identified material violations of MCSD P-Card policies and procedures as well as internal control deficiencies (see P-Card Policies and Procedures and P-Card Internal Controls below), which made it possible for the former Adult Education District Coordinator to enter into unauthorized transactions. We also found significant problems relating to the P-Card transaction review process, including the lack of adequate reviews performed by selected supervisors, Finance Department personnel, and others involved in the review process, which further made it possible for the former Adult Education District Coordinator to enter into unauthorized transactions.

However, we did not find the problem of unauthorized P-Card transactions to be pervasive among other MCSD P-Card holders. As of March 24, 2009, all P-Cards were cancelled by the MCSB.

B. Investigation of Adult Education Cash Receipts

BDPB's analysis for the period from Fiscal Year ("FY") 2000 through March 18, 2009 revealed that cash receipts totaling of \$297,571 were not deposited into the appropriate MCSD bank account or accounted for by the MCSD Finance Department.

Written policies and procedures were not in place to properly account for the collection, accounting or management of tuition fees and fees for student services. In addition, there were no policies and procedures in place to provide a proper accounting of the transfer of funds received from the Adult Education Department to the Finance Department. The Finance Department personnel responsible for receiving funds from the Adult Education Department failed to identify that virtually no cash receipts were being delivered from the Adult Education Department to the Finance Department for approximately seven years. No audits of the Adult Education Department cash receipts were performed by the Auditor General. We were informed by the Auditor General that no audits were performed because the cash receipts did not meet the minimum dollar threshold requirements of the Auditor General's Office.

C. Investigation of Employee Travel

Our investigation concluded that it is possible for an employee to book approved travel, not use the plane ticket (e.g., trip cancelled due to family emergency, sickness or other conflict) and then receive a credit from the airline, which is later used for personal travel. There is no tracking of these credits by the MCSD Finance Department. However, our investigation, which included only our review of selected P-Card transactions, did not uncover any specific instances of this occurring.

We were provided information from Finance Department personnel that approximately two years ago the former Adult Education District Coordinator charged airfare on her P-Card and submitted altered backup documentation for the charge. The travel was later determined to include personal travel for the former Adult Education District Coordinator and her son. The transaction was reported to the Superintendent (the husband of the former Adult Education District Coordinator) and the amount charged was repaid by the Superintendent to the MCSD. No further remedial actions were taken against the former Adult Education District Coordinator.

No evidence of employees purchasing refundable plane tickets and receiving a cash refund upon the cancellation of a plane ticket was found. The owners of Key West Travel and Maverick Travel agencies did not recall ever selling a refundable plane ticket to an MCSD employee.

D. Allegations of Hostile Work Environment / Fear of Retaliation

Two employees expressed that it would be normal to feel intimidation or fear of retaliation from reporting suspected transactions to the Superintendent, especially if the suspected transactions involved the Superintendent's wife. However, we were not made aware of any specific instances of prior retaliatory conduct which would have created a well-founded fear.

There were at least two instances where questionable purchases made by the former Adult Education Department District Coordinator were reported to the Superintendent by Finance Department personnel. Inquiries were made by the Superintendent resulting in the submission of written explanations for those charges by the former Adult Education Department District Coordinator. Ultimately, funds corresponding to some of these questionable purchases were repaid to the MCSD. No disciplinary actions were taken against the former Adult Education Department District Coordinator. The lack of oversight and the failure to take corrective actions when questionable purchases were reported to the Superintendent created a permissive culture which increased the risk that errors or fraud would not be detected or corrected in a prompt manner. This permissive culture also created an environment that was likely to discourage or have a chilling effect on future reports of questionable transactions.

E. Employee Compliance and Other Factual Findings

The Board requested additional factual findings with respect to the former Superintendent and selected MCSD employees to assist the Board in taking potential disciplinary actions and to make other employment decisions. These additional factual

findings are contained in the Employee Compliance and Other Factual Findings section of this report. They are categorized as factors relating to administrative financial oversight responsibilities, and compliance with MCSD policies, procedures, or other job responsibilities.

II. Background and Scope of Investigation

On March 27, 2009 the MCSB approved the firm of BDPB to perform forensic accounting investigative services relating to allegations of questionable P-Card charges as well as to investigate allegations of missing cash and other questionable financial transactions. Specifically, there were allegations of unauthorized P-Card transactions and other fraudulent activity conducted by MCSD's Adult Education District Coordinator. The Board sought to have an independent forensic investigation into this matter and also to determine whether any other P-Card abuses existed in the MCSD.

Initially, the Board authorized BDPB to conduct interviews of selected MCSD employees and to review documentation in order to gain sufficient background information to draft a preliminary work plan/budget (Phase I).

BDPB submitted its work plan/budget to the Board (**Exhibit 1**) at a specially set meeting on April 3, 2009. The Board approved selected sections of the work plan (Phase II) at this hearing. The approved items are as follows: (1) Phase II, Section A – “Investigation of Selected P-Card Charges for All Card Holders”, (2) Phase II, Section E2 – “Travel Reimbursements” and (3) Phase II, Section E3 – “Hostile Work Environment / Retaliatory Practices”. Subsequently, the Board approved an additional section of the work plan: Phase II, Section C – “Investigation of Adult Education Cash Receipts”, and Phase II, Section F – “Draft Written Report”.

BDPB was hired to look at whether the types of unauthorized P-Card transactions which were reportedly conducted by the former Adult Education District Coordinator might also be occurring with other P-Card holders. The scope of our engagement did not include reviewing all the P-Card transactions of the former Adult Education District Coordinator, as this

investigation was already being conducted by the Auditor General's office. Our scope also did not include a review of expense reimbursements or purchase order requisitions. In addition, we were not engaged to conduct a broad scale investigation of all potential criminal conduct which might have taken place in the MCSD.

This report includes the findings of the forensic investigative services performed relating to the approved sections of the work plan and the additional investigative services later approved by the MCSB. The forensic services provided by BDPB have been performed in accordance with the American Institute of Certified Public Accountants ("AICPA") Statements on Standards for Consulting Services.

III. Investigation of Selected P-Card Charges for All Card Holders

The MCSD P-Card process was described by MCSD employees as follows: On a daily basis, P-Card charges are received from the bank in an electronic file. The Assistant Finance Specialist downloads the charges into the MCSD's accounting system, TERMS.² After the banking information is downloaded, the accounting system generates a requisition, and the P-Card clerk is responsible for entering transaction information into TERMS. Specifically, the P-Card clerk is required to reconcile the physical receipt to the charge, code the charge, and enter a narrative description of the charge. The narrative description of the charge as well as the appropriate coding should be written on the receipt by the person making the charge (normally the P-Card holder). Afterwards, the P-Card clerk is responsible for notifying the P-Card holder for approval of the charge (also known as "center" approval). After the P-Card holder's approval and potentially five additional approvals are entered into TERMS, the Finance Department makes an electronic payment to the bank.³ The bank payments are made by the Finance

² TERMS is an acronym for the MCSD's mainframe software program used for all Finance and Human Resource information processing. The acronym stands for "Total Educational Resource Management System".

³ The MCSD policies and procedures pertaining to P-Cards do not specifically require the P-Card holder's supervisor to approve the purchases within the TERMS system. In practice, "center" approvals can be performed by the P-Card holder or the P-card holder's supervisor.

Department monthly prior to the receipt of any backup documentation in order to obtain a .4% discount from the bank.

At the end of each month (i.e., at the end of the billing cycle), the P-Card holder receives his or her bank statement and is then responsible for reconciling the receipts to the bank statement. Once the reconciliation is complete, the P-Card holder is responsible for completing a Payment Request Form and submitting the form, the receipts and the bank statement to his or her supervisor for approval. The Payment Request Form is a cover sheet to the bank statement and corresponding receipt package. MCSD policy expressly requires the P-Card holder's signature on the Payment Request Form. The form contains a blank line for a supervisor's signature signifying the charges have been reviewed and reconciled to the bank statement. The Form is not requesting payment for the charges since the payment has previously been made electronically by the Finance Department.

The supervisor is responsible for reviewing this information and approving the transaction activity. Once approved, the bank statement, receipts and signed Payment Request Form is remitted to the Finance Department. The Finance Department is then responsible for reconciling the receipts to the bank statement.

Procedures Performed

1. Data Selection

We obtained three data tables from the Director of Information Technology containing all P-Card transactions for the period July 1, 2007 thru March 23, 2009 containing 20,668 transactions made by 117 P-Card holders totaling \$4,166,004. **(Exhibit 2)** The first data table contained the P-Card banking data (i.e., date of purchase, vendor, amount, etc.). The other two data tables contained the MCSD accounting data obtained from TERMS. The P-Card data tables were combined and exported into a useable format from which a sample was selected for testing.

An initial sample of 377 transactions was chosen for review. This sample size was selected randomly. Once the randomly selected transactions were identified (**Exhibit 3**), additional transactions were selected to ensure that at least two transactions from each P-Card holder were tested: 89 additional transactions were selected to ensure complete coverage, resulting in a total of 466 transactions aggregating \$88,050. (**Exhibit 4**) Exhibit 4 contains a list of the 466 transaction that were reviewed, which is comprised of: Bank Information, TERMS information, and the P-Card backup documentation that was submitted with the Payment Request Form. The Bank information reflects the P-Card holder, the date of the transaction, the vendor, and the transaction amount. There are two additional columns that reflect whether or not an item was identified for future follow-up based on the results of an initial review of the vendor and description of item purchased. The TERMS information contains the P-Card holder's account coding and purchase description entered into TERMS. The P-Card Backup Information captures the information on the face of the Purchase Request Form and the information on the receipts or other backup submitted to the Finance Department.

In addition to the 466 transactions reviewed, other transactions were reviewed based on criteria, such as vendor name or the purchase amount. We selected and reviewed transactions from those vendors that, on their face, did not have an immediate or obvious connection to "Board-approved or school related activities".⁴ We also reviewed all transactions with purchase invoice amounts greater than \$5,000, which is the maximum purchase amount allowed pursuant to the MCSD P-Card Policies and Procedures.

2. Interviews Performed

Our procedures included meetings and interviews with certain MCSD personnel to obtain an understanding of the P-Card purchasing procedures and practices and to further

⁴ Standard obtained from "The School Board of Monroe County – Bylaws & Policies 6424. See Also, "Monroe County Public Schools – Procurement and Purchasing Card Basic Policy and Procedures Manual 2008 – 2009".

investigate selected transactions. Our meetings and interviews included the following 30 MCSD personnel:

Finance Department

- Kathy Reitzel, Director, Finance
- Linda Walker, Assistant Finance Specialist
- Diomi Alfonso, Assistant Finance Specialist
- Judy Walterson, Accounting Clerk
- Bobbi Kay Brown, Accounting Clerk

Purchasing Department

- Lisa Ernst Cherry, Director: Food Service/ Purchasing/Contract Administrator
- Martha Alfonso, Project Specialist / Office Manager

Human Resources Department

- Cheryl Allen, Director Human Resources

High Schools

- John Welsh, Principal - Key West High School
- Christina McPherson, Assistant Principal - Key West High School
- Chris Valdez, Assistant Principal - Key West High School
- Marie Galloway, Bookkeeper - Key West High School
- Harry Russell, Principal - Marathon High School
- Patty Clark, Bookkeeper - Marathon High School
- Amber Archer Bosco, Principal – Poinciana Elementary
- Theresa Axford, Principal – Sugarloaf Elementary School
- Grace Willis, Assistant Principal – Gerald Adams Elementary

Career and Technical Education Department

- Mark Hooper, Career and Technical Education District Coordinator

Instructional Services

- Mike Henriquez, Assistant Superintendent
- Sunny Booker, Coordinator, Safe Schools
- Bruce King, Director Assessment & Accountability

Facilities and Maintenance/Construction

- Fred Sims, Director
- Chuck Freeman, Director of Maintenance and Custodial Services
- Jeff Sawyer, Assistant Director, Lower Keys
- Janene Sawyer, Technical Assistant 1

Transportation Department

- Dori Collins, Transportation Director
- Wayne Goldstein, Office Clerk

Information Technology Department

- Ken St. James, Director, Instructional Technology
- David Richardson, Director Information Services
- Clara Del Rio Application/Operation Support

We also interviewed MCSD's legal counsel, Richard Collins, Esq. and Dirk Smits, Esq., prosecutors from the Key West State Attorney's Office, and FDLE investigators. In addition, we performed follow-up interviews with selected P-Card holders and Finance Department administrators and employees regarding certain P-Card transactions.

We requested an interview with the former Superintendent, but our request was forwarded to his legal counsel and went unanswered. In addition, we requested to meet with Frankie St. James, the former MCSD Assistant Superintendent. St. James was responsible for signing the Payment Request Forms and for the supervisory review and approval of the P-Card charges of the former Adult Education District Coordinator. Counsel for the former

Assistant Superintendent advised us in a written letter dated August 3, 2009 that the MCSB would have to agree to waive its sovereign immunity to be sued for defamation as a condition precedent for the former Assistant Superintendent to meet with us. To date, no waiver has occurred and therefore we have been unable to speak with the former Assistant Superintendent.

Findings

1. Transactions Identified for Follow-Up

We identified 39 out of the 466 (7.8%) transactions reviewed that required further investigation / follow-up (**Exhibit 5**). The transactions required follow-up for the following reasons:

<u>Purpose of Follow-Up</u>	<u>Transaction Nos.</u>
1. Item(s) purchased could potentially be used for non-Board approved or non-school related activities.	1, 4, 11, 17, 20, 23, 30, 37, 38
2. Incomplete documentation regarding the school related nature of the expense.	3, 8, 14, 16, 18, 39
3. Incomplete travel documentation (i.e., lack of Authorized Request for Leave / Temporary Duty Elsewhere or "TDE" form or brochure for conference attended).	6, 9, 10, 12, 13, 19, 21, 22, 26, 31
4. Purchase or approval of purchase by family member of P-Card holder.	2
5. Improper TERMS coding (e.g., item description reflects purchase for MARC ⁵ house, but item not coded to MARC house).	5
6. No Payment Request Form ⁶ submitted or signed by cardholder.	32, 33

⁵ "MARC" stands for Monroe Association for ReMARCable Citizens.

⁶ This form is commonly referred to as an "Exhibit 5".

<u>Purpose of Follow-Up</u>	<u>Transaction Nos.</u>
7. Large purchases that should have been purchased through the Purchase Order process.	13
8. Backup reflects reimbursement by P-Card holder for unauthorized item(s) purchased.	27, 28, 35, 36
9. Other policy concerns.	24, 25, 29

Interviews were conducted as well as a review of relevant backup documentation for the follow-up items. We spoke with P-Card holders, vendors, and the MCSD's P-Card clerks, and, when possible, obtained additional documentation to determine if there were proper public purposes for the charges. All questions regarding these items were resolved.

In addition to the items identified for follow-up reflected above, we also reviewed a sample of all Maintenance and Repair Department P-Card transactions, nearly all of which referenced a work order that described the repair work to be performed. By selecting all Maintenance and Repair transactions exceeding \$100 that referenced a work order number in the TERMS description, we identified 25 additional transactions for follow-up totaling \$6,861. (**Exhibit 6**) Based upon a comparison of the work order descriptions for these transactions to the description of the items purchased reflected on each receipt, no exceptions were noted.⁷

Selected vendors were interviewed that regularly supplied materials to staff from the Maintenance and Repair Department. Representatives from these vendors indicated that there were little or no controls in place to prevent an employee from making excessive purchases on authorized work orders/purchase orders or from making unauthorized P-Card transactions. In addition, nothing was ever communicated to them regarding any potential restrictions on places of delivery. Almost all goods purchased are picked up by MCSD personnel; however, there were no policies in effect that would restrict the vendors from

⁷ We did not investigate whether the quantities purchased exceeded the quantities needed for the job, as such a determination would have necessarily required expertise that was beyond the scope of our work.

delivering any items purchased to personal addresses. These vendors relayed that while they had no knowledge of any Maintenance and Repair Department employee making an unauthorized transaction in their store, they acknowledged they had little way of knowing whether a purchase is appropriate. Further, if the MCSD creates additional control procedures (e.g., requiring ID, signatures, copies of work orders, etc.) they agreed that they would endeavor to follow them.

Although not a part of the P-Card transactions originally selected for review, we were advised by the Director of Facilities and Construction about one unauthorized P-Card transaction relating to the Maintenance and Custodial Services Department. The transaction was as follows:

Date	Amount	Name	Vendor
1/9/09	\$ 777.97	Director of Maintenance and Custodial Services	Manley DeBoer Lumber

This transaction related to a purchase by the former Adult Education District Coordinator wherein she and a family member purchased lumber from Manley DeBoer Lumber Co. using a MCSD open purchase order. A purchase order requisition for the charge was never completed, and an MCSD check was never issued to pay for the charges. Instead, these charges along with other Maintenance and Custodial Services Department invoices were submitted by the vendor to the Transportation Director and the MCSD Finance Department for payment.

The Transportation Department Director paid for each of the invoices submitted (including those made by the former Adult Education District Coordinator) using the P-Card of the Director of Maintenance and Custodial Services. The purchases made by the former Adult Education District Coordinator and family member were coded in TERMS to the Adult Education Department by an accounting clerk in the Finance Department. The other charges were coded to the Maintenance and Custodial Services Department by the Director of Transportation or by the Finance Department.

Approximately one month later, the receipts and corresponding Payment Request Form corresponding to these purchases were submitted by the Director of Transportation to the Director of Facilities and Construction. The Director of Facilities and Construction questioned the lumber purchase because he did not understand why a purchase made by the former Adult Education District Coordinator would appear on the P-Card statement of the Director of Maintenance and Custodial Services. The Director of Facilities and Construction brought the questionable charges to the attention of the Director of Finance who then consulted with an attorney for the MCSD. It was resolved that the Director of Facilities and Construction would sign the Payment Request Form excepting the purchases of the former Adult Education District Coordinator.

No further follow-up was performed at that time by the Director of Facilities and Construction, the Director of Finance, the Director of Transportation, or any other MCSD administrator to determine the ultimate usage of the lumber. After the Adult Education District Coordinator resigned on or about March 3, 2009, additional inquiries were made regarding this transaction. We were informed by the Director of Finance and the Director of Facilities and Construction that the transaction was not believed to benefit a “proper public purpose”.⁸

In an effort to avoid interfering with the on-going investigations of the Auditor General and the State Attorney’s office, we did not duplicate their efforts by performing a substantive review of all the P-Card purchases of the former Adult Education District Coordinator. An in-depth review of all of the former Adult Education District Coordinator’s P-Card charges was performed by the Auditor General’s office, who presented their preliminary report to the MCSD on May 21, 2009 and their final report on May 29, 2009. To the extent that said final report does not resolve all MCSB issues relating to these charges, or if the MCSB

⁸ We were told by the Director of Finance that the lumber was used to build a float for the freshman class at Key West High School which was sponsored by the former Adult Education District Coordinator. The “Proper Public Purpose” standard obtained from “Monroe County Public Schools – Procurement and Purchasing Card Basic Policy and Procedures Manual 2008 – 2009”).

wishes to expand the scope of the investigation, we are prepared to perform additional procedures relating to transactions made by the former Adult Education District Coordinator.

2. P-Card Policies and Procedures

As reflected above, our initial sample of transactions included the review of 466 transactions. Each month a P-Card holder and/or a P-Card clerk is responsible for forwarding a Payment Request Form along with monthly statements, receipts, packing slips and other supporting documentation to the Finance Department within 15 days from the end of the billing cycle.

Payment Request Form Submissions

There were 389 Payment Request Forms that corresponded to the 466 transactions reviewed. We noted the following deficiencies related to these forms:

- a) There were 3 Payment Request Forms corresponding to \$10,256 in charges that were not submitted to the Finance Department even though the charges corresponding to the payment request Forms were paid. **(Exhibit 7)**

Position	Transaction Date	Date	Amount
<i>Service Manager Transportation Department</i>	May 2008	Not Submitted	\$ (35.18)
Coordinator, Adult Education Instructional Services	November 2007	Not Submitted	\$ 5,319.12
Coordinator, Adult Education Instructional Services	February 2008	Not Submitted	\$ 4,972.13
TOTAL			\$ 10,256

- b) Of the 385 Payment Request Forms submitted (389 – 4 = 385), 4 Forms corresponding to \$8,553 in charges were not dated by the P-Card Holder. (**Exhibit 8**)

Position	Transaction Date	Date	Amount
Staff Maintenance	March-09	None	\$ 1,408.25
Staff Transportation Department	March-09	None	\$ 3.19
Principal Plantation Key School	February-08	None	\$ 6,808.10
Member Monroe County School Board	April-08	None	\$ 333.00
TOTAL			\$ 8,553

- c) Of the 385 Payment Request Forms submitted (389 – 4 = 385), 39 (10%) corresponding to \$243,742 were not signed by the P-Card Holder’s Supervisor. (**Exhibit 9**)

We analyzed 485 transactions in which the P-Card holder submitted a dated Payment Request Form. (**Exhibit 10**) Based on the stated policy that the Payment Request Forms and backup documentation should be submitted to the Finance Department within 15 days from the end of the billing cycle, we concluded that the submission should generally be no greater than 45 days from the transaction date. We identified 79 transactions that were submitted more than 45 days after the transaction date. Of these 79 transactions, 12 were submitted more than 60 days after the transaction date and 13 were submitted more than 100 days after the transaction date (**See Exhibit 10**).

We analyzed the 385 Payment Request Forms submitted to determine the average number of days from the transactions date until the Payment Request Form was

submitted to the P-Card holder's supervisor.⁹ We identified 22 P-Card holders whose Payment Request Forms, on average, were submitted more than 45 days after the transaction date. **(Exhibit 11)** We identified 5 instances in which the P-Card holder averaged more than 100 days after the transaction date until submission, and 3 instances (See No. 2(a), above) where the documentation was never submitted.

Other P-Card Policies and Procedures Not Followed

- a) According to the Purchasing Card Basic Policy and Procedures Manual (2008 – 2009), there is a \$5,000 maximum invoice limit. It is stated that purchases may include multiple items, but the aggregate invoice cannot exceed \$5,000. For invoices exceeding \$5,000, the MCSD's requisitioning procedures should be followed. The policy also prohibits splitting or staggering charges to come in under the \$5,000 limit.
 - i. We identified 37 transactions that exceeded the \$5,000 limit. **(Exhibit 12)** Almost all of these transactions were made by the IT Department or the Maintenance and Repair Department.

- b) We identified deficiencies with regards to the following P-Card Holder responsibilities:
 - i. Failure to inform vendor of tax-exempt status prior to processing a sales transaction.
 - a) In all instances identified where BDPB identified that sales tax was charged, the vendor subsequently credited the P-Card holder or the P-Card holder reimbursed the MCSD.

 - ii. Failure to write the account number or narrative description on the back of each receipt.

⁹ Based on the documentation provided, we were unable to determine when the Payment Request form was received by the Finance Department.

- iii. Failure to review/verify charges with the P-Card Clerk.
 - a) Invoices for charges made by maintenance staff were oftentimes sent to the Director of Transportation at the end of each month for payment. The Director of Transportation paid all the invoices using her P-Card. When the credit limit was reached on her selected P-Card, another P-Card was used. In such instances, the P-Card holder had limited ability to review the physical receipts and backup for the charges and relied on representations of the Director of Transportation as to the appropriateness of the charges.
 - b) In the Adult Education Department it was explained that the former Adult Education District Coordinator entered all her own charges and the charges for the Career and Technical Education District Coordinator into TERMS. The Career and Technical Education District Coordinator never reviewed/verified the TERMS entries.
 - c) The former Adult Education District Coordinator had the ability to enter P-Card transactions into TERMS and also had approval authority for the same transactions. There were approximately 16 other MCSD employees who had this same authority (including the Director of Transportation). Dual entry and approval authorities were eliminated by the end of June 2009.
- iv. Failure to sign the Payment Request Form
 - a) See Exhibit 9 and P-Card Policies and Procedures Findings 2(c) above.
- v. Failure to submit statements and receipts to P-Card Clerk by Finance Deadlines.
 - a) See Exhibit 11 above.
- c) We identified deficiencies with regards to the following P-Card Clerk responsibilities:
 - i. Failure to enter all purchase and credit information into the District's P-Card TERMS System on a daily basis or as soon as possible after the purchase is made.

- a) We observed instances where entries were made untimely. The Finance Department oftentimes must remind Purchasing Clerks or P-Card holders to complete their TERMS entries.
- ii. Failure to prepare and have card holder sign the Payment Request Form.
 - a) See Exhibit 9 and P-Card Policies and Procedures Findings 2(c) above.
- iii. Failure to forward the Payment Request Form along with monthly statements, receipts, packing slips and other supporting documentation to the Finance Department within 15 days from the end of the billing cycle.
 - a) See Exhibit 11 above.
- d) We identified deficiencies with regards to the following P-Card Supervisor responsibilities:
 - i. There was inadequate supervisory review of the charges made by the former Adult Education District Coordinator.
 - a) Payment Request Forms were signed by the former Deputy Superintendent without appropriate substantive review of the underlying charges to determine if they met a proper public purpose. There were at least seven instances where the current Deputy Superintendent signed the Payment Request Form for the charges of the former Adult Education District Coordinator. There were numerous questionable or inappropriate charges corresponding to those seven instances. (**Exhibit 17**)
 - ii. No policies and procedures regarding the supervisory review of P-Card purchases.
 - iii. No formal training regarding the supervisory review of P-Card purchases.

3. P-Card Internal Controls

We identified the following internal control weaknesses:

- a) BDPB noted apparent conflicts of interests whereby there were family members in supervisory positions to other family members, or having responsibility for reviewing/verifying P-Card purchases of a family member. For example, an Assistant Director in the Facilities and Construction Department was directly responsible for reviewing and verifying the P-Card charges of his sister.

Recommendation¹⁰

Eliminate or limit instances where family members work in the same department. If family members must work in the same department, eliminate said family member from the review process and have an independent employee review their P-Card purchases.

- b) Approximately 16 employees, including the former Adult education District Coordinator, had the authority to enter and approve P-Card transactions in the TERMS system.

Recommendation

Eliminate dual input/approval authority in TERMS and audit compliance. Create and implement policies and procedures for adjusting computer profiles due to any changes in personnel, including promotions or demotions.

- c) The Director of the Transportation Department performing the P-Card Clerk functions for some of the Directors and Senior Maintenance & Custodial Services Department employees.

¹⁰The following recommendations are made in the event the Board authorizes the issuance and use of P-Cards in the future. These recommendations are in addition to those contained in the Auditor General's Final report, which are incorporated hereto by reference.

Recommendation

Appoint an individual within the Maintenance and Repair Department to provide the P-Card Clerk function for the Directors of the Maintenance and Repair Department and appoint another supervisor to review these transactions (i.e., approve the Payment Request Form) in order to ensure that a system of appropriate dual controls is in place.

- d) The Director of the Transportation Department receives and processes invoices submitted by vendors relating to work performed by the employees of the Maintenance and Repair Department. These invoices relate to purchases made using open purchase orders and are paid in aggregate using the Director's P-Card, or (when that P-Card limit is reached) the P-Card of the Director of Maintenance and Custodial Services.

Recommendation

Eliminate all practices that bypass the MCSD's purchasing and requisition policies.

- e) There are up to six potential reviews of each P-Card transaction;¹¹ however, there are no policies and procedures or any formal training regarding the type of review each department should be performing. There are no written policies and procedures regarding the review process and each department's role in that process.

Recommendation

Create written policies and procedures that document the review process and the responsibilities of the reviewer. Provide formal training.

- f) No formal policies or procedures exist for creating initial P-Card credit limits or for any periodic review of those credit limits. In one instance, we identified a P-Card

¹¹ The potential approval are: (1) P-Card Holder Supervisor, (2) Center, (3) Finance Department, (4) Purchasing Department, (5) IT Department, and (6) Project.

holder with a \$250,000 credit limit, which runs contrary to the MCSD's policy that P-Cards should be used to handle and expedite low dollar purchases for goods and services. In addition, it was learned that this P-Card holder no longer lives in the District and telecommutes to work from upstate Florida. No transactions from this P-Card holder were identified for follow-up.

Recommendation

Develop formal policies and procedures for setting credit limits.

- g) Poor audit of the existing P-Card policies and procedures.

Recommendation

Develop formal audit procedure for the review and enforcement of existing policies and procedure. Lack of follow through in this area might be indicative of a poor internal control environment. Consideration should be given for an internal audit function (either handled internally or outsourced).

- h) Purchases can be made using vendor open Purchase Orders with limited or no verification of identification or purpose of purchase. Ultimately, these purchases can be paid with a P-Card from a P-Card holder that did not make the purchase.

Recommendation

Enforce existing policies regarding use of P-Cards by P-Card holders.

- i) Limited or no verification of "shipped to" address. Items can be purchased and delivered to personal addresses.

Recommendation

Implement policy setting forth approved shipping locations. No shipments to unapproved locations.

- j) Limited verification or review that items are properly coded in TERMS. Reviews of items purchased and the TERMS coding is not performed consistently in the Finance Department.

Recommendation

Create procedures ensuring that appropriate reviews are being performed of the items purchased and the corresponding TERMS account coding.

IV. Investigation of Adult Education Cash Receipts

The MCSD Adult Education Department provides learning and skill-building opportunities for the residents of the Monroe County community. They offer the following range of programs:

- General Equivalency Diploma (GED)
- Adult Basic Education (ABE)
- English for Speakers of Other Language (ESOL)
- Career Training
 - Cosmetology
 - Nail Specialty
 - Facial Specialty
 - Bus Driver Training
 - Introduction To Computers
 - Computer Applications
 - Web Design

These programs are run with funds from the MCSD, State Grants, and Federal Grants. In addition, tuition fees are charged for the courses given and funds are received as payments for some of the services performed by the students to the general public (e.g., cosmetology, facials, etc.). Until recently, the Adult Education Department's policy was to accept only cash payments for course tuition and for student services. These payments were accepted at

the Adult Education Department in Key West¹² and were supposed to be sent to the MCSD Finance Department to be deposited and credited to the appropriate Adult Education general ledger account. The MCSD's former Adult Education department District Coordinator was responsible for creating the cash receipts procedures and for physically delivering these funds to the Finance Department. An accounting clerk in the Finance Department was responsible for receiving the funds from the former Adult Education Department District Coordinator and for documenting those receipts in an electronic log. The Director of Finance was responsible for overseeing this cash receipts and accounting process.

During the course of our P-Card investigation, allegations surfaced that the proceeds received by the Adult Education Department were not being physically delivered to the Finance Department and that the proceeds had not, in fact, been deposited into the MCSD bank account. The MCSB requested that the Auditor General investigate these allegations to determine whether any funds were missing. On or about this same time, the State Attorney's office commenced an investigation into the allegations as well. We met with the State Attorney and with representatives from the Auditor General's Office whose investigation led to a preliminary finding that the former head of Adult Education had misappropriated funds. The scope of their investigation covered the period from January 27, 2005 to March 18, 2009. The Auditor General's office with the assistance of the State Attorney concluded that almost \$200,000 was collected but not deposited during this time frame.

The MCSB requested that we expand the scope of the analysis already performed to include the time from June 30, 2000 through January 26, 2005. They also requested that we analyze the MCSD, State Grants, and Federal Grants funds received and expended by the Adult Education Department during this time frame.

¹² There are also adult education classes located in Marathon and Key Largo that receive tuition and service payments. These proceeds (almost always cash) are supposed to be delivered to the Adult Education Department in Key West where they are logged and made part of the Department's cash receipts.

Funds Deposited

We analyzed the MCSD "Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund" for fiscal years 2000 through March 18, 2009. The following chart reflects the total funds deposited and posted to the General Fund relating to Adult Education and Post Secondary Course revenues:

Adult Education and Post Secondary Course Recorded Revenues

Year	Amount
2000	\$ 33,899
2001	16,851
2002	4,912
2003	2,492
2004	1,547
2005	865
2006	1,435
2007	2,470
2008*	5,760

Total Deposits **\$ 70,230**

Note(s):

Source: Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund

*Thru March 18, 2009.

Cash Receipts

BDPB received the cash receipt books for the Adult Education Department for the period January 2000 thru March 2005. These books contained records of all cash received by the Adult Education Department in Key West, Marathon, and Key Largo. We did not receive any records regarding funds collected for student services for the period January 2000 thru March 2005.¹³ We totaled the cash receipts contained in the cash receipts books and compared that total to the revenues received as reflected in the MCSD general ledger. According to these records the Adult Education department received \$368,405 from FY 2000 through March 18, 2009. (**Exhibit 13**) The procedure of comparing the cash receipts books maintained in the Adult Education Department to the actual cash deposits and entries made to the MCSD's general ledger was never previously performed by the Finance Department or the Auditor General.

Cash Receipts vs. Cash Deposited

Our analysis for the period from FY 2000 through March 18, 2009 revealed that cash receipts totaling of \$ 297,571 were not deposited into the appropriate MCSD bank account or accounted for by the MCSD Finance Department. (See Chart Below)

¹³ Either cash receipt log books for the funds received for student services were not maintained or the services were not provided during this time frame.

**Summary of Adult Education Department
Cash Receipts vs. Cash Deposited**

Fiscal Year	Shortage
2008 - 2009 ¹	\$ (36,278)
2007 - 2008 ²	(57,246)
2006 - 2007 ²	(41,674)
2005 - 2006 ²	(40,395)
2004 - 2005 ³	(36,388)
2003 - 2004	(42,728)
2002 - 2003	(27,771)
2001 - 2002	(15,091)
2000 - 2001 ⁴	-
Total Shortage	\$ (297,571)

Note(s):

¹Through March 18, 2009. Information obtained from Auditor General's preliminary report.

²Information obtained from Auditor General's preliminary report.

³January 27, 2005 thru June 30, 2005 obtained from Auditor General's preliminary report.

⁴Cash receipts from August 1, 2000 to September 14, 2000 were incomplete, so this year was excluded from the analysis.

A more detailed financial statement of the Adult Education Department's receipts and deposits can be found in **Exhibit 13**.

Analyses of Funds Expended and Received by the Adult Education Department

During the course of our investigation of the Adult Education Department, an issue was raised as to a possible explanation for the discrepancies regarding cash receipts and funds deposited in the Adult Education Department. It was propounded that these funds rather than being deposited, were maintained as working cash and could have been used to pay for expenses incurred by the Adult Education Department, whereby neither the revenues nor expenses were accounted for by the Finance Department. Interviews of selected employees were performed.¹⁴ Those interviewed indicated that none of the funds at issue were used for Adult Education programs. In fact, when requests were made to the former for supplies or equipment, the former Adult Education District Coordinator would almost always respond that there was insufficient money in the budget for said expenses.

In response, the MCSB requested that we analyze the funds received and expenditures for the Adult Education Department to determine whether or not they were consistently over budget for FY 2000 through March 2009.

We combined the financial records from Federal Grants, MCSD General Funds and Capital Expenditures Accounts all of which are maintained independently. Our analysis reflects that in some years the Adult Education Department ran at a profit (i.e., funds were available and not spent) and other years the Department ran a deficit. (**Exhibit 14 and 15**)

Recommendation(s)

- (1) Develop policies and procedures for the Adult Education cash receipts process, including accounting of funds received, management of funds received, and transfer of funds to the MCSD Finance Department for accounting and deposit.**

¹⁴ To avoid duplication of efforts and not interfere with an ongoing State Attorney investigation, these interviews were conducted by investigators from the Florida Department of Law Enforcement. We met with the investigators and the Assistant State Attorney who relayed to us the information obtained during these interviews.

(2) Provide training to appropriate personnel.

(3) Audit compliance with new policies and procedures.

V. Investigation of Employee Travel

In accordance with the Board approved workplan, we conducted an investigation to determine whether MCSD employees: (1) booked school travel, then exchanged the airline tickets for personal use, or (2) whether they bought refundable plane tickets for conferences but drove instead, and then turned the tickets in for cash.

Regarding the first allegation, we determined that the MCSD Finance Department does not keep any records or track instances where travel is booked for Board-approved or school related activities, but never used. Thus, it is possible for an employee to book approved travel, not use the plane ticket (e.g., trip cancelled due to family emergency, sickness or other conflict) and then receive a credit from the airline, which is later used for personal travel. However, our investigation, which included only our review of selected P-Card transactions, did not uncover any specific instances of this occurring.

Although not included within the P-Card transactions sampled in our forensic investigation, we were made aware of two instances where the former Adult Education District Coordinator used her P-Card to purchase airline tickets for certain family members, which was not for a proper public purpose. The first occurred in February 2007 and related to the purchase of travel by the former Adult Education District Coordinator that was erroneously charged to the Adult Education Department and paid for out of MCSD general funds. The backup documentation submitted for these charges was intentionally altered so that the names of the passengers either could not be seen, or the documentation reflected someone other than the person actually travelling. The passengers for these airline tickets were the former Adult Education District Coordinator and her children. The transactions were reported to the Superintendent who repaid the MCSD. No further remedial actions were taken against the

former Adult Education District Coordinator and no corrective measures were taken to ensure future charges like this would not occur.

The second charge related to travel that took place in December 2008 and was reported to the Superintendent in February 2009. The charges were once again for travel by family members of the former Adult Education District Coordinator, specifically for her parents, Cheryl and Floyd Jenkins, and charged to the Adult Education Department. The charge was for two American Airlines roundtrip tickets from Raleigh, North Carolina to Miami, Florida. There was no “proper public purpose” for these charges. These charges, along with other questionable charges made by the former Adult Education District Coordinator, were reported to the Superintendent by the Director of Finance on or around February 13, 2009. No remedial actions were taken against the former Adult Education Director.

We also noted in one of our sampled P-Card transactions an instance where a plane ticket was purchased for the daughter of a P-Card holder. In that instance, our follow-up investigation revealed that the daughter was a school teacher who was attending an approved teacher conference.

Regarding the second item relating to the potential to purchase refundable plane tickets, we recognized that the only way this fraud could be perpetrated was by purchasing an airline ticket through a travel agency using a purchase order.¹⁵ We received a list of all travel agencies used by the MCSD. (**Exhibit 16**) Only two of these agencies are currently active and are currently selling airline tickets to the MCSD: Key West Travel and Maverick Travel.

We spoke with the owner of Maverick Travel (“Maverick”). According to the owner of Maverick, Maverick began travel services for the MCSD around January 2008. They only book travel for a limited number of MCSD employees. Each employee has paid for their

¹⁵ If a P-Card was used to purchase the ticket (either through a travel agency or online), then any direct reimbursement would be to the P-Card. The employee would therefore never have the ability to turn the ticket in for cash.

travel using a P-Card until recently when all the P-Cards were cancelled. They have yet to book travel for a MCSD employee using a purchase order. In addition, they have never booked a refundable ticket for any MCSD employee. There were a couple of instances when a ticket was issued and then cancelled. In those instances the unused ticket creates a credit that the traveler can use for future trips. If the credit is not used within one year from the date the ticket was issued, the credit is lost. Maverick does not verify whether these credits are used for business or personal reasons. Since the MCSD does not track these credits, we could not determine whether or not any of these credits were ever used for personal purposes.

We also spoke with the owner of Key West Travel. The owner of Key West Travel did not have significant involvement with the day-to-day operations of the travel agency. She did handle the account from January 2008 to April 2008, but after April 2008 she no longer had any business transactions with the MCSD. She did not personally have occasion to cancel any tickets, but heard from an employee of hers that someone from the MCSD bought a ticket that was not used. The traveler received a credit, but she did not know what happened to the credit. She was not aware of anybody from the MCSD ever purchasing a refundable ticket and receiving a cash refund or using a credit for personal travel. She mentioned that there were a couple of instances where MCSD employees requested flights on other airlines to obtain frequent flyer miles when these other flights were more expensive than the flights she had chosen. In these instances the more expensive flights were booked. We requested any and all documentation that would reflect whether refundable tickets were ever purchased by MCSD employees. We were never provided any such documentation despite numerous requests; the last request was made on June 5, 2009.

VI. Other Items

Allegations of Hostile Work Environment / Fear of Retaliation

We were asked by the MCSB to investigate whether the working environment within the School District was such that employees might fear certain retaliatory conduct if they reported a suspected unauthorized transaction activity. During our interview we asked selected

employees whether they believed that there would be a negative impact on their employment (formally or informally) if they reported a suspicious or unusual transaction to their supervisor. In essence, we were asked to analyze whether the work environment in which MCSD employees work was a contributing factor in failing to discover the alleged fraudulent activity of the Adult Education Director.¹⁶

Almost all the employees interviewed did not have any substantial fear that had they identified a suspicious or potentially unauthorized transaction, that there would have been a negative impact on their employment if they were to report it. That was true even if the suspected transaction was made by the former Adult Education District Coordinator, the wife of the Superintendent. Some employees relayed that, in fact, they had reported suspicious transactions and/or questioned a P-Card holder directly about a transaction when it appeared that it was coded incorrectly or did not appear to have a proper business purpose.

There were two employees in the Finance Department that said that there would be a natural feeling of intimidation or fear of retaliation from reporting suspected transactions to the Superintendent, especially if the suspected transactions involved the Superintendent's wife. One of these employees believed that there was a "general mood" that there would be a negative impact if "you step out of line". However, we were not made aware of any specific instances of prior retaliatory conduct which would have created a well-founded fear.

There were at least two instances where questionable purchases made by the former Adult Education Department District Coordinator were reported to the Superintendent by Finance Department personnel. These instances had a negative impact on the MCSD work environment. The first instance occurred in February 2007 and related to a charge for airline

¹⁶ It should be noted that Hostile Work Environment has a strict legal definition and requirements. For a work environment to be deemed legally "Hostile" under Florida law, it must be caused by discriminatory workplace harassment based on race, color, religion, national origin, disability, age or sex. Additionally, the harassment typically must be severe, recurring and pervasive. No allegations of this type of behavior were made during the course of our investigation, and we did not observe or obtain any information that would support a legal finding of Hostile Work Environment as defined herein.

tickets made by the Former Adult Education District Coordinator (See Section V - Investigation of Employee Travel, above). In that instance, the Superintendent repaid the MCSD with a personal check that he signed but he took no remedial action against the former Adult Education District Coordinator, who is his wife.

The second instance related to a series of questionable charges made by former Adult Education Department District Coordinator from July 4, 2008 through February 6, 2009. The charges were identified by employees in the Finance Department and were reported to the Superintendent by the Director of Finance on or about February 12, 2009. Some of the questionable charges reported were as follows:

1. XM Satellite Radio – A two year subscription to XM Satellite Radio charged on January 5, 2009 in the amount of \$315.53.
2. Sales Tax - Approximately 29 charges were made that included sales tax. The sales tax charged on these transactions totaled \$3,605.76.
3. American Airlines – Travel from Raleigh, North Carolina to Miami, Florida by the former Adult Education District Coordinator’s parents, Cheryl and Floyd Jenkins totaling \$888.00. Also, travel by the Superintendent to Raleigh, North Carolina.
4. Winter Break – there were approximately 18 charges made during the two weeks that the MCSD was on winter break from December 22, 2008 to January 5, 2009 totaling \$2,639.03. Many of these charges were for groceries and other perishable items.
5. Brocade Home – Approximately 7 transactions totaling \$4,490.75 for linens, pillow cases, and other bedding.
6. JC Penny Catalog – Approximately 7 transactions totaling \$4,526.64.

A report reflecting the above charges as well as other questionable expenditures (including a bed costing approximately \$1,600 delivered to the personal residence of the Superintendent and the former Director of Adult Education) made using purchase orders or expense reimbursements was given to the Superintendent on or about February 12, 2009.

On or about February 13, 2009, the Superintendent wrote the Director of Finance an e-mail requesting a meeting later that afternoon. According to the Director of Finance, at that meeting, the Superintendent requested that the Director of Finance not report any of the questionable transactions to any third parties until after a meeting with the former Adult Education District Coordinator scheduled to take place later that week. On or about February 17, 2009, the Director of Finance met with the Superintendent and the former Adult Education District Coordinator. At the meeting, the former Adult Education District Coordinator submitted written explanations for some of the questionable charges and appeared angry with the Director of Finance for questioning these charges. The Director of Finance did not believe these explanations were believable. According to the Director of Finance, the Superintendent allowed the former Adult Education District Coordinator to speak very harshly to the Director of Finance about reporting the transactions to the Superintendent. Notably, the Superintendent once again did not take any disciplinary action against the former Adult Education Department District Coordinator, who is his wife.

On or about February 24, 2009, the Superintendent signed a Management Representation Letter reflecting that, among other things, he was unaware of any fraud or suspected fraud affecting the District. Originally, the Director of Finance would not sign the letter, which was required by the Auditor General's Office in order to complete the MCSD audit for fiscal year 2007-2008. On or about February 25, 2009, the Director of Finance signed the letter but only after it contained an addendum stating:

“In February 2009 the Finance Director became aware of certain issues with one employee regarding the purchasing card. These issues pertain to the 2008-2009 fiscal year and are part of an ongoing investigation.

We did not audit the 2007-2008 receipts, aside from the standard review that is performed for purchasing card statements. A review of the purchases and receipts that were available was done and to the best of our knowledge at this time, we estimate there may be a total of \$2,000 that is questionable.”

The Director of Finance did not forward the letter to the Auditor General’s Office. On or about March 2, 2009, the Director of Finance notified the Auditor General of her preliminary findings relating to the questionable P-Card purchases of the former Adult Education District Coordinator. On this same day, the Director of Finance notified the Chairman of the MCSB of the questionable P-Card charges in part because of the Superintendent’s failure to take any remedial action against the former Adult Education District Coordinator. Upon return to the District a couple days later, the Chairman obtained from the Director of Finance documentation relating to the questionable purchases and immediately referred the matter to the Key West State Attorney’s Office.

The lack of oversight and the failure to take corrective actions when questionable purchases were reported to the Superintendent created a “permissive culture” which increased the risk that errors or fraud would not be detected or corrected in a prompt manner. This permissive culture also created an environment that was likely to discourage or have a chilling effect on future reports of questionable transactions.

Recommendation

Implement a formal Whistleblower program that is consistent with U.S. corporate programs that follow the federal corporate sentencing guidelines.

VII. Employee Compliance and Other Factual Findings

After the preliminary forensic investigative report was issued, the MCSB requested additional factual findings and/or clarifications with respect to selected current or former MCSD personnel. Specifically, the Board requested that we include any and all facts and circumstances that might warrant disciplinary action be taken by the MCSB to hold these employees accountable and help restore the public trust in the MCSD's financial integrity.

The selected employees were identified as part of the factual findings in the initial forensic investigation and reported in the preliminary forensic investigation report dated June 9, 2009. Additional interviews were conducted and additional forensic analysis was performed. All information learned before and after the preliminary forensic investigation report was issued is reported below as facts relating to compliance with MCSD policies, procedures, and other job responsibilities. The selected employees and conduct is as follows:

Superintendent

Non-Compliance Factors

1. Fiscal Oversight

- a. Failed to provide for the existence of internal controls, policies and procedures and/or audit procedures to ensure the receipt, accounting, and management of MCSD cash.
 - i. Failed to request testing of cash receipts be performed by the Auditor General, which likely would have discovered and prevented misappropriation.
 - ii. The MCSD received cash receipts of \$297,571 from various Adult Education Department programs, but the funds were not delivered to the Finance Department for deposit by the former Adult Education District Coordinator.

1. The Superintendent failed to discover that this revenue was misappropriated by his wife.
- b. Failed to provide for the existence of effective internal controls, policies and procedures, and/or audit procedures to ensure appropriateness of MCSD fund expenditures via P-Cards.
 - i. There was widespread ignorance of and/or noncompliance with existing policies and procedures that enabled expenditures for improper purposes.
 - ii. Allowed inappropriate purchases by former Adult Education District Coordinator.
 - iii. The Superintendent failed to discover and prevent inappropriate P-Card purchases.
 - c. Failed to take any administrative action when at least two instances of questionable P-Card transactions completed by his wife, the former Adult Education District Coordinator were brought to his attention.
 - i. One instance related to the purchase of travel in 2007 wherein the Director of Finance informed the Superintendent that the travel charged on the former Adult Education District Coordinator's P-Card was personal in nature. In that instance, the name of the passengers traveling was redacted from the backup documentation submitted to the Finance Department. Through investigation, it was determined that the passengers were family members of the former Adult Education District Coordinator and the Superintendent and the charges were unrelated to MCSD business. The Superintendent wrote and signed a personal check reimbursing the MCSD for the charge, but he took no disciplinary or administrative action against the former Adult Education District Coordinator.

- ii. The second instance occurred in 2009 when the Director of Finance identified other questionable transactions completed by the former Adult Education District Coordinator. These transactions included, among other things, additional personal travel, the purchase of an XM Radio two year subscription, and the purchase of a bed delivered to the personal residence of the former Adult Education District Coordinator. A meeting took place in which purported explanations were provided for the charges. No disciplinary or administrative action was taken against the former Adult Education District Coordinator. Rather, the Director of Finance eventually reported these questionable transactions to the chairman of the MCSB who, because the Superintendent failed to take any actions, referred this matter to the Key West State Attorney's Office.

- d. Failed to take any administrative action after being informed that there might be certain unaccounted for expenditures relating to the Even Start Grant.
 - i. The Superintendent was copied on an e-mail dated on or about April 12, 2007 that questioned certain expenditures charged to the Even Start grant. These expenditures were supposed to be for supplies delivered to the Marathon Training Center. The e-mail correspondence raised a significant question as to whether the supplies that were paid for with Even Start funding were ever delivered to the Training Center. The Superintendent failed to follow-up on these allegations. One of the people responsible for Even Start grant oversight was the former Adult Education District Coordinator.

- e. Submitted a false document to the Director of Finance in an attempt to justify an inappropriate expenditure of MCSD funds via a P-Card purchase made by the former Adult Education District Coordinator (i.e., XM satellite radio).
 - i. The Superintendent submitted to the Director of Finance a falsified document purportedly from MARC House that provided an explanation for

the purchase of an XM satellite radio subscription. According to the Director of Finance, the Superintendent presented the document to her and asked whether the document “would help” even though he contemporaneously pointed out that the letter “did not have a signature” by a MARC representative.

- f. Responsible for and encouraged a permissive culture of organizational ethical anomie (one that likely originated in part prior to the Superintendent being elected) that enabled improper expenditures of MCSD funds, cash receipts to be mismanaged and unaccounted for, and for questionable P-Card purchases.
 - i. Annual employee performance evaluations did not include review of employee compliance with District policies and procedures.
 - ii. Failed to ensure adequate training on policies and procedures and appropriate expenditures of District funds.
 - iii. Failed to take remedial disciplinary action against his wife and former Adult Education District Coordinator for apparent violations of policy and procedure and inappropriate expenditures.
2. Conflict of Interest
- a. Promoted wife to position of Adult Education District Coordinator despite fact that she did not possess minimum education requirements of the position.
 - b. Acquiesced to the lowering of the minimum educational requirement for the position of Adult Education District Coordinator from requiring a Masters Degree to High School Diploma.
 - c. Failed to take any remedial disciplinary action against his wife despite being notified of questionable expenditures on more than one occasion.

Compliance Factors

1. MARC Letter

- a. The false document submitted to the Director of Finance in an attempt to justify a P-Card purchase made by the former Adult Education District Coordinator for XM satellite radio was found on the computer of former Adult Education District Coordinator. An electronic copy of that letter has not yet been found on the Superintendent's computer.

Deputy Superintendent

Non-Compliance Factors

1. P-Card Purchase Review/Approval Oversight

- a. Failed to identify questionable transactions of the former Adult Education District Coordinator despite reviewing them on multiple occasions.
 - i. As head of Instructional Services (when the former Assistant Superintendent was absent), there were at least seven months (July 2006 – December 2006 and January 2008) wherein he signed the Payment Request Forms of the former Adult Education District Coordinator approving those transactions. These approved transactions contained questionable or inappropriate purchases. (**Exhibit 17**)
- b. As Deputy Superintendent and supervisor for the former Adult Education District Coordinator (approximately six months), failed to recognize that he was not receiving any Payment Request Form packages for the former Adult Education District Coordinator despite the fact he had reviewed and approved approximately six months of P-Card transactions of hers from July 2006 to December 2006. As a result, approximately six months of transactions were not timely reviewed. These transactions contained questionable or inappropriate purchases (See Auditor General Report).

- c. During the time he was Deputy Superintendent (approximately six months), did not approve the P-Card transactions of the former Adult Education District Coordinator in TERMS. These transactions were entered and approved by the former Adult Education District Coordinator. These transactions contained questionable or inappropriate purchases (See Auditor General Report).

Compliance Factors

1. P-Card Purchase Review/Approval Oversight
 - a. Was the former Adult Education District Coordinator's supervisor for only a short time (six months in 2008-2009) and during that time was never provided any P-Card transaction backup to review and/or approve.
 - i. The Finance Department failed to provide any notifications that Payment Request Forms were past due.
 - b. Was never notified by the Finance Department of any late documentation being submitted by the Career and Technical Education Instructional Services Coordinator.
 - c. From July 2006 to December 2006, approved the same types of transactions previously approved without question by former Assistant Superintendent.
 - d. Did not actually review or approve any of the P-Card transactions of the former Adult Education District Coordinator in TERMS since the former Adult Education District Coordinator had dual input and approval authority.
 - e. The MCSD written policies pertaining to P-Cards do not expressly provide that a supervisor must approve TERMS entries.
 - f. The MCSD written policies pertaining to P-Cards do not expressly provide for the type of review of P-Card purchases that supervisors should have performed.

- g. As Director of Instructional Services, had no problems in P-Card oversight of other personnel. Only issues appear to be limited to oversight of the former Adult Education District Coordinator, which was limited in duration.

Director of Finance

Non-Compliance Factors

1. P-Card Oversight

- a. Failed to develop and/or implement effective P-Card policies and procedures.
- b. Failed to enforce P-Card policies and procedures relating to the timely filing of Payment Request Forms.
- c. Failed to enforce P-Card policies and procedures relating to the signing of the Payment Request Forms.
- d. Failed to enforce P-Card policies and procedures relating to credit limits.
- e. Failed to enforce P-Card policies and procedures relating to \$5,000 maximum allowed per invoice to be purchased using a P-Card.
- f. Failed to develop and/or implement appropriate P-Card policies and procedures for training.
 - i. Inadequate training on existing policies and procedures, including TERMS approval process.
 - ii. Inadequate implementation and training on proper supervisory review and approval of appropriateness of P-Card purchases.
- g. Failed to follow-up with P-Card holders or recommend any disciplinary actions for violations of policies and procedures, including but not limited to:

- i. Untimely submissions of Payment Request Forms.
 - ii. Charges greater than \$5,000.
 - iii. Repeatedly being charged sales tax (whether or not sales tax was reimbursed).
 - iv. Personal charges.
 - v. Incomplete travel documentation.
 - vi. Merchandise delivered to addresses other than MCSD offices.
 - h. Regularly increased credit limits resulting in purchases being made in violation of MCSD's policy that P-Cards should only be used to handle and expedite low dollar purchases for goods and services.
 - i. Failed to create and/or implement an effective program to audit P-Card internal controls, including but not limited to:
 - i. Review of supervisor signatures on Payment Request Forms for existence and veracity.
 - ii. Reconciliation of invoices to charges appearing on bank statement.
 - iii. Appropriate account coding in TERMS.
2. Adult Education Cash Receipts Oversight
- a. Failed to develop and/or implement effective policies and procedures for collection, accounting, and management of cash receipts in the Adult Education Department.
 - i. After becoming aware of potential issue regarding cash receipts in culinary Adult Education class, created internal controls for that class but did not create overall policies and procedures or internal controls for the whole Adult Education Department, which likely would have limited employee abuse in other Departments.
 - b. Failed to create and/or implement audit procedures for cash receipts in Adult Education Department and other Monroe County School District Departments,

which likely would have detected and prevented employee abuse and/or misappropriation.

3. Finance Department Oversight

- a. Annual performance reviews did not consider compliance with policies and procedures.
- b. Annual performance reviews of selected Finance Department personnel did not reflect any deficiencies, and in particular did not identify any deficiencies relating to P-Card administration and function.
 - i. One annual performance review noted commendable compliance with P-Card administrative duties when, in fact, P-Card documentation was consistently deficient. (e.g., Payment Request Forms and backup submitted late, no supervisor signature, Payment Request Forms not dated, invoices not reconciled to bank statements, etc.).

4. Oversight of Employee Travel

- a. Failed to create procedures to track employee credits received after flights cancelled and prevent employee abuse and/or fraud.

Compliance Factors

1. In two separate instances in 2007 and 2009, brought questionable transactions to Superintendent's attention and no remedial actions taken.
 - a. No remedial actions taken creating chilling effect on incentive to report additional questionable transactions.
2. Cooperating with criminal prosecution of Superintendent and former Adult Education District Coordinator.

3. Would not sign state audit certification knowing about questionable P-Card transactions completed by the former Adult Education District Coordinator.
4. Proper Responses to Specific Incidents
 - a. Teacher Theft Involving Fictitious Vendor
 - i. Identified fact that teacher from Coral Shores school created a fictitious vendor and was charging the MCSD for services that should have been part of that teacher's job responsibilities. Teacher was never fired.
 1. Permissive culture and chilling effect of fact that no disciplinary or administrative action taken after reported violations of policies and procedures or questionable transactions.
 2. Implemented a conflict of interest policy for that school.
 - b. Allegations of Theft in a Vocational Education Class
 - i. Investigated and developed internal controls for cash receipts in that class.
5. Adult Education Cash Receipts
 - a. Performed horizontal analysis of Adult Education Department revenues but because cash receipts were not properly reported as far back as 2000/2001, it was not detected.
 - b. Auditor General also failed to audit and/or identify internal control deficiencies with respect to cash receipts in the Adult Education Department.

Director of Transportation

Non-Compliance Factors

1. P-Card Policies and Procedures
 - a. Repeatedly, signed Payment Request Form for former Director of Maintenance and Construction. Signed his name and did not inform her supervisor or anyone in the Finance Department that it was her signature, not his.

- b. Failed to follow P-Card policies and procedures by using someone else's P-Card (i.e., for former Director of Maintenance and Construction) for Maintenance Department staff charges.
 - c. Failed to follow P-Card policies and procedures by making P-Card charges over \$5,000.
 - d. Failed to follow P-Card policies and procedures by allowing maintenance staff purchase items with open P.O.'s and then using a P-Card to make the actual payments.
2. Maintained control of administrative P-Card functions (i.e., P-Card clerk) even after being appointed as Director of Transportation.
3. Ignored many P-Card policies and procedures because they were impractical for the Maintenance and Construction Department and the Transportation Department rather than take affirmative efforts to work with the Superintendent and/or the Director of Finance to develop new policies and procedures.

Compliance Factors

1. P-Card Policies and Procedures
 - a. Was told by current and two former Directors of Finance to charge as much as possible on P-Cards to get discount, notwithstanding the MCSD policy restricting charges to less than \$5,000.
 - b. Handled administrative P-Card function for Facilities and Construction Department for over 7 years and was never questioned by Finance Department regarding the practice of paying open P.O.s with credit cards and with practice of using another P-Card holder's P-Card.
2. Superintendent approved her dual positions.

Director of Purchasing

Non-Compliance Factors

1. P-Card Policies and Procedures
 - a. Failed to reject any P-Card purchases, including those in excess of the \$5,000 per MCSD invoice policy limitations.
 - b. Review of P-Card purchases did not include substantive analysis of appropriateness of charge.

Compliance Factors

1. P-Card Policies and Procedures
 - a. Never received any training regarding review of P-Card purchases.
 - b. Was never provided any policies or procedures regarding approval of P-Card purchases (e.g., nature of review, purpose of review, how to identify questionable transactions, etc.)

Career and Technical Education District Coordinator

Non-Compliance Factors

1. P-Card Purchase Review/Approval Oversight
 - a. Payment Request Forms not received by Finance Department on average 300 days late.
 - b. Did not review or approve P-Card TERMS entries made by former Adult Education District Coordinator relating to his purchases.
 - i. Relied on former Adult Education Department District Coordinator to enter and approve his P-Card transaction activity in TERMS.
 - c. Failed to ensure that his supervisor signed/approved Payment Request Forms and forwarded them to the Finance Department.

- d. Purchased large dollar amount items (i.e., tools) in violation of MCSD requisition policies and procedures.
 - e. Did not inventory materials and supplies bought with P-cards and being stored in storage room at Marathon High School
2. Expense Reimbursements
- a. As noted in the Auditor General report, there were four instances where reimbursements were made to the former Career and Technical Education District Coordinator without prior supervisory approval for the purchases. There was at least one instance where he approved his own expense reimbursement.
3. Oversight – Carl Perkins Grant
- a. Failed to review charges made by former Adult Education District Coordinator that were charged to the Carl Perkins Grant that he was responsible for overseeing. There were numerous questionable or inappropriate charges paid for with Carl Perkins grant funds. **(Exhibit 18)**

Compliance Factors

1. P-Card Purchase Review/Approval Oversight
- a. Relied on his supervisor (the former Adult Education District Coordinator) for the TERMS entries. No evidence that he personally made any inappropriate TERMS entries.
 - b. Relied on his supervisor (the former Adult Education District Coordinator) to turn in his Payment Request Forms and backup. No evidence that he did not submit the appropriate forms and backup on a timely basis to the former Adult Education District Coordinator.
 - i. Six months prior to the resignation of the former Adult Education District Coordinator, began submitting P-Card documentation and Payment

Request Forms to the Director of Instructional Services. During this period, all documentation was submitted on time and without any violations of P-Card policies and procedures.

2. No purchases were identified that were not for a proper public purpose.
3. MCSD policy did not require him to inventory materials and supplies bought with P-cards and being stored in storage room at Marathon High School. MCSD policy only requires inventorying of items that cost more than \$1,000.

Assistant Finance Specialist

Non-Compliance Factors

1. P-Card Policies and Procedures
 - a. Inadequate enforcement relating to the persistent failures of P-Card holders to comply with policies and procedures.
 - i. Turning in timely documentation.
 - ii. Timely coding of transactions in TERMS.
 - iii. Submitting all backup for P-Card charges.
 - b. Failed to identify fact that many purchases (by the former Adult Education Department District Coordinator and others) were not properly coded in TERMS.
 - c. Failed to enforce policy of the timely delivery of Payment Request Forms from P-Card holders.
 - i. As of February 2009, was approximately six months behind in audit and reconciliation of P-Card holder backup documentation and Payment Request Forms.
 - d. Improper reconciliation of receipts to bank statements.

- i. In March 2009, after Auditor General 2007-2008 audit recommenced, had to call many P-Card holders to get receipts for purchases made up to two years prior.

Compliance Factors

1. P-Card Policies and Procedures
 - a. Informed current former Directors of Finance of the persistent failures of P-Card holders following policies and procedures.
 - b. MCSD policies and procedures do not reflect that the Finance Department was supposed to perform substantive transaction reviews to determine whether or not the transaction promotes a proper public purpose.
 - c. In charge of the administration of P-Cards, not responsible for actual review of the P-Card transactions.
2. Reported questionable P-Card transactions to her supervisor and to the Superintendent.
3. Cooperating with criminal prosecution of Superintendent and former Adult Education District Coordinator.
4. Other
 - a. Permissive culture whereby no disciplinary or administrative action taken after violation of policies and procedures or questionable transactions were reported.

Accounting Clerk

Non-Compliance Factors

1. Cash Receipts Process
 - a. Limited accounting and auditing skills.
 - b. Not aware of minimal controls relating to cash receipts process.

- c. Not able to enter cash receipt accounting information into TERMS accounting program.
- d. Failed to identify questionable or unusual cash receipts transactions (or lack thereof).

Compliance Factors

1. Cash Receipts Process
 - a. Never received any training regarding MCSD cash receipts policies or procedures.
 - b. Never provided a listing of MCSD revenue sources from which she should expect to receive cash and was never told when any programs started or ended so that she could have identified misappropriation of funds.

Performance Evaluations

We obtained and review the last three years performance evaluations for the following personnel:

- Kathy Reitzel
- Linda Walker
- Mark Hooper
- Dori Collins
- Mike Henriquez
- Fred Sims
- Chuck Freeman
- Pedro Fraga
- Bobbi Kay Brown
- Debra Castellano
- Francis St. James

The performance evaluations do not specifically evaluate personnel on their compliance with MCSD policies and procedures. Nevertheless, a review of these evaluations failed to disclose any instances wherein a supervisor identified areas of unsatisfactory performance or any performance that needed improvement. In fact, in all instances where an employees is graded (as opposed to the narratives contained in the Director evaluation forms); the employee received a “commendable” grade.¹⁷ The narratives contained in the Director evaluations were almost all positive and did not reflect any significant deficiencies.

Respectfully Submitted,

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¹⁷ The grade scale is as follows: (C) = Commendable, (G) = Good, (N) = Needs Improvement, and (U) = Unsatisfactory.