



Mary Taylor, CPA
Auditor of State

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	3
Supplement to the Special Audit Report	
Background	5
Issue No. 1 Payments to Selected Vendors	6
Issue No. 2 Non-payroll Payments to Daniel Burns and Shenee McCoy-Gibbons	9

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Dr. Eugene T.W. Sanders, Chief Executive Officer
James Fortlage, Chief Financial Officer
Cleveland Municipal School District
1380 East 6th Street
Cleveland, OH 44114

We conducted a special audit of the Cleveland Municipal School District (CMSD), by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period July 1, 2006 through December 31, 2008 (the Period), solely to:

- Determine whether payments to selected vendors were supported and for valid CMSD expenditures.
- Determine whether non-payroll payments to Daniel J. Burns, former Chief Operating Officer, and Shenee McCoy-Gibbons, Mr. Burns' assistant, were supported and for valid CMSD expenditures.

This engagement was conducted in accordance with the Quality Standards for Inspections established by the President's Council on Integrity and Efficiency (January 2005). The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and significant results is as follows:

1. We determined whether payments to selected vendors were supported and for valid CMSD expenditures.

Significant Results – We issued findings for recovery against Mr. Burns and vendor John Briggie, DBA Superior Offset Supplies, Inc., totaling \$160,200, for district payments for equipment not delivered to CMSD and for consulting contracts related to the undelivered equipment. We also issued findings for recovery against Mr. Burns and Steve Cotner, DBA Corporate Intelligence Consultants, totaling \$20,819, for service payments in excess of work performed.

We issued two management comments to improve CMSD's controls over its purchasing procedures.

2. We determined whether payments to Mr. Burns and Ms. McCoy-Gibbons were supported and for valid CMSD expenditures.

Significant Results – Each of the non-payroll payments issued to Mr. Burns and Ms. McCoy-Gibbons was supported and for CMSD operations.

3. On December 9, 2009, we held an exit conference with the following individuals representing CMSD:

Dr. Eugene T.W. Sanders, Chief Executive Officer
James Fortlage, Chief Financial Officer
Larry Johnston, Executive Director of Internal Audit
John Hairston, Chief Communications Officer
Denise Link, Board Chair
Kevin Burtzlaff, Executive Liaison to the Board
Rashidah Abdulhaqq, Board Member
Patricia Crutchfield, Board Member
Yvette Ittu, Audit Committee Member
Bracy Lewis, Audit Committee Member

The attendees were provided an opportunity to respond to this special audit report. A response was received on December 9, 2009. The response was evaluated and changes were made to this report as we deemed necessary.



Mary Taylor, CPA
Auditor of State

May 1, 2009

Supplement to the Special Audit Report

Background

In late November 2008, an employee of the Cleveland Municipal School District (CMSD) approached the Auditor of State (AOS) financial auditors with information regarding a suspicious new vendor. As was typical for CMSD, the district mailed a copy of a purchase order to the vendor, Superior Offset Supplies, Inc. (SOS), at a Parma, Ohio business address. However, the business at that address was not SOS and contacted the district to report the mailing error. From that point forward, the SOS address on future purchase orders and invoices was changed to a Toledo personal residence and the purchase orders were marked "do not mail." Additionally, rather than mailing CMSD checks, which was standard operating procedure, the checks issued to SOS were personally picked up by either Daniel Burns, Chief Operating Officer, or his assistant, Shenee McCoy-Gibbons.

On December 2, 2008, AOS auditors conducting the CMSD's financial audit met with CMSD representatives to discuss these concerns. On December 9, 2008, members of the AOS Special Investigations Unit and Special Audit Section met with Mr. Burns to discuss SOS. CMSD records indicated \$148,500 was spent to purchase duplicators and \$11,700 was spent on equipment training; however, a search of the buildings did not locate any equipment as described on the vendor invoices. Mr. Burns was unable to identify the location of the equipment, and CMSD placed him and Ms. McCoy-Gibbons on paid administrative leave immediately after our meeting.

Prior to his employment at CMSD, Mr. Burns served as the Chief Business Manager at Toledo City School District (TCSD). He retired with 30 years of service from TCSD in June 2006, just before moving to CMSD in July 2006.

Between December 10 and December 17, 2008, we discussed these concerns with members of the AOS financial audit team on site at TCSD. We also reviewed TCSD expenditure ledgers and noted similar transactions with Superior Offset Supplies.

On December 17, 2008, the Auditor of State initiated separate special audits of CMSD and TCSD.

On December 3, 2009, Mr. Burns and Mr. Briggie were indicted on charges of engaging in a pattern of corrupt activity and six counts of tampering with records. Additionally, Mr. Burns was indicted on charges of theft in office and Mr. Briggie was indicted on charges of theft. Their cases are pending with the Cuyahoga County Court of Common Pleas.

Supplement to the Special Audit Report

Issue No. 1 Payments to Selected Vendors

PROCEDURES

We obtained vendor histories and expenditure ledgers from both TCSD and CMSD. Beginning with the CMSD expenditure ledgers, we identified vendor names added to CMSD's records after July 1, 2006. Of those, we selected vendors with telephone numbers in the Toledo, Ohio area, street addresses or post office box addresses in the Toledo, Ohio area, or those which were also on the expenditure ledgers for TCSD. We also scanned the vendor histories for unusual vendors not previously identified and inquired with CMSD officials to identify any unusual vendors.

Using the criteria described in the preceding paragraph, we identified 34 vendors for further examination in addition to Superior Offset Supplies, Inc. (SOS). We obtained and quantified the vouchers for those expenditures and examined available documentation to determine whether expenditures were supported and for valid CMSD operations.

RESULTS

Superior Offset Supplies, Inc.

During the Period, CMSD paid SOS \$160,200. Of this amount, CMSD paid three SOS invoices totaling \$148,500 (\$49,500 each) for six Ryobi 3202MR Duplicators. According to the CMSD Summary of Purchasing Procedures, a resolution is required for purchases exceeding \$6,000 and bidding is required for expenditures over \$50,000. The Ryobi duplicators were invoiced at \$49,500 each, avoiding the district's bidding requirement. Each of the three invoices was supported by a resolution initiated by Daniel Burns, former CMSD Chief Operating Officer. The CMSD financial audit team and CMSD officials were unable to locate the equipment noted on the invoices.

CMSD paid two additional SOS invoices totaling \$11,700 for "consulting services for copier-duplication requirements" related to the equipment for which it previously invoiced the district. These two invoices were below the district's threshold for bidding or for requiring a resolution.

Of the five invoices submitted by SOS, two were dated either the same day or one day prior to the CMSD check being issued. The remaining three checks were issued two to nine days after the invoice date.

Three of the five checks issued from CMSD to SOS were documented on the Accounts Payable Check Pick-Up Log as having been personally picked up by Mr. Burns or his assistant, Shenee McCoy-Gibbons. One of the remaining transactions had a notation on the invoice stating "hold check for pick up". There was no documentation to demonstrate whether the fifth check was personally picked up or mailed to the vendor.

Corporate Intelligence Consultants (CIC)

During the Period, CMSD paid CIC \$240,394 for background investigations and workers compensation investigations. Included in the payments to CIC were two invoices to CMSD dated June 30, 2008. One was for \$10,000 and the other was for \$49,607. Both invoice descriptions stated "case services". Steve Cotner, owner of CIC, stated to us the invoices were generated at the suggestion of Mr. Burns to establish a retainer for future investigations. CMSD officials stated to us that it was not CMSD's practice to pay retainers to service vendors.

The two invoices issued on June 30, 2008 totaling \$59,607 were not entirely supported with documented case services performed by CIC. Upon request, CIC was only able to substantiate services totaling \$38,788.

Supplement to the Special Audit Report

Other Vendors

Of the remaining 33 vendors identified for further examination, CMSD did not issue any payments during the Period to nine of the vendors. The 24 remaining vendors received a combined total of 253 CMSD checks totaling \$4,101,138. We examined the voucher packets and found no unusual patterns among the dates of purchase orders, invoices and payments; relationships between originator and approval signatures; individual dollar amounts of transactions; or nature of transactions that warranted further examination.

FINDING FOR RECOVERY

John Briggie/Superior Offset Supplies

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951) provides that expenditures made by a public entity should serve a proper public purpose.

During the Period, Cleveland Municipal School District issued three checks totaling \$148,500 to Superior Offset Supplies, Inc. for equipment the district did not receive. The district also issued two checks to Superior Offset Supplies, Inc. totaling \$11,700 for consulting services related to this equipment.

These purchases were initiated by Daniel Burns, former Chief Operating Officer of CMSD.

In accordance with the foregoing facts and pursuant to Ohio Revised Code §117.28, a Finding for Recovery for public money illegally expended is hereby issued against Daniel Burns, former Chief Operating Officer, and John Briggie, dba Superior Offset Supplies Inc., jointly and severally in the amount of \$160,200 and in favor of the Cleveland Municipal School District General Fund (\$110,700) and School Facilities Maintenance Fund (\$49,500).

Steve Cotner/Corporate Intelligence Consultants

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951) provides that expenditures made by a public entity should serve a proper public purpose.

During the Period, Cleveland Municipal School District issued two checks totaling \$59,607 to Corporate Intelligence Consultants for services unrelated to any particular case or investigation. These payments were purported to be used by CIC as a retainer. CIC produced documentation of work performed to substantiate \$38,788 of that amount. The remaining amount, for which no services were rendered, totaled \$20,819. These purchases were initiated by Daniel Burns, Chief Operating Officer of CMSD.

In accordance with the foregoing facts and pursuant to Ohio Revised Code §117.28, a Finding for Recovery for public money illegally expended is hereby issued against Daniel Burns, former Chief Operating Officer, and Steve Cotner, dba Corporate Intelligence Consultants, jointly and severally in the amount of \$20,819 and in favor of the Cleveland Municipal School District General Fund .

MANAGEMENT COMMENTS

Segregation of Duties

CMSD allowed employees and vendors to personally pick up checks from the Accounts Payable Department for employee reimbursements or vendor payments in lieu of CMSD mailing them. In some instances, the employee initiating the vendor purchase and/or his or her proxy, acknowledged receipt of the goods/services and personally picked up the check for the vendor. This condition effectively allowed one person to control the disbursement process from beginning to end.

Segregation of duties is a key element of any effective internal controls system. One individual involved in several key functions of the purchasing process increases the likelihood that errors, irregularities, misstatements, or fraudulent activity may occur and not be detected in a timely manner by management.

In their response to the Special Audit report, district officials asserted the practice of allowing employees and vendors to pick up checks has been discontinued.

Supplement to the Special Audit Report

Whistleblower Policy

Government organizations have a duty to exhibit effective stewardship over the resources entrusted to them by the public. This duty should lead to a heightened awareness on the part of each individual employed by governmental organizations of whether public resources are being administered in accordance with laws, regulations, and provisions of contracts and grants.

Whistleblower policies existing within the overall framework of an ethics policy serve as tangible evidence of an organization's commitment to locate fraud or other illegal activities wherever they may occur. These policies should provide a safety net for employees from reprisal for performing a valuable duty for the public, and are likely to serve as a preventive control over the initiation of illegal activities.

A whistleblower policy should detail to whom the employee should report such violations and how they should report them. The policy should prohibit the employer from disciplining or retaliating against the reporting employee if that employee has made a reasonable and good faith effort to determine the accuracy of the information recorded.

We recommend CMSD establish a whistleblower policy in conjunction with an updated ethics policy. In developing such policies, we recommend that input and approval be sought from the CMSD legal counsel. As with all policies, the whistleblower policy and the ethics policy should be regularly communicated to all employees.

While the district has not yet established a whistleblower policy, in their response to the Special Audit report district officials asserted they have established a fraud reporting hotline.

Supplement to the Special Audit Report

Issue No. 2 – Non-payroll Payments to Daniel Burns and Shenee McCoy-Gibbons
--

PROCEDURES

We identified all non-payroll payments to Mr. Burns and Ms. McCoy-Gibbons. We obtained and quantified the vouchers issued for the identified payments, and examined available documentation to determine whether the payments were supported, approved and for valid CMSD expenditures.

RESULTS

CMSD paid Mr. Burns \$9,600 and Ms. McCoy-Gibbons \$771 in travel and expense reimbursements during the Period. All payments were approved, supported and related to district activities.



Mary Taylor, CPA
Auditor of State

CLEVELAND MUNICIPAL SCHOOL DISTRICT
CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 15, 2009