



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	10

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INDEPENDENT ACCOUNTANTS' REPORT

John Foley, Superintendent
Daniel Romano, Treasurer
Toledo City School District
420 E. Manhattan Blvd.
Toledo, OH 43608

We conducted a special audit of the Toledo City School District (TCSD), by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period July 1, 2001 through December 31, 2008 (the Period), solely to:

- Determine whether payments to selected vendors were supported and for valid District expenditures.
- Determine whether non-payroll payments to Daniel Burns, former Chief Business Manager, were supported, approved, and for valid District 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 District expenditures.

Significant Results – We issued findings for recovery against Mr. Burns and vendor John Briggie, dba Superior Offset Supplies, Inc., totaling \$658,428 for District payments for equipment not delivered, undocumented consulting services, and duplicate billing for repairs to certain other equipment. We also issued a finding for recovery against Mr. Burns totaling \$1,571, for investigations unrelated to District operations.

We also issued three management comments to improve TCSD's segregation of duties in the purchasing process, the internal controls of its capital asset reporting system, and to consider establishing a whistleblower policy.

2. We determined whether payments to Mr. Burns were supported, approved and for valid District expenditures.

Significant Results – Mr. Burns was paid \$3,646 for travel reimbursements during the Period. With the exception of three payments totaling \$249, each reimbursement was supported, approved, and for District operations. The three unsupported reimbursements included a vision insurance reimbursement (\$5), travel to Columbus (\$111) and conference expenses where Mr. Burns submitted an estimate of costs rather than a statement of actual costs (\$133).

3. On December 22, 2009, we held an exit conference with the following individuals representing the District:

John Foley, Superintendent
Daniel Romano, Treasurer
Bob Vasquez, Board President
Lisa Sobecki, Board Vice President
Darlene Fisher, Board Member
Brenda Hill, Board Member
Angela Jordan, Administrative Assistant to the Superintendent
John Gilliland, Business Manager
Janice Kilbride, Chief Academic Officer
Carol Thomas, Executive Assistant to the Superintendent for Human Resources
Romules Durant, Assistant Superintendent of Elementary Education
James Gault, Assistant Superintendent of Secondary Schools
Diane Irving, Assistant Superintendent of Elementary Education
Patty Mazur, Director of Communication
Matt Cleland, Director, Office of Management and Budget
Cheryl Dombay, Supervisor, Treasurer's Office
Dick Ferner, Senior Accountant
Paul Overman, Director of Treasury Management
Jeff Schroeder, Director of Accounting and Finance
Anastasia Hanson, Esq., Spengler Nathanson, PLC

The attendees were provided an opportunity to respond to this special audit report. A response was received on December 29, 2009. The response was evaluated and changes were made to this report as we deemed necessary.



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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. The AOS mailed a letter to TCSD dated December 19, 2008, notifying them of the special audit. On that same date, TCSD Superintendent John Foley and Treasurer Daniel Romano requested a special audit of TCSD.

On December 3, 2009, Mr. Burns and Mr. Briggie were indicted in Cuyahoga County 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. The criminal investigation regarding TCSD in Lucas County remains in progress with the Lucas County Prosecutor's Office.

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 CMSD 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 TCSD officials to identify any unusual vendors.

Using the criteria described in the preceding paragraph, we identified 36 vendors for further examination in addition to Superior Offset Supplies, Inc. (SOS). We examined available documentation to determine whether expenditures were supported and for valid TCSD operations.

RESULTS

Superior Offset Supplies, Inc.

During the Period, TCSD paid SOS \$988,739 for 23 pieces of equipment (\$634,685), for maintenance (\$187,625), for consulting (\$50,288), and for repairs and/or supplies (\$116,141).¹

We located three pieces of equipment purchased from SOS. We were unable to locate the remaining 20 pieces of equipment identified on paid SOS invoices. This included eighteen Ryobi 3302 Copiers, a Bostitch stapler binder, and a rapid printer/folder/stuffer/finisher. During our scans of auction and school sales lists, we noted the 20 missing pieces of equipment were not included. For the equipment which could not be located, we noted Daniel Burns or his designee at Mr. Burns' direction was the originator and receiver for the related transactions. Therefore, we will issue findings for recovery against Daniel Burns and John Briggie dba Superior Offset Supplies, Inc. totaling \$584,695.

Each year during the Period, TCSD entered into a preventative maintenance agreement with SOS. In 2001, the contract was \$16,125; in subsequent years the contract was issued for \$24,500. The maintenance transactions were paid each year in a lump sum, in accordance with the contract pricing. The maintenance agreements were issued for equipment which we observed in the Administration building.

TCSD did not consider supplies as assets. Therefore, purchased supplies were not capitalized or tracked in any manner and we were unable to determine whether supplies invoiced by SOS were received by the District. Repairs were invoiced either in a generic manner or for specific equipment in existence at TCSD. There were no repair payments issued for equipment that could not be located at TCSD. However, there was one duplicate invoice submitted by SOS and paid by TCSD. We will make a finding for recovery in the amount of \$29,267 for this duplicate payment.

Two invoices for consulting services referred to specific equipment held by TCSD. The remaining eight payments were for consulting and analysis of print shop structure. There was no documentation to support such consultation occurred, or any documentation as to the outcome of the analyses. We will issue a finding for recovery totaling \$44,466 for consulting payments to SOS.

From July 2006 (following Mr. Burns' retirement) through December 2008, TCSD paid SOS only for the annual preventative maintenance agreement and not for any additional equipment, consulting, or repairs and supplies.

¹ TCSD also provided us with SOS vouchers for payments prior to the Period, totaling \$30,262. Of that amount, \$23,500 was for equipment which we verified had been delivered, and the remaining \$6,762 was for repairs and/or supplies.

Supplement to the Special Audit Report

Corporate Intelligence Consultants (CIC)

During the Period, TCSD paid CIC \$202,273 for background investigations and workers compensation investigations. Mr. Burns initiated or approved payments to CIC for background investigations into individuals who were not employees of the District.

Other Vendors

Of the remaining 35 vendors identified for further examination, TCSD did not issue any payments during the Period to 8 of the vendors. The remaining 27 vendors received a combined total of 2,385 TCSD checks totaling \$21,436,286. We examined the voucher packets and found no unusual patterns among the dates of purchase orders, invoices and payments; relationships between originators and approvals; individual dollar amounts of transactions; or nature of transactions that warranted further examination.

FINDINGS FOR RECOVERY

Equipment and Consulting Services

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.

Toledo City School District issued 12 checks totaling \$584,695 to Superior Offset Supplies, Inc. for equipment purchases not received. The District also issued eight checks to Superior Offset Supplies, Inc. totaling \$44,466 for consulting services which were not documented or supported by documentation or other evidence the services were provided. These purchases were initiated and received by Daniel Burns, former Chief Business Manager of TCSD, or his designee at Mr. Burns' direction.

In accordance with the foregoing facts and pursuant to Ohio Revised Code §117.28, a Finding for Recovery for public money illegally expended in the amount of \$629,161 is hereby issued against Daniel Burns, former Chief Business Manager, his bonding companies CNA Insurance Company (\$491,161) and the Cincinnati Insurance Company (\$138,000), and John Briggie, dba Superior Offset Supplies Inc., jointly and severally, and in favor of the Toledo City School District General Fund (\$44,466) and Permanent Improvement Fund (\$584,695).

Duplicate Invoices

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.

On March 17, 2006, Toledo City School District issued a check in the amount of \$29,267 to Superior Offset Supplies, Inc. for equipment repairs. One month later, the District received an identical invoice from Superior Offset Supplies, Inc., for the same repairs to the same pieces of equipment. TCSD then issued another check on May 1, 2006 for \$29,267, in payment of the duplicate invoice.

These purchases were initiated by Daniel Burns, former Chief Business Manager of TCSD.

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 Business Manager and the Cincinnati Insurance Company, his bonding company, and John Briggie, dba Superior Offset Supplies Inc., jointly and severally in the amount of \$29,267 and in favor of the Toledo City School District General Fund.

Supplement to the Special Audit Report

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, Toledo City School District paid two invoices totaling \$1,571 to Corporate Intelligence Consultants for services that were not for District purposes. Documents provided by CIC showed Daniel Burns, former Chief Business Manager, instructed CIC to perform these services for background investigations into two individuals who were not employees of the District totaling \$1,076, and he approved the District's payment for background investigations into three additional individuals who were not employees of the District totaling \$495.

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 his bonding company Cincinnati Insurance Company, in the amount of \$1,571 and in favor of the Toledo City School District General Fund.

MANAGEMENT COMMENTS

Segregation of Duties

During the purchasing process, the individual authorizing the purchase order (the originator), or his/her proxy, can also sign the receiving copy of the purchase order (the receiver). Inadequate segregation of duties over the purchasing process weakens the internal controls over purchasing.

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.

We recommend the District reassess the responsibility of individuals with authorization as receivers and originators of purchase orders. Specifically, the receiver should be different from the originator, including the proxy for the originator and/or receiver. The District should maintain adequate records of individuals who are authorized as originators and individuals who are authorized as receivers.

Capital Assets

The District does not use capital asset software to maintain and update additions, deletions, and depreciation. Capital Assets are currently maintained and updated by the use of spreadsheets. In addition, TCSD does not perform an annual physical inventory of the District's capital assets.

These conditions provide for inconsistencies and possible errors that could lead to misstatements of capital asset balances and misappropriation of District assets.

We recommend management consider using capital asset software to improve assurance of complete and accurate maintenance and updating of capital assets. The District should implement policies and procedures to perform an annual physical inventory of the District's capital assets.

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.

Supplement to the Special Audit Report

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.

During the course of our Special Audit field work, we suggested the District establish a whistleblower policy in conjunction with an ethics policy. In their response to the Special Audit report, District officials provided a Disclosure of Wrongful Conduct policy which was adopted by the Toledo Board of Education on September 22, 2009.

Supplement to the Special Audit Report

Issue No. 2 – Non-payroll Payments to Daniel Burns

PROCEDURES

We identified all non-payroll payments to Mr. Burns. 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 District operations.

RESULTS

The District issued 24 checks to Mr. Burns totaling \$3,646 for travel and expense reimbursements during the Period. Three reimbursements totaling \$249 were supported by information indicating they were related to District operations; however, they were not supported by documentation substantiating that Mr. Burns incurred the expenses. The remaining 21 checks totaling \$3,397 were considered supported, approved, and related to District operations.



Mary Taylor, CPA
Auditor of State

TOLEDO CITY SCHOOL DISTRICT

LUCAS 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
JANUARY 7, 2010**