STATE OF CONNECTICUT

AMITY REGIONAL SCHOOL DISTRICT # 5

INVESTIGATIVE REPORT

DISTRICT ADMINISTRATIVE AND FINANCIAL MANAGEMENT ISSUES AND THE BUDGET DEFICIT FYE JUNE 30, 2001

PREPARED BY
THE DEPARTMENT OF EDUCATION
OFFICE OF INTERNAL AUDIT
AND
THE OFFICE OF THE ATTORNEY GENERAL
APRIL 3, 2003

AMITY REGIONAL SCHOOL DISTRICT # 5

INVESTIGATIVE REPORT

EXECUTIVE SUMMARY

This report details the results of an investigation into the causes and conditions that contributed to the Amity Regional School System's deficit for the fiscal year ending June 30, 2001. In summary, our investigation disclosed:

I. Primary responsibility for the fiscal condition of the district rests with district leadership, particularly former Board of Education Chairperson Santo Galatioto and former Superintendent Rolf Wenner. Their leadership resulted in conditions over the previous few years that weakened the district's systems of oversight, accountability and controls. Individually, each of the "management environment" deficiencies summarized below and outlined in this report could have been overcome, but collectively, along with other factors, they provided a culture for the growth of the deficit. These deficiencies included:

- ? An ineffective Central Office organizational structure;
- ? Misplaced authority for financial activity that, in effect, rested with Board members rather than appropriate administrators,
- ? Lack of communication, trust and respect between two key administrators;
- ? The over-involvement of Board members in administrative detail;
- ? Failure to establish basic budgetary oversight capabilities;
- ? Divisive Board leadership;
- ? Inefficient and ineffective financial management systems; and
- ? The undue influence of litigation on everyday management and operating activities.

II. In addition to failed leadership, district management and Board members with primary responsibility for financial and budgetary oversight failed to perform this function adequately. As further detailed in this report, former Finance Director Grignano and the Budget Sub-Committee members failed to sufficiently monitor or accurately report to the full Board on the financial status of the district.

We have included as appendices to this report an analysis of the significant financial line item deficiencies in the June 30, 2001 budget deficit, which includes the nature and causes of these specific over-expenditures, as well as a chronology of the significant events relating to the budget deficit for the year ending June 30, 2001. In the process of describing our findings we discuss budget development, disharmony and morale issues in the Finance Office, "rollover" of prior year expenditures, a nominal budget freeze, and the year-end budget closeout process.

Finally, we identify various Board members and district personnel who played a role in the district's budgetary and other problems. In assessing the evidence, and in review of this report, all should recognize that certain Board members, particularly those whose initial Board terms began late in the development of the district's financial problems, had less involvement in these matters than others.

Our investigation concludes that pervasive management deficiencies on the part of the Board and district administrators, exemplified by questionable business transactions, contributed in large part to the budget deficit and resulted in a loss of the public's confidence and trust. Our findings on certain of these transactions follow:

1. While not clearly reflected in the minutes of its meetings, the Board apparently gave the district tacit approval to enter into a settlement agreement, and a coinciding new maintenance agreement, with the ServiceMaster Management Services Company to resolve various, disputed contractual issues between the parties. Although there is insufficient evidence to conclude the agreements constituted a loan, the Board apparently never approved the subsequent use of the settlement funds. Moreover, district administrators failed to deposit the settlement funds into the general fund, as they should have, but instead deposited them into a remediation project account. These failures left the public with little explanation of these transactions and whether they served the district's best interest.

2. The district entered into a loan that amounted to an ongoing line of credit with Kahn Intercorp in violation of Connecticut General Statutes, Section 10-60. A recent operational review conducted by RSM McGladrey, Inc., confirmed weaknesses in the district's administrative practices involving Kahn Intercorp transactions. The report established that the majority of equipment purchased was technology related, though there were other non-technology, related items purchased. Nonetheless, all of the equipment and services purchased with the subject funds appear to have been received and used within the district.

3. Members of the Board and administration engaged in improper business relationships with district vendors, demonstrating ethical lapses in judgment by individuals entrusted with public funds.

RECOMMENDATIONS FOR CORRECTIVE ACTION OR OTHER IMPROVEMENTS

Based upon the findings and conclusions contained in this report, we recommend that:

1. The district's current Superintendent, Dr. Helene Skrzyniarz, and current Director of Financial Services, Keith McLiverty, continue the process of addressing the financial management findings and recommendations contained in the New England Association of Schools and Colleges (NEASC) accreditation reports, as well as various audits and reviews conducted to date in the district;

2. Town officials and Board members continue to support these administrators in their efforts to implement financial and administrative system improvements, including any recommended by the district's current audit firm;

3. The Amity Board of Education (ABOE) conduct a review of Board policies and procedures, using guidance available from the Connecticut Association of Boards of Education (CABE), and update such policies and procedures including, the requirements for maintaining minutes of Board Sub-Committee meetings;

4. Once Board policies and procedures are updated, distribute them to each Board member and new Board members as they join the Board;

5. The ABOE establish an orientation program for new Board members and for members assigned to specific sub-committees to ensure such members understand fully their roles and responsibilities;

6. The ABOE review and define the objectives and responsibilities of the Budget Sub-Committee and the Audit Oversight Committee;

7. The Audit Oversight Committee be used to facilitate the ABOE's oversight of the financial reporting process and internal controls, encourage management to employ good business practices and challenge poor practices, and provide outside auditors with a source, independent of direct management, to share audit results;

8. The tri-town Financial Advisory Panel (FAP) consider establishing formal objectives and policies to guide their actions in relation to the ABOE;

9. The FAP record formal minutes at its meetings and distribute them to all interested parties;

10. The ABOE and district administration review, strengthen and distribute annually to Board members and district personnel the Code of Ethics, which code should include detailed written explanations of acceptable and non-acceptable behavior;

11. The ABOE and district administration establish a process and procedure for reporting unacceptable activities that includes the protection of anonymity;

12. The ABOE and district administration review and update contract provisions controlling ethical conduct by contractors and vendors, and include such provisions in all contracts;

13. The ABOE consider referring its former attorney to the State Judicial Branch's Statewide Grievance Committee for her actions in connection with her representation of the district; and

14. The district implement a policy of periodic rotation of its independent CPA firm.

AMITY REGIONAL SCHOOL DISTRICT # 5

INVESTIGATIVE REPORT DISTRICT ADMINISTRATIVE AND FINANCIAL MANAGEMENT

INTRODUCTION

The Amity Regional School District #5 ("the district") was formed in 1953 for the purpose of providing secondary school education to the residents of the towns of Bethany, Orange and Woodbridge. The district operates three secondary schools consisting of junior high schools located in Orange and Bethany and a high school located in Woodbridge. The administrative offices of the district are located in the high school.

Based upon the district's Strategic School Profile for 2000-01, student enrollment totaled 2285 pupils comprised of 1215 students at the middle schools and 1070 students at the high school. The district is classified as Education Reference Group (ERG) B. The State Department of Education ranks Regional District # 5 member Towns within the wealthiest town groups.

The Amity Regional Board of Education (ABOE) consists of thirteen members and is responsible for governing the school district. The ABOE members are selected from the member Towns and serve four-year terms. Management of the day-to-day operations of the district is the responsibility of the Superintendent of Schools. Financial affairs of the district are managed through the Director of Financial Services.

The member Towns pay the district's operating and debt service expenses in proportion to the numbers of attending students. As a governmental reporting entity, the district prepares and issues financial statements in accordance with generally accepted accounting principles applicable to such entities. An independent CPA firm audits these financial statements each year. In addition, the district is subject to the provisions of the Federal and State Single Audit Act with regard to Federal and State grants.

This report represents the results of an investigation of certain issues and allegations concerning the administrative and financial management of the Amity Regional School District # 5 that surfaced after the disclosure of a budget deficit for the district in the fiscal year ending June 30, 2001. The State Department of Education's Office of Internal Audit and the State Office of the Attorney General conducted the investigation jointly.

OVERVIEW OF EVENTS

In August 2001, the newly hired Director of Financial Services revealed a budget deficit for the Amity Regional School District # 5 for the fiscal year ending June 30, 2001, amounting to approximately $1.2 million dollars, with a projected deficit of $1.1 million for the fiscal year ending June 30, 2002. The disclosure of the deficit after the close of the June 30, 2001 fiscal year was unexpected, and resulted in concerns among the member Towns regarding the deficit's causes, how to address it and what corrective action should be taken to better monitor the financial activity of the district.

The size of the deficit required the passage of a referendum by taxpayers to fund the shortfall, and triggered a series of events over the next few months that led to the resignation of the Superintendent of Schools and to the performance of several audits and investigations. Most notably, in November 2001, the member Towns established a special six-member Tri-Town Investigative Committee (TTIC), to investigate the causes of the deficit, identify operational flaws and persons responsible, and make recommendations for improvements. The TTIC hired a former federal investigator to conduct interviews, and an accounting firm to perform an Agreed-Upon Procedures Engagement in accordance with standards established by the American Institute of Certified Public Accountants.

An agreed-upon procedures engagement is one in which a CPA is engaged to issue a report of findings based upon specific procedures performed on a subject matter. Generally, the client and the CPA agree upon the procedures to be performed by the CPA. In this case the agreed-upon procedures were developed in coordination with the TTIC and the former federal investigator hired by the TTIC to conduct interviews. This type of engagement is not an audit or review and the CPA does not provide an opinion. Instead, as in this case, the report is in the form of procedures conducted and associated findings. The client or other specified party assumes the responsibility for the sufficiency of the procedures, which in this case was the TTIC.

The CPA firm issued the 32-page agreed-upon procedures report to the TTIC on January 26, 2002. The investigator issued his 15-page report to the TTIC on January 30, 2002. The TTIC report, issued in March 2002, contains the prior two reports as exhibits and provides a five-page synopsis of findings and recommendations of the TTIC concerning the district's June 30, 2001 operating deficit. The TTIC report and exhibits disclose the specific line items of the budget in which over-expenditures occurred, as well as expenditures that appear to violate Board policy, prudent business practices and State and Federal laws.

The TTIC report identifies the "responsible parties" as the former Superintendent, the former Director of Finance and all of the ABOE members who were on the Board for the full twelve-month period ending June 30, 2001. The report points to both administrative and fiscal mismanagement as leading causes for the deficit condition, along with a failure in Board oversight. The report concludes with a recommendation that the Board members resign.

Subsequently, certain ABOE members did resign, although four individuals noted in the TTIC report, who were on the board from July 1, 2000, to June 30, 2001, remain on the Board, including the former Board Chair, Santo Galatioto. Mr. Galatioto announced his intended resignation last week, conditioned on ratification of his proposed settlement agreement by the three towns' boards of selectmen. The district has seen thirteen budget referenda votes fail since the disclosure of the deficit condition and the various associated issues. In addition, the Director of Financial Services retired at the end of the 2000-01 year and the Superintendent resigned somewhat later. A new Superintendent and Director of Financial Services currently serve the district.

STATE DEPARTMENT OF EDUCATION/OFFICE OF THE ATTORNEY GENERAL ACTION STATUS

The Commissioner of the State Department of Education (SDE) met with the First Selectmen of Bethany, Orange and Woodbridge on November 12, 2001 to continue discussions initiated in September 2001 concerning the district's financial situation in an effort to identify an appropriate course of action. That meeting resulted in the development of six resolutions, including the following two, supporting a Tri-Town based investigation of the deficit condition:

> Endorse the formation of the Tri-Town Amity Investigation Committee and its charge as adopted November 1, 2001;
>
> Commit to implement the recommendations of the Tri-Town Amity Investigation Committee related to improving the financial management of the district, and take other action as necessary…

The ABOE passed the six resolutions at their November 13, 2001 Board meeting, in part to obtain support for an upcoming referendum to fund the deficit.

In addition to the initiation of the Tri-Town investigation into the district's financial management of the budget, the district's independent CPA firm of Scillia, Dowling and Natarelli, LLC, issued its audit report, dated November 14, 2001, on the general purpose financial statements of the Amity Regional School District and the Federal and State Single Audit Reports for the year ending June 30, 2001. Those reports were transmitted to the SDE's Office of Internal Audit on December 17, 2001.

The SDE's Office of Internal Audit (OIA), in accordance with its requirements and responsibilities assigned under the Federal and State Single Audit Acts, conducted a desk review of these audits and requested a corrective action plan from the district on February 1, 2002. The Interim Superintendent for the district responded with a corrective action plan on February 22, 2002.

During March 2002, after the TTIC issued its report, the Commissioner of Education arranged to have the district's financial management system reviewed by a team of retired superintendents associated with the Connecticut Association of School Business Officials (CASBO). The CASBO Pro-Team's review recommended improvements in a report issued in late April/early May 2002. The Interim Superintendent prepared a corrective action status response for the ABOE, dated May 13, 2002, summarizing corrective actions taken up to that date.

In May 2002, Woodbridge Board of Finance members prepared a packet that identified alleged various instances of neglect and financial and administrative mismanagement within the district, including alleged violations of state statutes. This packet was forwarded to the State Department of Education's Office of Internal Audit with copies to the State Office of Policy and Management.

On June 12, 2002, the Commissioner of Education referred the allegations to the Attorney General's Office for guidance concerning possible violations of law. At the same time, the SDE Office of Internal Audit continued its review of certain of the allegations. In a memorandum issued on July 30, 2002 to the Commissioner of Education, the OIA detailed the results of that review, which included the following conclusions and comments:

> While "willful" neglect cannot be confirmed by the scope of our review, certainly some level of neglect to take corrective action in a timely manner is evident. Timely corrective action could have led to early identification of the deficit condition and provided time to take action to minimize or reduce the impact of the deficit.
>
> Both the Rusconi report and the district's independent CPA firm confirm that the budgetary reporting process lacked accuracy and accountability. The Board's Budget Committee reported to the full Board that there were no problems with the year-end budget as late as July 9, 2001 after the close of the fiscal year.
>
> We concur with the allegation that the (Kahn Intercorp) transaction is a loan arrangement.

The OIA also noted that issues involving the Kahn Intercorp transactions and ServiceMaster agreements would be subject to further review in accordance with the SDE's referral to the Attorney General's Office and that it had referred issues associated with the use of the district's tax-exempt number to the State Department of Revenue Services. Finally, the OIA stated that it would continue to be involved with the district in the areas of audits of school construction projects, monitoring of corrective action implementation of the district as required under the State and Federal Single Audit Acts, and assisting as needed in investigations conducted by other agencies.

On September 27, 2002, Attorney General Richard Blumenthal provided an initial response to the matters referred by Commissioner Sergi. The Attorney General expressed his opinion that the Kahn transaction violated Conn. Gen. Stat. Section 10-60, which prohibits the regional school districts from borrowing over $500,000 without the approval of a district meeting.

The Attorney General also noted a need to review further certain issues associated with the district, including the ServiceMaster transactions. Analysis of these issues required, however, a broader evaluation of the district environment and activities that ultimately resulted in the budget deficit, as many of the issues were interrelated. As a result, the SDE and the Office of the Attorney General have conducted a joint investigation, as reflected in this report.

PURPOSE AND SCOPE OF THIS INVESTIGATION

Based upon the responsibilities of the SDE in connection with the State and Federal Single Audit Acts and the issues identified by the State Attorney General's Office as warranting further review, the SDE and the Office of the Attorney General have conducted this joint investigation. The purpose of our investigation was to determine the underlying causes of the Amity Regional School System's deficit for the fiscal year ending June 30, 2001 including, but not limited to:

? Identifying significant factors that contributed to the deficit and the issues related to those factors;

? Evaluating the management environment at the district for the period of time leading to the disclosure of the deficit and the relationship of that management environment to the deficit condition;

? Evaluating the circumstances associated with the ServiceMaster custodial, plant operations and maintenance support management, and settlement agreements, including the nature of the transactions, the budgetary impact, the ABOE approval process, and the recording and use of settlement proceeds; and

? Determining the nature of the district's financial transactions associated with the Kahn InterCorp of Farmington, and whether those transactions were for education-related equipment and supplies.

During our investigation, we examined available relevant documentation, including but not limited to the following reports:

? Audit reports and supporting work papers prepared by the district's independent auditors, Scillia Dowling & Natarelli LLC, for the 6/30/00 and 6/30/01 fiscal years concerning the general purpose financial statements and the Federal and State Single audits, including corrective action plans;

? The Agreed-Upon Procedures report and supporting work papers prepared by the CPA firm of Burzenski and Company, P.C. dated January 26, 2002;

? The RSM McGladrey, Inc. [the "Rusconi Report"], dated November 21, 2000;

? The TTIC report;

? The New England Association of Schools and Colleges (NEASC) Accreditation Report of 10/4-7/1998;

- ? The February 11, 2003 ABOE Special Review Sub-Committee report and associated documentation obtained during its review which pertained to the budget deficit and ServiceMaster issues; and

- ? The preliminary draft report on the operational review of the Kahn agreements prepared by RSM McGladrey in February 2003.

We also examined ABOE documents associated with the matters under investigation including, but not limited to, ABOE meeting minutes, Facilities Committee meeting minutes, Treasurer's reports, ABOE policies and procedures manuals and other relevant documents and correspondence.

In addition, we reviewed district financial and accounting records relevant to matters under investigation including, but not limited to, ledgers, payment lists, purchase orders, invoices, contracts, settlement agreements, referendums, checks, bank account statements, personnel records, district purchasing procedures and policies, correspondence and other financial and administrative documents.

As part of our investigation, we also conducted interviews with certain ABOE current and former members, current and former district administrators, employees, contractors and vendors. We interviewed the current first selectmen of the three district towns. We reviewed the interviews conducted by Mr. Patoka, the investigator for the TTIC. Finally, we met with officials of the Connecticut Association of Boards of Education (CABE) to review "best practices" developed by that organization for use by boards of education and their members.

We reviewed these documents and conducted these inquiries to the extent we considered necessary to confirm relevant information, evaluate the nature of certain transactions, and understand the operating environment of the district. Our investigation was hampered by the fact that the ABOE did not record minutes of their executive sessions or Budget Committee meetings. Moreover, although we received some cooperation from contractors and vendors doing business with the district, the Board's attorney during the events at issue, Carole W. Briggs, declined to discuss her involvement with the district due to the pending litigation between the district and her firm. Despite these limitations, we believe the scope of the investigation was sufficient to arrive at the conclusions reached in this report.

Finally, we have referred certain matters identified during our investigation, including allegations of criminal activity not within our authority, to other state agencies that have appropriate jurisdiction over the matters referred.

FUTURE AUDIT CONSIDERATIONS

The State Department of Education's Office of Internal Audit will be conducting an audit of the Amity High School Extension/Alteration Project # 205-0036 in accordance with responsibilities assigned under Chapter 173 of the Connecticut General Statutes. This investigation did not include an audit of the project costs associated with this school construction project or other State funded projects.

As part of oversight responsibilities under the State and Federal Single Audit Acts, the Office of Internal Audit will also be monitoring corrective action implementation planned by the district to improve its financial management system and to address specific findings in the single audit reports. In addition, consistent with our responsibilities, we will monitor certain financial management corrective actions planned by the district in response to other operational and special reports.

Finally, we recognize that system improvements are in process, and are being planned and implemented by the district's current management team. The district's current independent CPA firm is in the process of conducting an audit of the financial statements for the district for the 2001/02 fiscal year, and this report should provide the district with further guidance by identifying areas that warrant attention in the district's continuing approach to improving financial and management systems.

Causes and Conditions Contributing to the Amity Regional School System's Budget Deficit for the Fiscal Year Ending June 30, 2001

Management Environment

Based upon evidence obtained during our investigation, it is apparent that the management climate and culture of the district at the time contributed significantly to conditions that allowed the budget deficit to occur and not be detected in a timely manner. As used in this context, management environment refers to the management structure and controls established and in place to ensure accountability for results and effective control over expenditures. In general, these controls include the district's organizational structure and operating policies and procedures. An effective management environment should include appropriate lines of authority and responsibility, defined levels of reporting, and accountability and management oversight.

Organizational Structure

The Amity Regional School District's organizational structure, as of November 2000, is illustrated in Exhibit A, a copy of the Amity Regional School District No. 5 Central Office Organizational Structure, prepared as part of the operational review conducted by RSM McGladrey, Inc. [the "Rusconi report"]. The chart identifies the Superintendent of Schools, Dr. Rolfe Wenner, as having a typical duty to report to the ABOE. However, the rest of the Central Office structure was "excessively flat" with eight of the seventeen Central Office staff reporting directly to the Superintendent, in addition to three school principals who reported to the Superintendent. The Rusconi report observed that:

> The challenges presented by the relatively large number of individuals reporting directly to the Superintendent complicates the organization of the Central Office and the Superintendent's effectiveness since these individuals have varying levels of responsibility and authority. The result is the Superintendent is overburdened with supervisory responsibilities, and some Central Office personnel do not receive the supervision necessary to direct and prioritize their work on a day-to-day basis.
>
> The public's expectations of the Central Office are high, however the current organizational structure impedes the ability of the Superintendent and the Central Office to meet these demands.

As to financial administration, the Director of Financial Services, Vincent Grignano, had responsibility for managing the daily financial activities of the district. This included management and supervision over the district's accounting functions, budget preparation and monitoring. On paper, at least, as is typical, the Director of Financial Services was to report to the Superintendent of Schools. The effectiveness of this reporting relationship is generally a cornerstone of any school district's financial administration system and, to be effective, should be grounded in trust, respect and adherence to lines of authority.

Our investigation indicates that this reporting relationship was never properly established at the time that Superintendent Wenner was hired in March 1998 and had deteriorated significantly by the time Mr. Grignano retired in June 2001. The genesis of this flawed reporting relationship was established when the Superintendent was hired in 1998 and was advised that he should focus his efforts on academic achievement and enrollment issues. The Chairman of the ABOE at the time, Santo Galatioto, advised the Superintendent that the district had a long-term trusted Director of Financial Services who had firm control over managing the financial matters of the district and, as a result, the Superintendent could comfortably minimize his involvement in the financial management area and focus on academics and enrollment. Messrs. Wenner, Galatioto and Grignano, as well as other Board members, all confirmed this general understanding, although Mr. Galatioto asserts that this general understanding was not a directive for the Superintendent to disregard financial issues considered to be within the responsibility of the Superintendent as Chief Administrative Officer.

According to Mr. Grignano, Mr. Galatioto advised him that the new Superintendent, Rolfe Wenner, lacked strong administrative skills, an opinion apparently shared by certain members of the Central Office and the ABOE. This perception was reinforced by the fact that Superintendent Wenner accepted a diminished role over the financial administration of the district, setting the stage for the ABOE to become more directly involved in the administration and financial management of the district. So, while the district organizational chart identified the Director of Financial Services (Finance Director) as reporting to the Superintendent, in reality the Finance Director reported to the ABOE through the ABOE Chairman and certain Committee Chairs. Both Superintendent Wenner and Finance Director Grignano confirmed this understanding. These circumstances were also noted in the Rusconi report:

> Communications between the district's Board of Education (including its Committees) and Central Office staff are not coordinated and controlled in a manner that allows the Superintendent to effectively execute and control management initiatives…Board and Committee members regularly interact directly with relevant Central Office staff to obtain information needed to prepare for meetings and make policy decisions.
>
> As a result, day-to-day work of Central Office staff is often dictated by the requests of Board members without any coordination through the Superintendent. While this practice evolved out of practicality and expediency, it appears to have become counterproductive and has promoted confusion.

Thus, because the finance director knew that Mr. Galatioto considered the superintendent's administrative skills to be weak, the level of respect and ultimately trust between these two key administrators appears to have been damaged from the beginning of their working relationship, and the superintendent never attained the appropriate level of authority over Mr. Grignano. This damage was to grow more extensive into the 1999/2000 fiscal year and into the deficit year of 2000-2001.

The ABOE's Role

The ABOE, comprised of thirteen members from the three towns and serving staggered four-year terms, had its own organizational and operational shortcomings, contributing to the poor management environment. (See attached Exhibit B, listing current Board members; and Exhibit C, a historical summary of Board members and their subcommittee membership.)

According to Section 9121 of the ABOE Bylaws, the Chairperson "shall preside at all Board meetings; shall perform all duties imposed by State statutes; and perform other duties as may be prescribed by law or by action of the Board." The ABOE Chair is also charged with making sub-committee chairperson appointments and acting as a liaison between the ABOE and the Superintendent of Schools.

The ABOE relied upon committees to conduct a significant amount of its work. Board committees include the budget, building, facilities, curriculum, executive, communications, personnel and policy committees. The Board Chair can also appoint special and temporary committees. Section 9130(b), paragraph 3 of the Board Bylaws identifies the purpose of committees and states, in part,

> A committee is required to review all matters within the domain of its defined responsibility and report to the full Board its findings, recommendations, or alternatives.
>
> No Committee is to take unilateral action unless the full Board is cognizant of the matter and has given authority to a Committee to act within certain specified bounds.

A properly functioning budget committee is, of course, critical to advising the full Board on budgetary decisions. Where, as in this case, a board of education relies heavily on its committees, the proper functioning of those committees takes on an even greater importance. Nevertheless, our investigation revealed that the ABOE Budget Committee was ineffective in fulfilling its responsibilities to the full Board. The roles and responsibilities of the Budget Committee were not clearly defined in terms of budget preparation and monitoring of expenditures. Budgetary reports prepared for and used by the Committee were inadequate to monitor the budget as detailed further in this report under "Other Management Environment Conditions." In addition, the Committee limited its involvement to the General Fund, and did not seek or obtain financial information concerning the status of the Capital and Special Revenue Funds. All these failings contributed to the Budget Committee's inability to provide the Board with an ongoing assessment of the fiscal status of the district.

The Committee also failed to record minutes of its meetings. Thus, although we were able to obtain agendas for meetings, Budget Committee minutes were not available. Budget Committee Chair Patrick Luddy and Committee member Patricia Logioco, a 14-year member of the Committee, believed that the Finance Director was taking notes or preparing minutes of these meetings, but neither Committee member ever confirmed this fact or obtained minutes. Apparently, the full Board never required such minutes and the Board Chair never requested copies. The Policy committee did not consider it within its area of responsibility to ensure that Budget Committee minutes were prepared. The ABOE Policy Manual, Section 9130(c), paragraph 4 states, in part, "[m]inutes do not have to be kept of each meeting of those standing committees which constitute less than a quorum of the Board, …, however, some record keeping is encouraged." However, notwithstanding the local policy manual, Connecticut General Statutes Section 1-225 (a) requires the recording of minutes of committee meetings of all public agencies (except executive sessions) where a quorum of the committee is present. As a result of the lack of minutes, we cannot confirm what was discussed at the Budget Committee meetings, who attended, or if that attendance constituted a quorum. Based upon our interviews with Board members, however, Budget Committee meetings were poorly attended. This further reduced the effectiveness and accountability of the committee, and has hampered efforts at pinpointing causes of the deficit.

Chairman Galatioto appointed Mr. Luddy the Budget Committee Chair at the end of 1999. The Board provided the committee with no formal orientation concerning its responsibilities, the financial administration's structure, or the role of the committee chair. As Mr. Luddy had never served on the Budget Committee before and intended to leave the Board at the end of the term, he was reluctant to accept the charge. As a result, Mr. Luddy chair relied heavily on Finance Director Grignano for information and advice .

In addition, according to the Bylaws of the Board, Section 9000(a),

> The Board of Education shall concern itself primarily with broad questions of policy, rather than with administrative detail. The application of policies is an administrative task to be performed by the Superintendent and school system staff, who shall be held responsible for the effective administration and supervision of the entire school system.

Section 9010 goes on to describe the limits of authority as follows:

> It should be noted that the Board has authority only when acting as a body legally in session. Individual members of the Board have no authority except when acting at the expressed direction of the Board.
>
> The authority and responsibility of individual members do not extend to the execution of the policies that they adopt as a body.
>
> The role of the Board, as with any legislative body, is to act collectively, not individually. Individual members have no status as, and should not attempt to act as, administrators of the district.

Despite these admonitions, there is evidence that members of the ABOE were quite involved in administrative details. The effects of this level of involvement were chronicled as early as October 1998, in the Amity Regional High School accreditation report prepared by the New England Association of Schools and Colleges (NEASC). One of NEASC's standards for accreditation involves the operation of the district's administration, faculty and support staff. The standard requires, in part, that "[t]here shall be cooperative relationships among the school board, Central Office, the school administration, faculty, and support staff." On this issue, NEASC observed in its October 1998 report :

> Relations between the board and the faculty are strained by concern with the extent of the board's involvement in the day-to-day operations of Amity Regional High School. The board must reassess its governance and policy-setting role to diminish the perception that it is micromanaging the day-to-day operations of the high school…

The report recommended that a process be developed between school officials and the school board to clarify and ensure the appropriate role of the school board as the district's policy-making body. Further, under "School Climate," the report cautioned :

> Lack of effective communication at all levels (between staff, administration, board of education, different student constituencies) has contributed to low morale. … The communication issues at Amity, while not yet affecting student performance or pride, is eroding the quality of the system.

As noted earlier, evidence of Board members' involvement in the day-to-day activities of the district administration was also described in the Rusconi report in November 2000. Our investigation revealed a lack of compliance with the bylaws discussed above by certain Board members, principally Chairman Santo Galatioto and Steven Ledewitz. Their participation in administrative detail contributed to a blurring of authority and responsibility over financial management functions. Further, direct Board member involvement in administrative reporting relationships negatively impacted morale among administrators and staff. In addition, many Board members characterized Board leadership during the period leading to the deficit year as efficient in conducting Board meetings, but uncompromising and heavy-handed in communicating with other Board members, administrative staff and the public. This approach appears to have contributed to polarization of Board members into factions. As a result, the Board lacked positive communication channels with the district administration and among themselves, which significantly reduced the Board's effectiveness in the leadership and oversight of district activities.

Other Management Environment Conditions

In addition to this dysfunctional management environment at the district, other conditions contributed to ineffective oversight and accountability in financial matters, as follows.

? ***Inefficiently Designed and Ineffectively Utilized Financial and Information Systems***

The Rusconi report of November 2000 noted the following deficiencies:

> Multiple financial systems that lacked integration and coordination;
>
> A financial systems configuration that required significant manual intervention in order to produce meaningful financial reports and analyses;
>
> Special education grant funds and building project funds that were disbursed manually from checkbooks and recorded on a non-integrated Peachtree Accounting system;
>
> Managers maintaining manual spreadsheets to track budgets rather than relying on the MUNIS financial management system;
>
> A lack of training and cross training on financial accounting systems for key district personnel;
>
> A lack of segregation of duties over some financial functions; and

Development of the district's budget each year using manual spreadsheets, instead of using the analytical capabilities of the MUNIS system.

The Rusconi report also made the following significant observations concerning budgetary controls, reflecting certain critical inadequacies in the district's financial management environment:

Design of the operating procedures did not provide information for decision-making on a timely basis, and the required manual interventions increasing the likelihood of errors;

Budgetary reporting was not as timely or as accurate as it should have been due to deficiencies in the district's implementation of the Munis System and operating procedures;

Formal procedures were lacking to regularly monitor the district's budget and ensure compliance with budgetary controls.

Budget information was not immediately available for decision-making, and accountability for budget management was absent or misplaced;

Goods and services were often ordered by district personnel without proper Central Office approval, or by circumventing the budgetary controls in place; and

Personnel hiring decisions were not consistently made within the context of detailed discussions regarding their impact on the district budget and the offsetting budget reductions that they necessitated.

The report recommended careful coordination of the personnel hiring process and preparation by the Central Office of supplemental reports of purchases and expenditures related to the district's building projects and facilities management for the Board's Facilities and Services Committee, so that members of the Committee would be better able to monitor this activity. The Rusconi report did note that the district's finance and accounting personnel had done a "laudable job" of operating and maintaining the district's multiple financial management systems.

We believe that the Finance Director, an 18-year veteran of the system, was sufficiently experienced with the district's accounting system to operate it despite its weaknesses, provided all other conditions associated with the management environment were stable. However, as this report has described, and will further chronicle, the management environment of the district, both prior to and at the time of the deficit, was far from stable.

? ***Management Stability and Continuity***

The departure of a long-term superintendent also contributed to the district's problems with oversight and accountability. In 1996-1997, the district's superintendent of approximately twenty years retired on very short notice. It has been suggested that the Superintendent's departure was linked to the increasing Board involvement in administrative detail, particularly on the part of Messrs. Galatioto and Ledewitz. Indeed, the Superintendent decided to leave not long after Mr. Galatioto became Board chair.

Our investigation suggests that the former superintendent and the Finance Director had a positive working relationship that reflected appropriate levels of authority and delegation of duties. It is thus not surprising that the disruption of this long-term relationship exacerbated the weaknesses in the financial management system and, in part, contributed to the district's deficit.

? ***Environmental/Air Quality Issues and the District's Attorney/Client Relationship***

During this critical period, the district was involved in several lawsuits with various contractors and individuals concerning a school renovation project at Amity Regional Senior High School. In one of the suits, the district asserted breach of contract and negligence claims against the general contractor, Atlas Construction Company, and several other contractors who had worked on the project, alleging damages including air quality and environmental problems. This litigation [hereinafter, "the Atlas litigation"] had a major effect on everyday management and operating activities of the district because the estimates of potential dollar recovery were significant (some estimates as high as $10-$15 million, although the suit was recently settled for about $2.7 million). As a result, normal administrative practices were sometimes subject to an additional layer of administrative detail in an effort to avoid circumstances that might jeopardize the district's claim. For example, the Board required that its attorney approve bills from certain vendors before the district Finance Office was permitted to pay them.

The Board's attorney, Carole W. Briggs, whom the Court eventually disqualified from representing the district, is currently the defendant in a lawsuit brought by the district alleging excessive billings for her services. The evidence reveals that the Board and the Superintendent allowed Attorney Briggs to become overly involved in the day-to-day operations of the district because of their perception that such involvement was needed to protect the district's interest in the litigation. The attorney's daily involvement was negatively perceived within the district's Finance Office and contributed to low morale and disharmony within the Central Office. It is quite possible that this over-involvement contributed to the alleged over-billing.

? ***Financial Advisory Panel (FAP)***

The overall management environment includes the activities of the local Financial Advisory Panel [the "FAP"]. The FAP is comprised of the First Selectmen of the district's member towns, appointees from the towns' Boards of Finance, the Chairman of the ABOE and the Chairman of the ABOE's Budget Committee. In addition, the district's Finance Director attends the meetings, as may the Superintendent or other district administrators. Primarily, these meetings focus on budget issues, especially the preparation of the next budget, however, discussion has also included pending litigation and other matters. These meetings are reportedly a forum to keep the responsible town officials informed of the district's financial and other matters.

We found, however, that the FAP's purpose and function is not so clearly articulated. Goals, objectives, policies and procedures associated with the panel have not been developed. Although agendas for meetings of the FAP are posted, the FAP does not maintain minutes of their meetings or executive sessions. As a result, the committee's role in advising and monitoring of district budget and financial matters is not clear.

Areas Affected by Failed Leadership and Deficient Management Oversight, Accountability and Controls

I. Service Master Agreement

The district has had an agreement with ServiceMaster Management Services Company since July 1, 1988, to provide support management services for custodial, plant operations, maintenance and certain grounds maintenance. Beginning in 1999, the district claimed performance deficiencies on ServiceMaster's part, including its failure to comply with certain terms of their agreement involving the keeping records and logs of routine inspections; performance of certain maintenance functions (including cleaning filters, cleaning HVAC system and flushing drains); obtaining the district's prior approval before contracting out certain services (e.g., plumbing, roofing, locks, glass); addressing overtime issues; holding and attending monthly meetings with review committee; and submitting plans for preventative maintenance and cost savings.

Ostensibly to resolve these contract performance disputes, the Company and the district entered into a settlement agreement and release on June 16, 2000. The agreement provided that the district was to be paid $400,000 at the time of the agreement and another $230,000 on February 1, 2001. The Company also forgave the district's accounts receivable due to the Company in the amount of $96,473.52 . The total monetary benefit to the district amounted to $726,473.52. For its part, ServiceMaster received indemnification from the district in the Atlas litigation. It is undisputed that the district used most of the funds it received from this settlement to pay for unbudgeted expenses, including approximately $300,000 in legal expenses for Atty. Briggs, $200,000 for building repairs and $100,000 for architectural services.

At the same time that it executed the settlement with ServiceMaster, the district also entered into a new agreement with the Company, which renewed the old contract, but changed the terms and increased its payment provisions. Specifically, the new contract added a full-time administrative assistant (which had previously been part-time), increased the manager's salary, guaranteed a ceiling for payroll costs (resulting in $60,000 annual savings for first two years of the new contract), added certain service guarantees and included provisions specifying that ServiceMaster was responsible for maintaining an additional 55,000 square feet (total square feet went from 343,619 to 399,220, and included added responsibility for a field house). The overall annual cost increased from approximately $184,330 for the 1997-2000 contract to approximately $293,004 for the 2000-2003 contract. Previous contractual increases since the first contract in 1988 (before the settlement and 00-03 contract) had ranged from 2.5 % to 5% annually.

Perhaps inevitably, the receipt by way of settlement of such a significant amount of money from ServiceMaster -- which the district used for unbudgeted expenses, including nearly half of it going to pay Attorney Briggs' bills -- coinciding as it did with the renewal of the district's contract with ServiceMaster at a significantly higher annual rate drew criticism and intense scrutiny. Specifically, Woodbridge Board of Finance members alleged in their June 12, 2002 referral, and the Tri-Town Committee Report suggested, that the two agreements represented, in effect, a loan to provide cash needed by the district to pay unbudgeted expenditures, and that the district had entered into the settlement without Board approval and in violation of various state statutes.

A number of individuals we spoke to denied that the settlement was in fact a disguised loan. Rather, they contended that notwithstanding the questionable timing of the two transactions, there were, in fact, sound business reasons that justified both settling past contract performance disputes between ServiceMaster and the district, and entering a new contract that paid ServiceMaster over 60% more per year. The timing of the new three-year agreement, including an early termination provision of the old contract to coincide with the settlement agreement, is explained as having been necessary to the settlement itself to protect ServiceMaster against contract termination by the Amity School District after the district obtained the settlement funds. The higher cost of the new three-year contract was explained as being necessary because the district desired improved performance by ServiceMaster, resolution of certain system maintenance issues, reductions in overtime costs and other improvements. In fact, the new contract required that ServiceMaster maintain approximately 55,000 more square feet attributable to building extensions. Further, a district analysis of custodial salaries and overtime revealed a reduction of about $60,000 in such costs to the district for the first two years under the new contract with ServiceMaster.

In addition, Attorney Briggs advised the ABOE that it was critical to a positive outcome in the Atlas litigation that the district maintain a positive relationship with ServiceMaster, lest Atlas succeed in blaming ServiceMaster for the problems associated with the faulty construction and poor air quality. As previously noted, the Atlas litigation and its potential monetary benefits drove many of the district's administrative decisions. In brief, the Board had claimed in its suit against Atlas that the renovation and construction at the high school was defective and contributed to air quality problems at the school. Apparently, Attorney Briggs was concerned that disclosure of ServiceMaster's building maintenance problems could be detrimental to the litigation. Indeed, the Court ultimately disqualified her from further representation of the district because of her failure to disclose to Atlas an engineering report attributing the problems, in part, to maintenance practices and humidity levels at the high school, for which ServiceMaster would have had some responsibility.

Thus, both the district and ServiceMaster had reasons for settling alleged disputes. The Company wanted to settle issues to avoid litigation and, at the same time, to maintain its contract with the district. For its part, the district wanted to maintain a positive relationship with ServiceMaster to avoid disruption of the Atlas litigation. The two agreements were, therefore, described to us as designed both to provide settlement funds and to ensure that the district maintained the contractual relationship.

Ultimately, we cannot conclude with any certainty whether the new ServiceMaster contract with the Company benefited the district. Although there appear to be cost savings and other provisions that could have provided a basis for some of the increased cost to the district under the agreement, it is not clear whether those savings and increased duties justify a 60% increase in a contract with a vendor with whom the district had such serious performance complaints. Moreover, the purported impact on the Atlas litigation is also difficult to evaluate both because of its inherently subjective and speculative nature, as well as because the pursuit of that litigation is clouded by Attorney Briggs' conduct and billing issues.

What is clear is that the Board did not make sufficient efforts to make a record of these transactions that would explain how they benefited the district, and the Board's depositing and expenditure of the settlement funds were legally defective. This lack of transparency and failure to follow proper procedures are both emblematic of how the district's finances were run, and led to the lack of confidence in the district's leadership and to charges of impropriety, including claims that the transactions were a loan.

Although Board minutes of April 10, 2000, indicate approval of the new annual support service contract between ServiceMaster and the Board and authorization for the Chairman of the Board to sign the agreement on the Board's behalf, the settlement agreement is not specifically noted. Furthermore, discussion of the settlement agreement with ServiceMaster is not evident in any minutes of the Board or the Facilities Committee meetings. Although discussion of the ServiceMaster settlement terms and the new contract for management services may have occurred in executive sessions of the Board and/or the Facilities Committee, in the context of pending litigation, no minutes were kept on the substance of these executive sessions.

Several Board members and district administrators have stated that the settlement agreement amounts and the basic reasoning behind entering into a new contract with ServiceMaster were discussed at the April 10, 2000 Board meeting in executive session. The extent of disclosure of the details of the provisions of these agreements during this discussion is not clear. According to the individuals we spoke to, the formal written documents (i.e., the settlement agreement and the new contract) were not presented to or requested by Board members at that meeting and the district's attorney merely provided board members with a written and/or verbal summary of the major provisions and issues of these agreements.

The Board did unanimously approve the new annual support service contract with ServiceMaster. The new contract contains the early termination repayment provision, a feature that is clearly tied to the settlement agreement and amount reimbursed to Amity. The Board also authorized the Board Chair to sign the agreement, whereas past agreements had been signed by the Superintendent alone or both the Superintendent and Board Chair. The Board Chair indicated that it was his understanding at the April 10, 2000 Board meeting that the Board had given him authorization to sign both the new contract and settlement agreement and that these agreements were negotiated together as a package.

Although Board minutes reflect no separate motion or formal Board approval of the settlement agreement, it does appear that Board members were aware that a settlement that would provide at least $630,000 in reimbursement to the district was being proposed by ServiceMaster and advocated by the district’s attorney, Board Chair and other Board members. We found no evidence that Board members objected to the agreement or settlement. We believe that Board members knew or should have known that these transactions were proceeding, and knew or should have known what the major provisions were prior to authorizing the Board

Chair to sign either of these agreements. Thus, we conclude that the Board provided at least tacit approval for the settlement agreement with ServiceMaster.

Adding to the confusion (and no doubt to the suspicion), however, when trying to evaluate this transaction, the $630,000 in installment payments from ServiceMaster was deposited into the remediation account, created after a referendum vote to allow the district to correct the problems at the high school. The justification for depositing the settlement funds into the remediation account was that the funds were obtained from ServiceMaster as a result of disputed performance in the maintenance of the buildings and, therefore, the funds could be used for building repairs and remediation. We found that the funds were earmarked for expenditures associated with the remediation project, including legal fees. The use of the funds appears to have been discussed in executive session at the Facilities Committee's April 25, 2000 meeting. Nonetheless, while much discussion of these matters occurred in executive session, again there are no formal ABOE motions on record to direct these settlement monies to such uses. Although Mr. Galatioto claims that Mr. Grignano identified how the settlement funds would be spent, Mr. Grignano claims that the Attorney Briggs made that decision in conjunction with Mr. Galatioto. Mr. Grignano's notes indicate that $300,000 would be used for Attorney Briggs' legal fees, $200,000 for building repairs, and $100,000 for architectural services. In any event, neither the Finance Director nor the Board chair had the authority to expend such funds without ABOE approval.

In our opinion, settlement funds from ServiceMaster should have been deposited into the General Fund and the use of such funds for the expenditures separately authorized by the ABOE. Thus, whether characterized as a loan or something else, the settlement agreement was flawed in its execution and in the way the proceeds of the transaction were spent. If the transactions undertaken truly served the district's best interest, there were proper ways to effect them and to make a record of them for scrutiny. These transactions and the pervasive influence of the litigation on the district's decision-making are further evidence of the Boards' deficient management and oversight and of the lack of transparency in the running of the district's finances, adding undoubtedly to the public's apparent lack of confidence in the Board's leadership.

2. Kahn Intercorp Lease/Purchase Arrangement

The District has entered into a series of agreements with Kahn Intercorp since 1994 for the "lease/purchase and installment financing" of technology and related equipment. Over the years, the cumulative amount of district purchases through Kahn amount to over $2.7 million, as detailed in a recent operational review of this matter conducted by RSM McGladrey. In brief, the District arranged for the purchase of technology and other equipment that would be funded by Kahn Intercorp. The district would reimburse Kahn with interest over a period of approximately three years.

The Chief of the State Department of Education's Office of Internal Audit [hereinafter the "OIA"] concluded in a July 30, 2002, memorandum that the transaction was a loan arrangement:

We did examine some of the purchases of equipment under this arrangement and found that the majority appeared to be for computer equipment and software for educational purposes. Nevertheless, this type of arrangement should have the appropriate approvals to ensure that budgeted funds are available for any such planned activities.

The Attorney General concurred that the district's transactions with Kahn constituted a loan from Kahn to the district, and concluded, therefore, that the district violated Conn. Gen. Stat. Sec. 10-60, which prohibits regional school districts from borrowing more than $500,000 over and above a regional school district's bonded indebtedness without authorization by a majority vote of a meeting of the district.

In November 2001, the district arranged for RSM McGladrey to conduct an operational review of the financing agreements with Kahn. We have met with members of the McGladrey team and reviewed their preliminary draft report, which contains an extensive evaluation of the Kahn matter. Their findings are consistent with the conclusions of OIA and the Attorney General and further confirm the weaknesses in the district's administrative and financial practices that have been described in our report. While there were other non-technology related goods and services purchased under the Kahn agreement, the McGladrey report appears to confirm that the majority of goods and services were for technology-related goods and services related to district operations and received by the district.

We have found no evidence during our investigation that the funds borrowed from Kahn to finance these purchases were approved by a majority vote of a meeting of the district and find, therefore, that our earlier conclusions remain valid.

3. Ethical Lapses

During our investigation of matters associated with the district's deficit condition, we became aware of other instances of improper relationships between district vendors and ABOE members and administrators. These instances, in our opinion, represent ethical lapses in judgment on the part of individuals entrusted with public funds. They also further exemplify the district's unhealthy management environment and weaknesses in its operating controls.

District Purchase of Equipment for a Landscape Contractor

A questionable tax issue involving the district's landscape contractor was identified in the Burzenski & Company, P.C., report that noted,

The district purchased equipment for a vendor using the district's tax-exempt identification number, thereby, allowing the contractor to avoid paying sales tax. The repayment of funds by the contractor was accomplished through the reduction of future charges, resulting in charges posted to incorrect appropriation accounts.

No executed contract between the District and the contractor was provided; an agreement letter of services and related fees is provided from the contractor, but did not appear to follow the requirements of bidding, et al.

Our review disclosed the following transactions:

1. The district ordered a mower on August 17, 1999, costing $31, 870. The district deducted the cost of the mower in six installments of $5,311.66 from the contractor's monthly invoices. Each of these invoices included additional work in amounts exceeding the monthly installment amount. If the landscape contractor, and not the tax-exempt district, had purchased the mower, the sales tax at 6% would have amounted to $1,912.

2. The District ordered a Workman 2100 commercial vehicle on August 18, 2000, at a cost of $6,995. Sales tax on such a vehicle at 6% would have been $420 had the contractor purchased it. The landscape contractor's invoice to the district, dated August 31, 2000, details the monthly charge of $14,000, plus extra-work of $5,280, less the cost of the Workman vehicle of $6,995, for a total of $12,285.

3. The district ordered a Multi Pro Spray system on June 5, 2001, at a cost of $18,095. The sales tax on this equipment would have amounted to $1,086 at 6%. The contractor's invoices were adjusted over three months to reimburse the district for the cost of the equipment.

Former Finance Director Grignano disclosed in an interview that a Board member had asked him if he could work something out with the landscape contractor for a tractor to be used solely for the district. The Board member denies ever asking Mr. Grignano to purchase equipment for the contractor.

Former Finance Director Potochney acknowledged that this same contractor asked him if the purchase of equipment could be accomplished in the same manner as Mr. Grignano. The contractor confirmed that Mr. Potochney properly refused to continue the practice.

We referred this matter to the State Department of Revenue Services, the state agency with responsibility over such tax matters, on August 13, 2002. Revenue Services told us that the contractor has subsequently resolved the sales/use tax issue. Regardless, and despite the fact that the motivation for entering into these transactions appears to be an attempt to help a valued contractor, we conclude that the transactions were improper and reflect an inappropriate relationship between the contractor and a finance director entrusted with taxpayer funds in the district. In addition to savings on the sales/use tax, the contractor received, in effect, free financing of his equipment purchases.

We have shared our observations with personnel from the Chief State's Attorney's Office. Any further action, if any, on this matter is within their discretion and the authority of the Office of Revenue Services. We will forward to both offices a copy of this report for their information and evaluation.

Attorney/Client Relationship

We have confirmed, as previously disclosed in a local newspaper report, that a former ABOE member and Facilities Committee chair received free legal services from Attorney Briggs. The former ABOE member has acknowledged receiving these services, but has characterized them as minor in scope.

Another ABOE member currently on the Board, Mr. Ledewitz, has confirmed that he was considering a part-time role in a new business venture with Attorney Briggs. According to Mr. Ledewitz, the company was established, but he never became involved with or worked for the company as a partial result of the controversies that developed in the District.

These relationships create the appearance of a conflict of interest between the ABOE members and this attorney which is especially troubling considering the extent of legal services provided by this attorney, the current lawsuit alleging over-billing, and the level of involvement that these ABOE members had with this attorney in their official capacities with the district.

The Connecticut Association of Boards of Education (CABE) uses standards on conduct for school board members that have been promulgated by National School Boards Association (NASBA) to assist board members in fulfilling their responsibilities. These standards include the following admonition from the NASBA guide: "Take no private action that will compromise the school system, the board, or the administration, and avoid being placed in a position of conflict of interest." Further, CABE has developed and adopted a strict code of ethics for school system board members, which includes the promotion of ethical behavior, honesty and integrity.

Mr. Ledewitz, as a past president of CABE, should have been aware of these ethical standards.

Other Allegations

In the course of our investigation, we have been provided with additional information alleging improper activities that may have occurred within the district. As the investigation of these allegations is beyond the scope of our authority, we have informed members of the Chief State's Attorney's Office of the allegations for their evaluation.

APPENDIX A

FINANCIAL DETAIL OF BUDGET TO ACTUAL LINE ITEM DEFICIENCIES

BUDGET DEFICIT OF JUNE 30, 2001

The district's CPA firm, Scillia, Dowling & Natarelli, LLC, confirmed a deficiency of revenues over expenditures and other financing uses of $1,220,142 in a budget of approximately $26.5 million for the year ended June 30, 2001. (See attached Exhibit D, the Regional School District # 5 Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund – Budgetary Basis Financial Statement for the Year Ended June 30, 2001, as audited by Scillia Dowling & Natarelli, LLC.)

The TTIC hired another CPA firm, Burzenski and Company, P.C. ["Burzenski,"] to evaluate the causes of the over-expenditures by each applicable line item. As part of our investigation, we reviewed the sufficiency of the procedures used by Burzenski to identify the nature and causes of the line item deficiencies and reviewed the work papers used to support their findings and conclusions. Based upon our review, we believe that Burzenski obtained sufficient and competent evidence to support the findings and recommendations contained in their report dated January 26, 2002.

Procedures conducted by Burzenski included determining the causes of the more significant line item budget deficiencies. (See attached Exhibit E, Exhibit A of the Burzenski report.) In fact, Burzenski went further than the review of the final budgetary variances and also examined the variances from the original budget. (See attached Exhibit F, Exhibit B of the Burzenski report.) Their findings, which we believe to be supported by evidence contained in their working papers, are summarized below:

? **<u>Salaries</u> (Over-expenditure of $138,898 from the revised budget and $395,492 from the original budget)**

The superintendent's hiring of eight to nine more full time teachers, not factored into the June 30, 2001 budget, caused this line item over-expenditure. We did not attempt to determine whether there was a programmatic need for these positions, since our focus was on the question of how such positions could be filled and not considered in the budget process. The answer starts with the conditions previously discussed concerning the district's "management environment." The lack of adequate budgetary monitoring over the personnel hiring process was identified in the Rusconi report and confirmed by our investigation. Personnel were hired for the 2000-01 year without full consideration of the budgetary implications. The hiring process does not appear to have been coordinated with necessary fiscal controls and budgetary approvals.

Further, a lack of communication between the superintendent and the finance director appears evident on this issue.

Neither the Budget Committee nor the Personnel Committee appears to be part of a process to ensure that hires are within budgetary appropriations. While the full Board approves hires, since the hires include replacements of retired or resigned personnel, the full impact of those hires may not be readily evident without a fiscal analysis. This line item was significantly over-expended in the previous fiscal year, which further supports the contention that controls were ineffective in monitoring salary expenditures.

In this case, the fact that payroll was exceeding the budget was not identified until after the teachers were hired and started working in September 2000. An analysis by the Finance Office identified a higher level of expenditure than anticipated by the budget. This appears to have been one of the first indications of a fiscal problem to surface in the district for the 2000-01 year.

? **Pupil Transportation and Tuition (Over-expenditure of $120,882 and $146,538 respectively from the revised budget)**

The budget deficit for these two items is mainly attributed to Special Education program requirements. This includes unbudgeted increases in the number of students attending the Sound School and transportation for these students and other special needs students.

Predicting the level of expenditures within these categories is sometimes difficult as changes to student populations and the needs of special education students are not always known prior to budget preparation. Variances within these line items of the amounts noted for the fiscal year ended June 30, 2001, are higher than prior fiscal years, but may be attributed to unanticipated student population changes that required such expenditures.

Since the Budget Committee did not maintain minutes of their meetings, we cannot confirm whether budget variances for pupil transportation and tuition were identified as an issue and considered in the ongoing budgetary monitoring process.

? **Professional and Technical Services (Over-expenditure of $871,423 from the revised budget)**

The district contracted for significantly more professional services than in prior years. These services included an operational review of the district, the Student Resource Officer program, architecture and engineering services, and legal services. Also, invoices of approximately $530,000 for unpaid professional services were not recorded in MUNIS as a charge until after August 2001.

This line item had the largest over-expenditure in the budget. Burzenski performed an analysis of unbudgeted costs as part of their agreed-upon procedures and we have reviewed that work and consider the information proper and competent. Their schedule of unbudgeted professional fees is attached as Exhibit G (Exhibit C of the Burzenski report).

The largest piece of the unbudgeted professional fees is related to legal fees and litigation costs. Primarily, this involves litigation associated with the district's Remediation Project, charged to the General Fund since the Remediation Account was fully expended. We note the following issues associated with this area of expenditures:

? The Capital Projects Fund is used to account for major school construction and improvement projects. Subsidiary spreadsheets are maintained on a project-by-project basis in some cases. We found that the finance director charged operating expenses normally associated with the General Fund to the Capital Projects Fund. In this manner, General Fund over-expenditures could be temporarily avoided with the expectation that some future funding source (i.e. litigation settlement, bonding referendum, etc.) would provide sufficient funds to resolve these accounting entries. In this case, escalating legal fees and other consultant costs occurred without expected funding from these sources. This resulted in such costs being funded through the General Fund to a larger extent than anticipated. Also, since the district does not prepare budgetary reports that adequately identify inter-fund activity between major governmental funds (i.e. General Fund, Capital Projects, Special Revenue), the Board lacked a complete picture of the status of the budget.

? The cost of legal fees related to the Atlas litigation became a concern during September/October 2000. Attorney Briggs was asked for information concerning the status of the case because questions had been raised about the level of legal expenditures to date. This prompted the 38-page response on the matter. While significant funds in excess of planned litigation costs were being expended, there does not appear to have been any coordinated plan or formal approval by the Board to incur such costs. While the budgetary monitoring process was flawed, we believe that the Board Chair Santo Galatioto and Board member Steven Ledewitz, who were significantly involved in administrative detail, especially involving district legal affairs, should have been well aware of the extent of these expenditures.

? Approximately $530,000 in unpaid invoices for professional services incurred during the 2000-01 year was not recorded in the MUNIS system during the fiscal year. As described further in this report, the district Finance Office, under the direction of former Finance Director Grignano, employed a process in which certain expenditures were not encumbered or recorded in the proper fiscal year (i.e. termed "rollover"). This process circumvented the MUNIS system, is not in conformance with generally accepted accounting principles, and results in erroneous financial statement presentation, as well as incorrect budgetary comparison data.

The new Finance Director Andrew Potochney, who was employed beginning in July 2001, instructed district Finance Office staff to properly record these invoices in the district's financial system once he became aware of their existence.

? **<u>Repairs and Maintenance</u>**

Two significant factors that caused the over-expenditure were the $120,000 increase in the annual management fee to ServiceMaster Management Services and $131,000 of year 2000 maintenance services charged to 2001.

The process of "rollover" occurred with approximately $300,000 of expenditures from the fiscal year 1999-2000 being included in the 2000-01 year and is certainly another contributor to the deficit condition. Repairs and maintenance expenditures and utilities expenditures for the fiscal year ending June 30, 2001, accounted for over $200,000 of these expenditures. These so-called "rollover" expenditures do not appear to have been considered in the budgetary planning process for the 2000-01 year. Therefore, the 2000-01 year would, in effect, start the year with a deficit of approximately $300,000. (See discussion in report for specific circumstances concerning the ServiceMaster annual maintenance agreement.)

? **Utilities (Over–expenditure of $201,049 from the revised budget.)**

Half the over-expenditure was due to recording prior years bills in the 2001year and a payment to SNET for the K-Plus program. The remaining amount is a result of winter weather conditions. (See the above comments concerning the "rollover" of expenditures involving utility bills.)

APPENDIX B

CHRONOLOGY OF SIGNIFICANT EVENTS LEADING TO THE BUDGET DEFICIT

FOR FISCAL YEAR ENDING JUNE 30, 2001

Our report outlined the various problems associated with the district's "management environment" for the last few years leading to the deficit year ending June 30,2001. The significant line item deficiencies have been identified and the resultant causes for each explored. Based upon the information that we have obtained during this investigation, the following is a summary of the significant events leading to the budget deficit in the fiscal year ending June 30, 2001.

Budget Development

The Amity Regional School District # 5 budget development process for the 2000-01 fiscal year began early in the previous fiscal year as the preliminary budget was presented to the full Board and adopted at its February 14, 2000, Board meeting. Prior to that Board meeting, the 2000-01 preliminary budget proposal was one issue for discussion at the Board retreat held on February 10, 2000. In a document prepared by the Superintendent review by for the members of the Board for that retreat, the Superintendent noted:

> We have had several meetings regarding the preparation of the budget. Presently, we have reduced the budget to 9.6% (increase over 1999-2000 budget), and we are exploring levels of impact on certain programs if additional cuts are necessary. The difficulty with this process is that the majority of the increase is related to fixed costs and obligations with little latitude or discretion. The Board of Education, Budget Sub-Committee, Financial Advisory Panel, Superintendent and Finance Office all play crucial roles in the development of this budget.

Responsibility: Rolfe Wenner, Vincent Grignano, and Budget Sub-Committee

At the March 13, 2000, regular Board meeting, the minutes note that the proposed budget documents would be delivered to town officials and Board members on March 28, 2000. A public hearing was scheduled for April 4, 2000, and the district meeting would be held on May 2, 2000.

An internal document prepared by the finance director, which does not indicate a distribution, identifies "Concerns for the 2000-01 Budget as of March 22, 2000." That document suggests possible areas of over-expenditure for the 2000-01 year's preliminary budget amounting to about $167,000, including an expenditure of approximately $120,000 associated with the

ServiceMaster contact. The contingency fund is identified as the possible offset to this deficiency.

On April 4, 2000, the Amity Educational Program and Fiscal Plan was prepared for Board members, for the public hearing scheduled for that day. That plan included the 9.6% increase in town contributions/revenue for the district and a projected deficit of $11,188. The projected deficit was to be funded through the estimated fund balance remaining at the fiscal year end, June 30, 2000. Other key provisions of the Plan included a schedule of the lease/purchase payments for technology equipment in the amount of $477,618 for the 2000-01 year and an explanation of debt service for the year.

At the April 10, 2000, the Board meeting, the Budget Committee Chair reported that the public hearing on the proposed 2000-01 budget was held and thirty persons attended, including Board of Education and staff members.

The annual district meeting to discuss the 2000-01 budget was held on May 2, 2000. In addition to Board members and staff, five persons were present as noted in the minutes. The minutes record that there were no questions submitted concerning the budget document.

At the May 8, 2000, regular Board meeting, the Budget Committee recommended revising the 2000-01 budget to incorporate reductions of $108,000 and additional costs of $50,000 to fund the School Resource Officer Program. The Superintendent, in a memorandum to Board members dated the same day, outlined these proposed changes based upon the Budget Committee's proposal. The Board adopted these changes to the budget and scheduled a district meeting and Referendum date for later in the month.

Another district meeting was held on May 23, 2000 to discuss the revised budget for 2000-01. In addition to Board members and administrative staff, three persons were present. The three included First Selectman Goldblatt who asked the Board about bonding issues. The meeting was called to order at 7:00 p. m. and adjourned at 7:10 p.m.

The budget referendum was scheduled for the next day, May 24, 2000.

Management Environment – Disharmony and Morale Issues Within The Finance Office

As previously discussed within this report, the relationship between the Superintendent and the Finance Director, a cornerstone of any school district's financial administration system, had deteriorated over the last few years. Towards the end of the 1999-2000 fiscal year and into the start of the 2000-2001 fiscal year, additional conditions occurred that further contributed to disharmony and poor morale within the Finance Office and the poor morale of the Finance Director. These conditions included:

? An increasingly intrusive role in the administrative detail of the Finance Office by Attorney Briggs. Evidence suggests that, in the real or perceived need to protect the district in the Atlas litigation, Attorney Briggs began to review and approve purchase orders and individual bills as small as $15.00. In a memorandum dated May 18, 2000, to the Superintendent, Attorney Briggs, and all Board members, the Finance Director reacted to a suggestion by the attorney that he is back-dating checks and stated,

> For the record, we have **never** back-dated checks… We released the checks when we received an okay from your office. This is not back-dating…. This is another example of your office questioning our personal integrity!

This is an example of the mounting level of frustration by the Finance Director with what he considered to be excessive involvement by this attorney in areas within his authority and responsibility. Another example of the disharmonious relationship developing between Attorney Briggs and the Finance Director involved the bids associated with a chilled water pump replacement project. In a memo to the Superintendent dated May 10, 2000, the Finance Director provided a chronicle of events involving the bids and suggested that the attorney's office failed to handle the bidding process in a proper manner. Further, the Finance Director began to question the level of Attorney Briggs's billings, again contributing to the Board requesting an explanation from her as to her status with the litigation and her response with a 38-page document in October 2000.

? The Superintendent also confirmed that he thought Attorney Briggs was assuming a more intrusive role in the everyday management of the Central Office, especially in the Finance Office. It is unclear what action, if any, the superintendent took to address this concern.

? As previously described, the Board chair had assumed the real authority for financial administration, with support primarily from Mr. Ledewitz. District administrators, staff and other Board members described the Board chair, in this role, as intrusive, domineering and intimidating. Since the Board chair and other Board members supported Attorney Briggs's role, as it related to the Atlas litigation, the Superintendent and the Finance Director were frustrated in expressing their concerns involving her role in the Central Office administration.

? In August 2000, RSM McGladrey was hired by Superintendent Wenner to conduct an operational review of certain district operations including assessing the effectiveness of existing management and financial management systems. This review resulted in the Rusconi report, which illustrated considerable weaknesses in the district's financial management systems. The Superintendent suggested that this operational review was a result of the Board requesting that he exercise a more active role in the business side of the house in his 1999-2000 evaluation. The Board Chair suggests that the operational review was, in part, a result of issues disclosed by Attorney Briggs, who was observing and communicating certain problems within the Finance Office. Either way, the Finance Director considered the review a personal attack on his credibility. The results of the review were also presented at an open Board meeting, which further increased the level of frustration and disharmony that the Finance Director felt concerning his role in the district.

? In September 2000, the Finance Office analyzed payroll and identified that additional teachers had been hired in excess of budget planning. A meeting was held in late September or early October to discuss the budget implications of this hiring. The Superintendent, Finance

Director, Finance Manager, Board Chair and Budget Committee Chair attended this meeting. It was clear to the Budget Committee Chair, after a September 2000 meeting, that there was a communication problem between the Superintendent and the Finance Director and that each was deflecting responsibility for the budget deficiency concerning payroll.

Budget Deficit – Final Phase

During September and October 2000, all the conditions necessary for a budget deficit to occur were in place within the district. These conditions included a dysfunctional management environment, including key administrators not communicating, and an ineffective budgetary oversight process. In addition to these conditions, the district started the fiscal year with almost $300,000 in expenditures incurred in the prior year, was well over-budget in salaries, had concerns about litigation costs, and was incurring higher than expected contract fees in relation to the ServiceMaster contract. The final phase of the budget deficit process can be attributed to the following:

? The Finance Director failed to provide an accurate assessment of the "rollover" from the 1999-2000 year. At a meeting in September or October 2000 to discuss the salaries and other budgetary issues, the Finance Director disclosed about $50,000 in "rollover" expenditures to the Board Chair, Budget Committee Chair and Superintendent. The Finance Manager, who attended this meeting, knew that the Finance Director's assessment of the "rollover" was inaccurate and that the rollover amount was significantly more. The Finance Manager was instructed by the Director not to say anything during the meeting. After the meeting, the Finance Manager told the Finance Director that she was not comfortable with his representations concerning the rollover, as she knew it was much more. The Finance Director stated that there was a ten percent provision (which she could not identify) that allowed for carry forward of such expenditures and that this was within that allowance. In addition, the Director tried to minimize the issue with the Finance Manager by indicating that the money would be found through budget reductions, etc.

? On September 25, 2000, the Superintendent instituted a budget freeze. The memorandum to department administrators and ServiceMaster (who had certain purchasing responsibilities) indicated that the freeze was due to enrollment issues and the need to hire additional personnel. The memorandum was very similar to the one used to institute a budget freeze in the prior year. The budget freeze was noted in the minutes of the Board regular meeting of October 10, 2000.

Our review revealed that the Superintendent and Finance Director, in response to programmatic concerns from administrators and Board members, routinely circumvented the budget freeze. As a result, the budget freeze appears to be in name only and not to have resulted in measurable or identified savings of any significance.

? While the "budget freeze" was implemented, the Board and the Budget Sub-Committee continued to receive the regular Treasurer's Report which detailed, by line item, the General Fund budget, expenditures and unencumbered balance each month. These reports, as disclosed within the Rusconi operational review, were inadequate to monitor the status of the budget. The reports failed to project year-end expenditures based upon experience and other projection factors and thus only identified unencumbered funds. Board members would have limited information from these reports concerning the status of the budget during the year. Certainly, the reports did not disclose any pending deficit during the fiscal year. In addition, since not all expenditures were recorded within the system and since the reports did not identify the use of Capital Projects funds for temporary financing of the General Fund, the reports were incorrect. While the Superintendent implemented a budget freeze and the Board was aware of the financial concerns involving personnel that led to budget freeze, there is no indication that any special reports were prepared to analyze the status of the budget or detail savings by line item that had occurred as a result of the freeze.

The Budget sub-committee and Board members were aware of the poor communication between the Superintendent and the Finance Director, that the Finance Director was not happy with the way the Rusconi review was handled, that the Finance Director was planning to retire at the end of the fiscal year, that the Rusconi report noted significant deficiencies in the budgetary process, and that a budget freeze had been instituted. Apparently, the Superintendent, Board Chair, Budget Committee members and Board members were oblivious to these indicators and continued to accept blindly the standard budgetary reports from the Finance Director without asking for further detail or requiring that an outside CPA or other consultant confirm the accuracy of such reports. Thus Board members lacked sufficient information necessary to preemptively identify and address the developing deficit.

? As the 2000-01 fiscal year ended, the district was receiving calls from vendors concerning the payment of bills, another indication of fiscal issues. The Finance Director explained this as a simple cash flow problem as the district was waiting for certain grants to be paid to the district. However, the Finance Director was, in effect, deciding which bills to pay and which to "rollover" into the next year. As the year ended and the Finance Director retired, the Finance Office had a significant amount of bills that were sitting in the Finance Director's office and not recorded on the MUNIS system. Apparently, the Finance Director indicated to staff that he would return in a couple of weeks to close out the books and deal with these bills. We believe, that as in the prior year, the bills would have been returned to the originating department with a request that a new purchase order be initiated identifying the expenditure as within the 2001-02 year.

? On June 11, 2001, the Budget Committee Chair reported to the full Board that the "status of the year-end budget was positive."

? On July 9, 2001, the Budget Committee Chair reported to the full Board that, "He did not anticipate any end-of-year problems regarding the budget."

? The new Finance Director, Andrew Potochney, was offered the position in mid-June 2001. Although his start date was the first week of August 2001, he agreed to come into the district offices for two days a week starting in July 2001, to begin the process of meeting with the Finance Office staff and preparing for the year-end closeout.

There was no formal orientation process and Mr. Potochney did not meet initially with the Budget Committee Chair or have any indication about concerns of budgetary problems upon his arrival at the district. The only surprise was being informed that one of his principal staff members was going on maternity leave in September 2001.

In the first few days of Mr. Potochney's employ at the district, he noticed a stack of bills in his office and inquired of the Finance Manager about these bills. The Finance Manager explained that the bills were held over from the previous year and had not been entered into the MUNIS system. Mr. Potochney instructed the Finance Office staff to enter these bills into the system and they complied. A report generated sometime in mid-July from the MUNIS system showed a significant deficit of about $800,000 at that time.

The former Finance Director returned to the district in the third week of July 2001, to assist in the closeout, Mr. Potochney was not comfortable with his participation and limited his involvement to closing out of some school building projects. The unpaid bills and the deficit were not discussed between the two finance directors and Mr. Grignano was only employed a short time in this capacity.

Mr. Potochney, after reviewing the MUNIS report, brought the information concerning the deficit to the attention of Superintendent Wenner. According to Mr. Potochney, Dr. Wenner was visibly shaken and clearly had no idea that any such problem existed.

In a schedule dated August 8, 2001, Mr. Potochney identified over-expenditures of approximately $1.7 million.

? The August 13, 2001 regular Board meeting minutes report that the Budget Committee and the new Finance Director are "reviewing the status of the past and current year budgets."

? At a special Board meeting held on August 27, 2001, the minutes note "Andrew Potochney presented the Board with his analysis of the status of the 2000-2001 financial report… and outlined three options for consideration." This appears to be the initial disclosure of the deficit condition in a Board meeting, although the minutes do not use the term "deficit."

? Finally, in a memorandum dated October 23, 2001, to Board Chair Michael Lohne, Budget Committee Chair Patrick Luddy and Superintendent Wenner, Mr. Potochney outlined his concerns that the recommendations included in the Rusconi report had seen little progress and stated that "I am concerned that the seriousness of the situation has not been recognized."

Independent CPA Role

Each year, the district hires an independent CPA firm to conduct an audit of the district's financial statements, as well as to perform necessary audits required under the Federal and State Single Audit Acts. In addition, the CPA firm also performs agreed-upon procedures in relation to certain State Department of Education reports. The district has used the same CPA firm to conduct these audits for many years prior to and through the deficit year ending June 30, 2001.

District management, primarily the Superintendent and the Finance Director, have a responsibility to maintain adequate accounting records and prepare proper financial statements. Arranging for an audit does not discharge these responsibilities. Management, and not the auditor, has primary responsibility for the accuracy and adequacy of the district's financial statements.

The auditor has the responsibility to conduct the audit in accordance with generally accepted auditing standards, in this case *Government Auditing Standards,* and to express an opinion on the financial statements taken as a whole. In addition, the auditor prepares a report on compliance and on internal control over financial reporting based on the audit of the financial statements. This report notes that the objective of the audit is not to provide an opinion on compliance with various laws, regulations, contracts, etc., but is part of the audit process of obtaining reasonable assurance that financial statements are free of material misstatements. Internal control is considered in planning and performing the audit to determine the nature and extent of auditing procedures and not to provide assurance on the financial control over financial reporting. These distinctions are important in understanding the role of the independent CPA in the financial reporting process.

As part of our investigation into the district's deficit condition, we reviewed the independent CPA's reports since the 1996-97 fiscal year through the deficit years. As noted, the same CPA firm prepared these reports. While we did not conduct a quality control review of these audits, we found that the audit reports contain all the applicable reporting standards and reporting requirements associated with generally accepted government auditing standards (GAGAS) and Federal and State Single Audit Act requirements. We should also note that the company is a licensed CPA firm in the State and is subject to the peer review requirements contained in auditing standards.

The audit reports for the years 1996-97 through 1999-00 contained unqualified opinions and did not disclose any reportable conditions. The 2000-01-year had an unqualified opinion and identified a reportable condition involving the deficit and the lack of accurate reporting of financial information. These circumstances, and other conditions, have raised questions concerning whether the CPA firm should have identified problems with the financial management system for prior years.

In this regard, while we did not conduct a formal quality control review of the CPA firm's audit working papers, we did review these working papers for the 1999-2000 and 2000-01 years for the purpose of obtaining confirming information involving the deficit year of 2000-01 and identifying whether internal control issues were disclosed in the prior year of 1999/2000. In this regard, the CPA firm's audit planning memorandum for the June 30, 2000year audit notes that the audit plan for the 2000 year audit was to perform substantive testing and, therefore, not test internal controls except as required under the State Single Audit Act. The CPA firm, however, could not produce for our review the working papers associated with the Federal and State Single Audits for the 1999-2000 year as these work papers had been misfiled. Therefore, we could not confirm whether the Single Audit Act work papers contained information that suggested any prior period internal control deficiencies.

On March 5, 2003, the OIA received copies of a limited number of Federal and State Audit work papers located by the CPA firm on its computer system. While these copies are helpful, they are not a substitute for the auditors' actual working papers. The audit firm is continuing to search for the audit work papers.

We also discussed the issue of rollover expenditures (i.e. prior year expenditures held until the next year) with firm principals involved with the 2000-01 audit. They indicated that the CPA firm never represented to the district management of Board members that this was an acceptable practice and that this practice was not disclosed by district management in its representation letter.

Finally, we should note that the Board did not have an audit committee as one of their standing committees. Basically, the Board's Budget Committee functioned loosely in that capacity, with the audit report presented to the full Board. Currently on its website, the Board lists an Audit Oversight Committee as one of its standing committees. We believe that a strong independent audit committee can be a vital part of good governance. An effective audit committee should have defined objectives and responsibilities. The committee can be used to facilitate the Board's oversight of the financial reporting process and internal controls, encourage management to employ good business practices and challenge poor practices, and provide outside auditors with a source, independent of direct management, to share audit results.

Based upon the lack of supporting working papers pertaining to the State and Federal Single Audits for the 1999-2000 fiscal year, we are referring this matter to the State Board of Accountancy and the State Office of Policy and Management for their review and action as considered appropriate under the circumstances.