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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS
GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

July 24, 2006

Representative Kenneth Carter
Representative Donald J. Lally, Jr.
General Assembly
State House
Providence, RI 02903

Dear Representatives Carter and Lally:

At your request, we have reviewed certain allegations contained in an affidavit dated January 20, 2005 concerning the North Kingstown School Department. The affidavit was signed by a former employee of the North Kingstown School Department.

During the course of our review, we conducted certain tests and interviewed appropriate individuals as we considered necessary. Our objective was to determine the legitimacy of these allegations, as well as other allegations made to us during the course of our review.

This review does not constitute an audit in accordance with *Government Auditing Standards*. Had we conducted such an audit, other matters might have come to our attention that we would have reported as required.

Uses of Pressure Treated Lumber

According to the affidavit, Maintenance and Custodial employees of the North Kingstown School Department performed maintenance and renovations on the private homes of two members of the school department during working hours. An investigation by the Financial Crimes Unit of the Rhode Island State Police found that the affiant had no firsthand knowledge of improprieties at the school department but instead repeated what other unidentified school department employees had stated.

The investigators also found that the two employees had documentation supporting their personal purchase of pressure treated lumber for use on the home improvement projects conducted at their homes. In addition, the school department employee who allegedly

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constructed these projects denied that he had ever performed work for another school department employee on school department time, or had ever delivered school department materials to another school department employee's home. However, this employee stated he had performed work on his own personal time for other school department employees, including the affiant.

According to the affidavit, the school department purchased large quantities of pressure treated lumber, and alleges that this kind of material cannot be used for projects inside school buildings. We reviewed documentation supporting the purchase of pressure treated lumber during 2003 and 2004, and found that it was used for *outside projects* such as bleachers for high school graduation activities, playgrounds, and signs; *inside projects* included non-classroom locations, such as equipment and pump buildings. In addition, we were informed by school department personnel that inside use of pressure treated lumber is restricted to direct contact with cement.

High School Athletic Field Maintenance

According to the affidavit, the contract for "mowing and fertilizing the athletic fields" at the High School was awarded after a bidding process but the work was already being done by the winning bidder when the award was made.

We found that proposals for this work were solicited originally in March 2000 for a one-year contract beginning July 1, 2000. We were informed that the bid specifications were prepared by an outside contractor because the school department lacked expertise in this area; the specifications were subsequently approved by the Supervisor of Plant and Grounds. Only one bid was received and the contract was awarded to that sole bidder at a cost of \$119,500. We note that the winning bidder was the same contractor who prepared the specifications.

The current contract was solicited in March 2003 by the school department for a two-year period with a two-year renewal at the option of the School Committee. The contract required "comprehensive maintenance of the athletic facility at North Kingstown High School. The contract includes all grounds care, litter cleanup, agronomic maintenance, and athletic field setup and takedown for athletic events as scheduled by the school athletic department. This includes the football stadium, baseball, softball, lacrosse and field event areas." The bid specifications also required the successful bidder to possess 15 specified items of equipment (the previous contract required 12 specific items of equipment). The contract was awarded to the existing vendor on a 6-0 vote by the School Committee on April 23, 2003, at an annual cost of \$139,500.

We believe that this would have been an appropriate time for the School Department and the School Committee to review the specifications contained in the Request for Proposals to ensure that the equipment cited was necessary and did not cause other qualified vendors to

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refrain from bidding on the contract. The fact that only one vendor submitted a bid seems to support the concern that the requirements were unnecessarily specific.

The School Committee considered the two-year renewal of the contract at its meeting on June 22, 2005, and voted to ask the town to submit a bid. A motion to solicit public bids if the town was not interested in performing the work was defeated. The town submitted a one-year bid at a cost of \$131,000 (which included \$28,000 to purchase additional equipment); this bid was considered by the school committee at its August 17, 2005 meeting. The school department's Director of Administrative Services stated that the town's bid did not fully meet the specifications, and contained its own caveats. For example, the proposal was for one year only and wouldn't start until late fall of 2005, included the possibility of subcontracting any portion of the maintenance program, and stated that the athletic fields "will be maintained to the same level as other municipal facilities". The school committee then voted to extend the contract for the two-year option to the current vendor at the same annual cost of \$139,500.

We interviewed the town's Director of Public Works and discussed the town's proposal with him. The town submitted a bid for one-year only because of uncertainties over the number of events to be held at the athletic complex, the cost of providing services in the second year of the contract and the town's ability to cover any budget shortfalls, and whether some services (such as janitorial services) could be subcontracted.

We also reviewed a study of athletic field maintenance prepared by a North Kingstown resident and interviewed her and others in the town who are concerned with the bidding process, and the cost of the services when compared to other facilities in the state. In addition, we interviewed the current vendor and toured the athletic complex with him, and reviewed a power point presentation of similar facilities.

We note that the athletic field complex cost in excess of \$2,000,000. We believe that the maintenance program at the high school athletic complex is performed at a high standard. However, we consider the bid requirements to be unnecessarily specific in listing 15 items of equipment, some of which are not being used by the current vendor. In addition, we question the decision to have an outside turf management company prepare the specifications, and then allow that same vendor to bid on the contract. The school department would have been better served to retain an outside firm to consult on the procurement with the understanding that the consultant could not bid on the contract.

Outside Business Operated by School Employees

The affidavit alleges that "certain School Department employees have run outside businesses from the School Department". One of these persons-the former Director of Administrative Services-informed us that he has operated an outside business for many years with the knowledge of the Superintendent of Schools. Their arrangement allowed the former employee to devote time to his outside business as long as his responsibilities to the school

department were met. The former employee informed us that he frequently worked evenings and other times which more than accounted for any time he devoted to his outside business.

We confirmed this arrangement with the Superintendent of Schools, who informed us that he was satisfied that the former employee was a salaried employee who had devoted a substantial amount of time outside of normal working hours to school department business.

We were informed that the school department does not have a formal policy governing the operation of outside businesses by school department employees. We believe this is an appropriate time to develop such a policy. This policy should be drafted by the school department and submitted to the School Committee for approval in time for implementation by September 1, 2006.

Compensation to Former Employees

The affidavit alleges that the School Department “has paid employees (in lieu of money) with laptop computers”, and identifies a specific individual as having received this form of compensation.

We interviewed this person, a retired former employee, who informed us that he was provided with a laptop computer by the school department so that he could perform certain consulting services at home. This was considered necessary because the computer he needed at the school department was being used by another school department employee.

We confirmed this arrangement with the former Director of Administrative Services, who stated that he retained the former employee as a consultant to assist a newly-hired individual in his area of expertise. However, the former Director now believes that allowing the former employee to keep school department equipment in lieu of payment for services was inappropriate.

We believe the School Department should adopt a policy strictly prohibiting this type of benefit to employees and consultants. Compensation should be paid in accordance with town and school department policy, and should recognize federal and state laws regarding taxation of employee wages and benefits.

Control over Tools and Equipment

According to the affidavit, control over certain items of tools and equipment purchased with school department funds was inadequate, resulting in frequent loss of such items. We discussed this matter with the Director of Administrative Services and the Supervisor of Plant and Grounds for the North Kingstown School Department.

We found that the School Department has not had a system of inventory control in the past, but that software supporting such a system has been purchased and will be implemented during this fiscal year.

Bid Splitting

The affiant alleges being directed to “split up the amounts” of certain contracts “into two or three separate purchase orders to avoid having to put the contract out to bid”. We determined that the town’s independent outside auditors investigated this allegation in 2001; we met with these auditors and reviewed their work.

The auditors were engaged by the Town of North Kingstown in July 2001 to “perform an investigation regarding potential irregularities or errors in the accounting system over the bid and purchase order process and the person or persons responsible for creating those errors or irregularities” during fiscal 2001. According to the report issued by the independent auditors on December 6, 2001, “the engagement was initiated as a result of allegations made by a School Department employee”. We have determined that this employee is the affiant.

The auditors performed the following procedures:

- *Selected certain vendor payments over \$5,000 from the School Department’s check register and examined related invoices to determine if item(s) were required to be purchased through the competitive bidding process; and*
- *Reviewed documentation for applicable items selected above to ensure that appropriate purchasing policies were followed.*

The auditor’s report on the fiscal 2001 transactions examined included several findings, but noted but none of the findings “are the result of fraudulent transaction”. The report describes the following findings:

- Three disbursements totaling \$29,030 made to one vendor for the installation of energy lighting were found to be made without going through the proper competitive bidding procedures. Per the Town of North Kingstown’s purchasing policy, all expenditures over \$5,000 are required to be made through competitive bids.
- Two disbursements totaling \$39,172 made to one vendor for information systems network operations center furniture were found to be made to a sole source vendor without a School Committee or Superintendent waiver to the competitive bidding process.

- Certain disbursements were found to be made under the description of an emergency purchase. Department personnel did not keep quoted prices from vendors and did not obtain a waiver from the School Committee or Superintendent for waiving the competitive bidding policy.
- One disbursement in the amount of \$5,216 for replacement flooring was found to be made from two purchase orders. The purchase orders both contained the same date and products but the purchase was for two separate schools.

The report recommends that School Department management ensure that the Town's purchasing policies are adhered to at all times; sole source purchases and emergency purchases over the \$5,000 bid threshold be documented and approved by the School Committee or Superintendent; and purchases made through one company for the same products but intended for several different schools should be placed on one purchase order and competitive bidding procedures should be followed if the total expenditure exceeds \$5,000.

On November 14, 2005, the North Kingstown Town Council voted to engage independent outside auditors to provide auditing services, including a "review of Purchasing Procedures to determine compliance with applicable laws and regulations, provide recommendations to resolve any deficiencies in design of relevant policies and procedures, to identify instances of non-compliance through selection of sample transactions and related documentation and 'walk-throughs,' to identify specific anti-fraud controls to address favored vendor schemes, conflict of interest arrangements, purchase splitting schemes, and year-end cut off schemes".

The auditors systematically selected 56 School Department transactions incurred during fiscal 2005, and tested for compliance with the applicable purchasing requirements related to competitive bidding. The auditors found that "the School Department was utilizing their procedures related to purchasing", and "generally obtains quotes for purchases even if they are below the \$2,500 threshold".

The auditors reviewed the School Department's purchase orders to determine whether any consecutive purchase orders were issued to the same vendor. The auditors noted several instances of consecutive purchase orders for the same vendor under \$5,000 each that cumulatively exceeded \$5,000; these vendors were determined to be sole source or exempt providers.

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Bus Transportation

A second affidavit provided to our office questions the awarding of bus contracts by the North Kingstown School Department. The affiant states that he was not "asked to submit a bid or take part in any kind of bidding process" when he sought to obtain a bus transportation contract.

We found that the North Kingstown School Department has a contract with the North Kingstown School Bus Contractors' Association. The current contract is for three-year period ending June 30, 2006. There is no need for a bidding process since all bus contractors are paid the same rates per the contract. In fiscal 2006, the base rate per bus is \$212.20, which includes 80 miles per bus per day. Mileage in excess of the base is paid at the rate of \$1.37/mile.

Prospective bus contractors are chosen from a waiting list, except for existing drivers. The affiant was an existing driver, and therefore was selected without having to be placed on the waiting list. We consider the statements in the affidavit, while accurate, to be meaningless and not indicative of any wrongdoing on the part of North Kingstown school department personnel.

This letter concludes our work on the allegations provided to us for review. We are available to discuss these matters with you at your convenience.

Sincerely,



Ernest A. Almonte, CPA, CFE
Auditor General

c: Honorable members of the North Kingstown Town Council
Honorable members of the North Kingstown School Committee