

**NORTH KINGSTOWN AUDIT COMMITTEE**

**December 4, 2008**

**Beechwood House**

**7:00 pm**

**PRESENT WERE:**        **Ned McCrory, Chairman**  
                              **Richard August**  
                              **John McNamee**  
                              **Julia Techentin**  
                              **Jeff Wadovick**

**ALSO PRESENT:**        **Patricia Sunderland**

A tape recording of this meeting was made to supplement the written record.

**I.        Call to Order**

- Chairman McCrory called the meeting to order at 7:00 pm.

**II.       Pursuant to RIGL 42-46-6, Notice of this meeting has been posted on the Secretary of State's Website**

**III.      Executive Session pursuant to Rhode Island General Laws 42-46-5(a)(4) – Investigation of proceedings relating to school department bidding.**

**MOTION** made by Julia Techentin, seconded by Richard August to table item. Vote: unanimous.

**IV.      Approval of Minutes – September 18, 2008**

**MOTION** made by John McNamee, seconded by Jeff Wadovick to accept the minutes as presented. Vote: unanimous.

**V.       Discussion of findings relative to a complaint regarding the relationship between the Boosters Club, an independent, not-for-profit Rhode Island corporation, and Athletic Director Keith Kenyon which has been brought to the attention of the Audit Committee.**

The discussion was turned over to Jeff Wadovick for an explanation of his findings. Jeff spoke to Walter Edge and Walter explained that he did not have a report regarding this issue and was not aware of anything specifically related to the annual report which was issued 10 years ago. Jeff discussed with Mr. Edge the situation of the Athletic Director's position relative to the designation as Registered Agent with the Office of Secretary of State for the Booster's Club. Jeff explained that the annual report is nothing more than a report that a non-profit organization files annually to maintain its corporate status. The registered agent is someone who is a solid contact with an organization and in his opinion does not see any problem with Mr. Kenyon being listed as a registered agent because normally with non-profit entities it is difficult to maintain members. The only issue to address would be the appearance of having someone in the Athletic Department also serving on a committee involved with the decisions of the Booster's club where they are receiving money. Jeff noted that there are not voting powers associated with being the Registered Agent it is merely a name and address of whom to send information to. Chairman McCrory noted an "appearance" of a conflict of interest and questioned Jeff as to whether he was recommending that someone take his place as Registered Agent? Jeff reiterated that in his professional opinion the booster club is a 501 c non-profit corporation, not under the control under the Town or School Department, separate entity, has a direct relationship but is not fully-funded from the town. Julia Techentin questioned whether his opinion is impacted by any finding that the Booster Club is primarily funded by school derived funds? Jeff absolutely acknowledged that his opinion would be impacted by this if the booster's club was 100% funded by school department or town there is a conflict because you also have a person there making decisions on how the money is to be spent. At a minimum the town should implement an internal control with the money that is being contributed to the booster's club that the money being spent is being spent in a manner appropriate by the town's perspective. Chairman McCrory obtained the most recent tax return, Form 990, which was from June 30, 2006 and noted the total gross revenue is approximately \$80,000 of which \$9,000 is derived from gate receipts, \$15,000 is from a calendar raffle, \$29,000 from a golf tournament, \$41,000 from concession sales and clothing. The Chairman reiterated that nothing is coming directly from the schools however they are school sponsored events and the \$80,000 are the gross receipts. In Jeff's opinion, school sponsored events make up approximately 25% of revenue and in his opinion is considered significant. Chairman McCrory noted the person submitting the income tax return is signed by a treasurer and questioned whether the treasurer be considered for the designation of registered agent.

Mr. August questioned whether or not the treasurer is still a member of the boosters and believes that members of these non-profit organizations come and go which is the case with the treasurer thus if he was the registered agent then they

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would have to change the filing information again. Mr. August feels that what they're trying to do is tell a non-profit organization which is not part of the Town how to run their corporation and felt they were get a little off the issue. However, Julia Techentin's sense is that they're trying to focus the appearance of impropriety in that a member of the school department's affiliation with an agency who receives a financial benefit from an outside agency. Mr. August believes that an argument can be made either way and that from a public relations point of view it would be better that the Athletic Director not be the Registered Agent but questions that it implies a conflict of interest. Julia questioned its consistency. However, Jeff looks at the two issues: 1) Registered Agent and 2) Is there a full accountability of school revenue? Jeff doesn't necessarily have a problem with the designee however, has a problem with how the funds are reported. In his opinion, the way the tax returns are prepared, it appears that more than \$80,000 are derived from school sponsored events and feels the town or school should have more accountability over how the funds are being spent. As far as the registered agent, should be a constant within the school department. Chairman McCrory clarified that the boosters club is selling calendars, doing raffles, having golf tournaments, receiving gate receipts, etc. if the town didn't give the boosters club the right to utilize the concession then a private organization would be able to run the concession stand and the town would have to pay overhead. The Chairman questioned whether this activity (concession stand) go out to bid every year? Chairman McCrory does not feel there are any school funds being run through the concession, people are choosing to buy a hotdog, therefore, he sees no issue, does not feel the concession are school funds. Mr. August expressed that if the school was paying for the food to be sold and school department is manning the concession then there is a relationship between the school department and the boosters club. Julia expressed that the boosters club are not the only volunteers; they have a free license to use the concession, they are the only body authorized to use the concession stand. Mr. August furthered that the agreements was that the revenue filters back to the school department from the boosters club through their sales, profit generated. Mr. August doesn't feel the Audit Committee can dictate who they can have on their board, however, he believes they can address it with the school committee and recommend they get some control over the revenues which are raised from school sponsored events.

Chairman McCrory turned the discussion back to the agenda item: a school department's employee as the registered agent for the boosters club. Chairman McCrory felt the term "agent" is not significant enough to warrant and change. Jeff agreed. Julia agreed and she was not concerned about the registered agent designee, it is a "red herring" and she felt it didn't matter, however, the funding is what she felt was the issue, felt this was not a position of authority. Jeff felt the two issues on the tax return are the gate receipts and concession stand revenue and perhaps there should be a formal bid process to run the concession stand. The gate receipts are considered town revenues then perhaps the town should request a full accounting of how the \$9,000 is spent. John McNamee followed up the discussion reiterating that he didn't see the conflict as he is one of 12-14 votes on the committee, does not see a conflict. John made a point that maybe someone from the Town or School should be on the board so they can have some input on how the money is being spent. John reiterated that he is not receiving any compensation from the board. There is a consensus of the committee that they don't feel the athletic director being designated as the registered agent of the Booster's Club is a conflict, he is not an officer of the corporation.

**MOTION** made by Ned McCrory, seconded by Richard August that the Audit Committee does not have an issue with Keith Kenyon, Athletic Director, being listed as registered agent of the North Kingstown Boosters Club, Inc.

The issue is being tabled until later in the evening, after discussing Item VI.

**VI. Discussion regarding the gate receipt agreement between the NK School Department and the Booster's Club.**

Explain relationship with how the gate receipts occurred. Approx 10 years ago there was a lack of teachers who volunteered to collect gate receipts so the business manager entered into an agreement that the boosters club would collect the gat receipts and then would receive a stipend of \$100 per event. Not reduced to writing but is the arrangement in the school department. The treasurer of the boosters sends an accounting of events and gate receipts collected, twice a year which also serves as an invoice to the school department for the charges of \$100 per event. Some stipends exceed the gate receipts. Mr. August spoke with Mr. Oatley, treasurer for two years of the booster to discuss internal controls and that they agreed that once you start handling cash that there is all kinds of possibilities of fraud, misappropriation of funds. Evidently, Mr. Oatley recommended the Boosters pay for a performance bond. Mr. August questioned why a volunteer organization should be paid for volunteering and further noted the embezzlement throughout the state, Narragansett school department finance director, Cranston softball league, etc. not sure what accounting is going on for the number of tickets, etc. Mr. August reflected on Mr. Mudge's point that town charter (Section 313) empowers only the town council to accept donations/contributions of cash or property real/personal,

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Section 900 does not give the school department this power, no deminimus provision. Once the funds/property is accepted by the council, it becomes the property of the school committee.

**MOTION** made by Richard August asking school committee to address his findings and revisit the relationship between the booster club and school department and if deemed to be a benefit to the school department then the arrangement should be reduced to writing. One specific item to be documented should be that if less than \$100 were collected at an event then less than \$100 should go to the Boosters. The gate receipts arrangement should be negotiated with the Boosters Club. And the Booster's club donating back to the school department with jackets, awards, equipment, software, etc...that is not deminimus and should be addressed in light of section 313 of the charter. If talking about accountability and transparency then the usage of the concession stand should be reduced in writing and what control does the school have over school-sponsored events, no procedures, nothing in writing, therefore, no accountability and not transparent. Chairman McCrory further explained that once these provisions are revisited and reduced the writing then the audit committee would no longer have any control/input. The boosters club is running independent and the audit committee understands that they have no control over their non-school revenues. **MOTION failed, no second.**

**MOTION** made by Richard August, seconded by Julia Techentin that Chairman McCrory communicate with the school committee the audit committee's concerns with (1) the internal controls over the gate receipts, (2) the documenting of the concession stand licensing agreement, (3) the contractual agreement that the Town has with the Boosters with regards to the \$100 stipend per event and (4) a reference to Sec. 313 of the Charter to ensure it is being followed. Mrs. Techentin recommended a general statement about internal controls of the handling of cash as it relates to gate receipts. Vote: unanimous.

**MOTION** made by Richard August, seconded by Jeff Wadovick that the audit committee recommended to the school committee that it develop a policy regarding the participation of employees as officers or directors of corporations, associations of organizations with which the school department conducts financial transactions. Vote: unanimous.

**Public Comment entertained...**

Larry Ceresi, School Committee Chairman, feels the issue is the gate receipts, concession stand revenues and revenues derived from the concession stand sales. The issue is generating revenues at school sponsored event and using school facilities, to his knowledge there is no policy, no procedure to gate revenues, no accounting controls, not having a contract in place for the concession stand. No controls, the issue is not the agency and questions who is liable.

Jim McGwin noted his membership for a number of years with the boosters club. Prior to this year, the school committee was not made aware of the donations made to the athletic department from the boosters. Jim noted that there is an issue with exclusive rights to athletic events, he explained that not all athletes can benefit from the scholarships. Mr. McGwin hands out copies of a voucher & backup of expenditures from activity funds to the boosters club. He noted a \$2,000 donation for a golf T sponsor coming from the swim team, activity funds. The activity funds are supposed to be there for raising money not sponsoring boosters club activities. Mr. August clarified that the vending machine outside the strength room which is maintained by an employee uses some of the money collected to sponsor a hole at the golf tournament held by the boosters club. Mr. McGwin's concerns are with the principal who is signing the checks. If the activity funds are designated for a particular sport then that is how the funds should be spent. Again, reiterated another absence of policy and employees on both sides of a transaction that are problematic. John McNamee's concerns are that the person approving and signing the checks should have some guidelines on how the money is to be spent. Another absence of policy. But not every conflict of interest is an issue and there is no personal gain.

Mr. August recommended that the Audit Committee communicate back to the school committee that a policy be developed regarding the relationship between school department employees and any outside agency/club be addressed to the school committee to avoid impropriety unless the school committee says school department employees are prohibited from being officers or board members of organizations who have a financial relationship with the school department.

**VII. Discussion regarding Sports Camps Special Revenue Funds and the administration of the revenue collected.**

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- Item moved to next meeting

**VIII. New Business - none**

**IX. Correspondence - none**

**X. Public Comment**

Bill Mudge addressed the committee regarding the sports camp funds. His feelings are that the sports camp funds should not be under the purview of the school department. He further explained that the money taken in by sports camp program programs is supplementing all athletic activities such as football, basketball, and baseball programs even though these activities are not supporting the sports camp funds. Mr. Mudge explained that the money taken in from sports camps goes into the reporting to the Department of Education and feels that it shouldn't overlap the education budget.

Jim McGwin submitted to the Town Council and School Committee a few whistleblower complaints. He explained that the school department has not yet sent out any communication to its employees regarding this policy, however, the Town has sent employees significant notification of the whistleblower policy and the hotline. Mr. McGwin noted that in June approximately \$40,000 was transferred out of the activity funds to the office accounts but was told the office secretary is still maintaining a listing of which graduating class owns how much money (handed out an analysis). Noted that there are medical records in the activity funds, problem with HIPPA, while reviewing an injury fund. Suggestion he would be more than happy to meet with someone on the audit committee or school committee to review the information he has gathered.

Richard Welch explained they were asked to vote on who could sign purchase/agreements, felt comfortable with 2 signatures on expenses in excess of \$5,000 but school administration expressed that they had ample procedures in place that it wasn't necessary but approved with a caveat that they would be discussing the process with the audit committee. The current procedure is that two people request the expenditure and one person signs the check. Mr. Welch questioned whether the audit committee was comfortable with this procedure? He expressed that if they were comfortable with the current procedure then he was satisfied as well, however, if they were not, then he would present it to the school committee. Chairman McCrory explained that they will put the issue on their next agenda to discuss. Mr. Welch is concerned that the Athletic Director authorized for payment then the principal of the high school issued a check and in his mind all financial transactions should flow through the business office. He did not suggest that a problem exists he just doesn't understand it. Mr. August further questioned the allegations of funds being transferred out of the activity funds into an office account, "what they hey is an office account?" Several of the audit committee members questioned the same.

**XI. Next Meeting**

December 23<sup>rd</sup> @ 6:30 pm, presentation of the June 30, 2008 financial statements.

**XII. Adjournment**

**MOTION** made by Julia Techentin, seconded by Jeff Wadovick. Vote: unanimous.