



**Auditor of State
Betty Montgomery**

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**BOARD OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES
FRANKLIN COUNTY**

**SCHEDULE OF APPOINTED BOARD MEMBERS AND OTHER RELEVANT PERSONNEL
As of February 25, 2002**

Board Members

Term

Paul Coppel, President	01/1997 – 12/2004
Mildred Blumenfeld, Vice President	01/1997 – 12/2004
Dr. Raymond Horn, Secretary	01/2000 – 12/2003
Mark Bainbridge	01/2002 – 12/2005
Ben Hale, Jr.	01/1997 – 12/2004
Bruce Burns	01/2000 – 12/2003
Kathleen Ransier	01/1998 – 12/2005

Relevant Personnel

Jed Morison, Superintendent, FCMRDD

Donald Harlow, Assistant Superintendent, FCMRDD

Marj Kruse, Administrator, Fiscal Services Division, Franklin County

Dan Darling, Director of Personnel, Franklin County

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**Auditor of State
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INDEPENDENT ACCOUNTANTS' REPORT

Jed Morison, Superintendent
Franklin County Board of Mental Retardation and Developmental Disabilities
2879 Johnstown Road
Columbus, Ohio 43219

Based upon the request of Franklin County Prosecutor Ron O'Brien, we have conducted a special audit of the Franklin County Board of Mental Retardation and Developmental Disabilities (FCMRDD) by performing the procedures described in the attached Supplement to the Special Audit Report for the period January 1, 1998, through February 25, 2002 (the Period), solely to determine whether operational improvements can be made to increase the effectiveness and efficiency of purchasing procedures, to determine whether certain expenditures were authorized and for a purpose related to the operation of FCMRDD, and to determine whether the goods and services were received.

This engagement was conducted in accordance with consulting standards established by the American Institute of Certified Public Accountants. The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and significant results is as follows:

1. We obtained an understanding of the procurement process to determine whether operational improvements could be made to increase the effectiveness and efficiency of purchasing procedures.

Significant Results: FCMRDD had no written purchasing procedures and did not monitor purchases, usage, and inventory of maintenance and cleaning supplies. We issued 5 Management Comments to address these and other weaknesses.

2. We reviewed certain expenditures to determine whether applicable competitive bidding requirements and FCMRDD procurement policies (if any) were followed, and to determine whether contracts or payments were authorized, for a purpose related to the operations of FCMRDD, and the work described and/or the items purchased were received.

Significant Results: FCMRDD violated Ohio Rev. Code requirements governing competitive bidding, emergency purchases, blanket purchase orders, and contract change orders. We issued Noncompliance Citations for each of these violations. Additionally, we issued 9 Management Comments to address various significant internal control weaknesses.

Due to the lack of documentation maintained by FCMRDD and poor internal controls related to the purchasing process, we were unable to conclude whether purchased goods were actually received or had been misappropriated. Vendor requisition forms and receiving records did not exist. Without receiving records, we were unable to conclude whether purchased goods were ever delivered to FCMRDD. Additionally, without receiving records, FCMRDD was unable to provide assurances that goods and services were received prior to making payment on an invoice. It is imperative that FCMRDD take steps to improve its internal controls related to the purchase of goods and services.

Services provided by Buckeye Roofing for roofing repairs at ARC South and West Central were divided into smaller billings of identical amounts to avoid competitive bidding requirements. Additionally, even though estimates were received to cover ARC South's entire roof with a protective material for \$148,789, FCMRDD paid \$416,728 during the Period to repair leaks over just 30% of the roof.

During the Period, FCMRDD paid \$332,723 to Global Products for light bulbs and cleaning supplies. Neither Global Products nor FCMRDD were able to provide detailed shipping or receiving records related to these expenditures. Therefore, we were unable to conclude whether all purchased items had been received. Additionally, of 5,730 light bulbs purchased, only 665 remained in inventory. Given the 10,000 hour estimated useful life of the bulbs and that only 128 fixtures accepted such a product, it appears unreasonable that 5,065 bulbs were actually used. Due to the suspicious nature of the transactions with Global Products, we will refer this matter to the Franklin County Prosecutor for further review.

We issued a Finding for Recovery in the amount of \$1,428, against a vendor, Avaya, for payment of a duplicate invoice.

3. In addition to the noncompliance and internal control weaknesses noted in Issues No. 1 and 2, we issued 8 Management Comments. FCMRDD should seriously consider these matters to reduce the risk of fraud and theft, and to ensure that transactions are completely and accurately recorded.
4. On April 29, 2003, we held an exit conference with the following individuals:

Jed Morison, Superintendent
Dot Yeager, Chief Financial Officer
Mark Bainbridge, Board Member
Bruce Burns, Board Member
Martin Kerscher, General Counsel

The attendees were informed that they had until May 9, 2003, to respond to this Special Audit Report. A response was received and changes were made to this report as we deemed necessary.

This report is intended solely for the information and use of the FCMRDD and is not intended to be and should not be used by anyone other than these specified parties. However, reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.



Betty Montgomery
Auditor of State

March 31, 2003

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Background

On April 3, 2002, Ron O'Brien, Franklin County Prosecutor, received an anonymous letter which contained allegations that during calendar year 2001, former FCMRDD Maintenance Foreman, Robert Thompson, ordered over \$200,000 worth of light bulbs from a New Jersey-based company called Global Products for FCMRDD's Northeast School. The letter further stated that Global Products had been paid more than \$500,000 over a 4-year period, and asked that Prosecutor O'Brien determine who ordered the light bulbs, who approved the vouchers for payment, and where the stock was currently being held.

Prior to the Prosecutor's receipt of the allegations, FCMRDD instructed Mr. Thompson to perform an inventory of the supplies at Northeast School. FCMRDD estimated that \$50,000 of supplies remained in stock. FCMRDD officials requested that Mr. Thompson provide an explanation to justify the quantity of purchases from Global Products versus the remaining inventory; however, Mr. Thompson was unable to do so. Mr. Thompson was asked to resign, and did so on February 25, 2002.

We met with Prosecutor O'Brien on May 15, 2002. He informed us that his office performed a preliminary investigation, led by Assistant Prosecutor Dave Buchman. Their investigation revealed that Global Products had no business contact with any other county agency in the state of Ohio. In addition to the concerns raised regarding Global Products, the Prosecutor's Office expressed concerns about roofing repair expenditures possibly processed without a contract document. These expenditures were allegedly not offered for bid, and it was unclear as to whether the work was actually performed.

On May 23, 2002, we met with FCMRDD Superintendent Jed Morison and Assistant Superintendent Don Harlow to discuss the allegations. They informed us that FCMRDD issued one vendor requisition form for Global Products when they began doing business with the company in 1998, and all subsequent purchases were allegedly verbal orders, without documented approval of the Building Principal.

The above information was presented to the Auditor of State's Special Audit Committee, and on June 11, 2002, the Committee voted to initiate a Special Audit of the FCMRDD

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 1 - Procurement Process
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We obtained an understanding of the procurement process to determine whether operational improvements could be made to increase effectiveness and efficiencies of procedures.

PROCEDURES

1. We interviewed Don Harlow, Assistant Superintendent, Rick McCune, Coordinator of Schools, Mary Ann Ledinsky, Director of Schools, Keith Ogle, Storeroom Supervisor, and 5 Account Clerks, reviewed available policies, and performed a walk-through to gain an understanding of the process for purchasing goods and services.
2. Through interviews and site-visits, we compared Northeast School's purchasing procedures and inventory maintenance to West Central School, a comparable FCMRDD location.

RESULTS

1. During our review of purchasing procedures, we noted the following weaknesses:
 - A. Prior to February 2002, there were no written policies or procedures governing the process for requesting, approving, and paying expenditures. At that time, Don Harlow, Assistant Superintendent, issued a written memorandum outlining procedures for the purchase of goods and services; however, this memo was never incorporated into the FCMRDD Board Policy Manual. We will recommend the FCMRDD formally establish written policies and procedures for the requisition and purchase of goods or services and include the established policy in the Board Policy Manual.
 - B. Although the FCMRDD utilized a centralized storeroom to provide certain operating supplies to the various buildings, the storeroom did not require documentation that such shipments were received by the intended party. We will recommend the storeroom require a signed copy of the Supply Requisition Form be submitted by the receiving building to document the completion of the transaction.
 - C. Blanket purchase orders were created through the County's purchase order system for such items as food, supplies, and computers. Invoices received for these expenditures were processed for payment by the same Account Clerks who created the blanket purchase orders, resulting in no segregation of duties between authorizing and paying for the expenditure. We will recommend the Account Clerk(s) responsible for creating and modifying purchase orders not be allowed to process vendor invoices for payment.
2. FCMRDD operates 2 schools: Northeast School and West Central School. During the Period, neither school tracked purchases, usage, and balances of cleaning supplies or maintenance items. We will issue a recommendation regarding inventory procedures.

Although Northeast School has 50% less square footage than West Central, and only 40% of the building is used during the summer (as opposed to West Central's year-round operation), Northeast School's materials and supplies expenditures in calendar years 2000 and 2001 exceeded those of West Central by \$78,749 and \$214,072, respectively.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Northeast and West Central Schools had an internal policy which required that all purchases by the Maintenance Foreman be approved by the principal; however, multiple purchases at Northeast School from Global Products, Gahanna Hardware, Overall Supply, and Reynolds Plumbing & Heating were not approved by the Northeast School Principal. We will issue a recommendation that FCMRDD ensure all purchases are approved by the building Principals.

MANAGEMENT COMMENTS

Board Policy Manual

The FCMRDD Board Policy Manual does not contain a written policy detailing the various processes for purchasing, receiving and dispensing goods from vendors and/or the FCMRDD storeroom. A detailed policy with specific procedures is an important part of the control process because it outlines the exact procedures that must be performed and who is responsible for those procedures. Without a policy in the FCMRDD Manual, there is no clear instruction for the performance of routine tasks at FCMRDD and the staff has no source of reference when they experience uncertainty.

Additionally, employees were not required to sign an acknowledgement when changes were made to the Board Policy Manual. Without a written policy established and employee confirmation of receipt of such policies, confusion can arise with regard to the procedures which are to be followed.

We recommend that FCMRDD revise the Board Policy Manual to include procedures for procuring goods and services from outside vendors and from the agency-wide storeroom. This policy should also state the position or person responsible for each process or procedure. The Manual should be given to all personnel who are involved in any of these areas, and those employees should be required to sign paperwork acknowledging the receipt of the policy, and modifications to the policy, which should be made periodically as necessary.

Receipt of Storeroom Goods

During the Period, the storeroom did not require any documentation from the receiving party that ordered goods had been received. As a result, the storeroom could not verify that shipped items were received by the intended party.

We recommend the storeroom require a copy of the requisition form be signed and returned upon the receipt of goods. This will help ensure that goods were received. Requisition forms which are not returned to the storeroom should be investigated and resolved.

Segregation of Duties: Purchase Order System and Approval of Invoices

The Account Clerks who created blanket purchase orders also entered invoices into the computer system for payment. This lack of segregation of duties increases the risk that an Account Clerk can create a purchase order and also generate a payment on an unauthorized invoice without detection. Additionally, Account Clerks routinely approved invoices and then processed those invoices for payment, resulting in the possibility of FCMRDD paying on an unauthorized invoice.

We recommend FCMRDD stop allowing Account Clerks who process invoice payments to also create blanket purchase orders and approve invoices for payment. This will improve the segregation of duties between initiating, authorizing and paying for expenditures, which lowers the risk that one person could process unauthorized expenditures.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Inventory of Supplies

There were no guidelines for the quantity of maintenance and cleaning supplies that were to be kept on hand at FCMRDD locations. There were also no guidelines regarding when goods were to be purchased from outside vendors versus obtaining them from the agency-wide storeroom. There was no system in place to allocate, by location, the cost of goods issued from the storeroom to FCMRDD locations.

Once a year, a physical inventory of the storeroom was taken. The computer system generated a list of items and quantities on-hand. During the physical inventory, if a discrepancy was found between the computer report and the physical on-hand quantity, the computerized report was changed to match the physical count. A report was not generated between the computer on-hand quantity and the physical on-hand quantity and discrepancies were not investigated.

Routine inventory reports were not generated for the individual buildings, and a physical inventory was not taken. On the final inventory counts taken by Mr. Thompson and maintenance personnel at the administration building, records did not include the date, signature of the person who took the inventory or a reviewer's signature.

We recommend that FCMRDD create a general set of guidelines regarding the quantity of goods kept on hand at FCMRDD locations. With the exception of items that are needed only at one location, all goods should be purchased and distributed through the storeroom. This should reduce the cost of goods purchased and reduce susceptibility to theft. In order to monitor the amount of supplies used at each location, the storeroom should devise a system whereby the cost of goods is allocated to each location.

We recommend the individual buildings begin taking physical inventories on a routine basis. For both the storeroom and the individual buildings, we recommend that a report be generated after each physical inventory, to reconcile the physical on-hand quantity and the computer on-hand quantity. We also recommend that paperwork be completed to document the reason for inventory report modifications each time a change is made to the on-hand counts in the computer system. Inventory records should be signed, dated, and reviewed by a member of management.

Approval of Purchases

Northeast and West Central Schools had an internal policy that all purchases initiated by the Maintenance Foreman be approved by the Principal; however, purchases from Northeast School were routinely not approved by the Principal. Without the Principal's approval, it is unclear whether the Principal had knowledge of the volume and types of purchases being made.

We recommend the building Principals be made aware of all purchases for his or her building, and document his or her awareness by approving the vendor requisition form. Prior to processing an invoice for payment, the Account Clerk should ensure a signed vendor requisition form is on file.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 2 - Review of Certain Expenditures

We reviewed certain expenditures to determine whether applicable competitive bidding requirements and FCMRDD procurement policies were followed, and to determine whether contracts or payments were authorized, for a purpose related to the operations of FCMRDD, and the work described and/or the items purchased were received.

PROCEDURES

1. We obtained and reviewed a listing of all payments issued to Global Products and Buckeye Roofing during the Period, documenting the amounts paid to each company during each calendar year.
2. Through interviews and site visits, we determined whether services were provided by Buckeye Roofing, contract requirements were fulfilled, and established time frames (if any) for project completion were met. We also determined whether expenditures were approved for payment, by whom, and when.
3. For Global Products, we quantified the number of light bulbs and related supplies purchased. We performed a site visit of Northeast School, noting the size of the building and estimating the potential usage of lighting fixtures. We performed an analysis of these two factors to determine if the volume of purchases was reasonable. We also determined whether expenditures were approved for payment, by whom, and when.
- 3a. We obtained a copy of FCMRDD's inventory count at Northeast School, taken January 28, 2002. We determined the method by which the inventory was counted and offered suggested process improvements.
- 3b. Using UPS shipping documents provided by Global Products, we attempted to reconcile these documents with the Global Products invoices provided by FCMRDD, and we reported any discrepancies.
- 3c. We determined whether Global Products supplied other FCMRDD locations with light bulbs, and if so, the volume and types of purchases made, and the process for storing inventory.
4. We reviewed the County's disbursement journal to identify vendors who received large payments during the Period or who had multiple invoices on the same date. Through employee interviews and a review of supporting documentation, we determined whether these expenditures were reasonable and for a purpose related to the operations of FCMRDD.

RESULTS

1. The following is a summary of all payments issued to Buckeye Roofing and Global Products during the Period.

	<u>Global Products</u>	<u>Buckeye Roofing</u>
1998	\$721	\$38,727
1999	19,062	122,228
2000	76,788	321,491
2001	227,540	361,983
2002 ¹	<u>8,612</u>	<u>18,182</u>
TOTAL	<u>\$332,723</u>	<u>\$862,611</u>

¹ Expenditures through February 25, 2002.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

2. According to Don Harlow, Assistant Superintendent, FCMRDD had not entered into a contract with Buckeye Roofing; rather, all work had been done on an emergency basis. Of \$862,611 paid to Buckeye Roofing, \$416,728 was for roofing repairs at ARC South and \$322,608 was for roofing repairs at West Central. The remaining \$123,275 was related to various repairs at 5 other locations, ranging in cost from \$1,791 at ARC West, to \$45,229 at Hague Avenue.

Buckeye Roofing submitted 120 invoices for the repairs at ARC South and West Central. Thirty-nine invoices (related to 8 specific projects and totaling \$344,050) were divided into smaller billings of identical amounts which were below required bidding thresholds of \$15,000. We will issue a Noncompliance Citation for not obtaining competitive bids in accordance with Ohio Rev. Code Section 307.86.

Employees at ARC South and West Central verified that Buckeye Roofing did provide services; however, without contract documents, we were unable to determine whether agreed-upon services were completed at each location and whether those services were performed in a timely manner.

There were 7 blanket purchase orders open for more than 3 months, with 2 purchase orders open for 10 months. Ohio Rev. Code requires blanket purchase orders be closed within 3 months; therefore, we will issue a Noncompliance Citation for this violation.

There were no vendor requisition forms for any of the Buckeye Roofing expenditures. The vendor requisition form serves as the official request and preliminary approval of the expenditure. We will issue a recommendation that vendor requisition forms be completed for all expenditures including emergency work.

Don Harlow approved 38% of all Buckeye Roofing invoices and 52% were approved by an Account Clerk. Payments were processed by Account Clerks, resulting in a lack of segregation of duties. In Issue No. 1, we included a recommendation regarding this lack of segregation of duties.

On November 6, 1998, and August 25, 1999, ARC South received proposals from Buckeye Roofing that indicated the entire roof could be covered in Protecta-Products Elastomeric material for \$148,789. These proposals included a 10-year warranty. From our visual inspection, it appeared that 30% of the roof had been covered with Elastomeric material; however, the invoices did not provide enough detail to determine whether FCMRDD was charged for 30% of the existing roof. During the Period, \$416,728 was paid to Buckeye Roofing for ARC South's roofing expenditures, which consisted of "emergency" repairs of leaks in the roof, corrected by covering each section with Elastomeric material. FCMRDD paid \$416,728 for repairs of 30% of the roof using the Elastomeric material, even though estimates were received to cover the entire roof for \$148,789. The Board Minutes did not contain any information on the roofing project at ARC South. Had the proposals been reviewed and accepted by the Board, FCMRDD may have saved \$267,939 over the cost of repeated emergency repairs, plus the cost of additional repairs which could be needed over the remaining 70% of the roof. We will issue a recommendation that the Board be made aware of project proposals to determine if replacement costs could be less expensive than the cost of potential repairs.

3. 153 payments totaling \$332,723 were issued to Global Products during the Period: \$311,914 of which was for Sunrise Brand light bulbs and related fixtures, and \$20,809 for cleaning supplies.

Northeast School has 128 fixtures which accept Sunrise Brand light bulbs. During the Period, FCMRDD purchased 5,730 of these high-energy fluorescent bulbs from Global Products. Sunrise Lighting indicated in writing to us they did not ship any light bulbs to a company named Global Products. They also indicated that although FCMRDD paid Global Products for 3,180 YDS light bulbs in the time period of January 4, 2001 to November 7, 2001, Sunrise Lighting had not sold 3,180 YDS light bulbs to any one vendor during that time. Of the 5,730 total bulbs purchased from Global Products, only 665 remained in stock, according to our inventory of maintenance goods, counted on June 20, 2002.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

FCMRDD did not maintain any receiving records to document whether all 5,730 bulbs for which they paid were actually received and entered into inventory. Therefore, we are unable to conclude if the 5,065 missing bulbs were used during the Period or were misappropriated. Given the 10,000 hour estimated useful life of the bulbs and that only 128 fixtures accepted such a product, it appears unreasonable that 5,065 bulbs were actually used.

Also during the Period, Northeast School paid \$1,984, to purchase 96 Exit Sign Conversion Kits, even though, according to our observation, Northeast School currently has only 23 exit signs. Only 1 of those 23 exit signs has been converted and there were 17 unused conversion kits in storage. FCMRDD was unable to locate the other 78 Exit Sign Conversion Kits.

Northeast School purchased 30 8-foot light bulbs at a total cost of \$435; however, the building does not have any fixtures that accept 8-foot light bulbs and there were none remaining in inventory. We will issue a recommendation that FCMRDD not purchase light bulbs that are incompatible with existing light fixtures.

FCMRDD officials informed us that all orders to Global Products were done via telephone; however, no record existed of when those orders were placed, who made the requests, and what items were ordered. We will issue a recommendation that FCMRDD develop procedures to accurately document telephone orders.

Vendor requisition forms were not completed for 152 of 153 Global Products payments. The vendor requisition form serves as the pre-approval and initiation of the purchase. We will issue a recommendation that vendor requisition forms be completed and maintained on file for all purchases.

Four Global Products purchase orders were open for more than 3 months, 2 of them for over 9 months. We will issue a Noncompliance Citation for having purchase orders open for longer than 3 months.

54 invoices had a received date stamped on the invoice by an Account Clerk that was prior to the ship date listed on the invoice. Five invoices had a received date stamp that matched the ship date on the invoice. We will issue a recommendation that FCMRDD not initiate payment until the goods have been verified as received.

According to the information presented on the Global Products invoices, multiple orders were shipped on the same date. There were 15 occasions where 2 separate invoices documented the same ship date and the same items shipped. There were 6 occasions where 3 separate invoices documented the same ship date and the same items shipped, and there were another 6 occasions where 4 separate invoices documented the same ship date and the same items shipped. Each of the invoices was assigned an individual number, none of which was repeated. Although our review of these unusual invoices, totaling \$129,915, revealed the appearance of duplicate billings, the lack of inventory and receiving records at FCMRDD prevented us from determining whether all goods allegedly shipped were received. Due to the suspicious nature of these transactions, we will refer this issue to the Franklin County Prosecutor's Office for further review.

- 3a. Although FCMRDD officials were concerned about purchases allegedly initiated by Mr. Thompson, they allowed him to perform a final inventory prior to his resignation. There was no evidence of whether this inventory had been supervised, and the inventory list was undated, unsigned, and costs were not assigned. In the future, FCMRDD should not allow employees against whom allegations are made perform unsupervised inventories of items which are the subject of an investigation.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Subsequent to Mr. Thompson's inventory, supplies were moved to FCMRDD's administrative building maintenance area and another inventory was taken by maintenance personnel. The inventory taken by the maintenance personnel did not agree to the inventory taken by Mr. Thompson. This second inventory count was also not dated, signed, or documented as having been supervised. Additionally, documented inventory items were not assigned a value; only quantities were listed. FCMRDD has no official guidelines for the process of taking inventory. As a result of poor inventory controls, FCMRDD has no method of determining whether all purchased items were received or where all purchased items were placed in use. In Issue No. 1, we issued a Management Comment regarding overall inventory procedures.

- 3b. Invoices received from Global Products documented 91 different delivery dates; however, FCMRDD did not document the receipt of merchandise so we were unable to determine if everything listed on the individual invoices had been received. During a phone conversation on September 3, 2002, Global Products declined our request to provide copies of all shipping documents for products purchased by FCMRDD. Therefore, we utilized 33 available UPS shipping documents that Global Products provided FCMRDD prior to our initiation of a special audit. Our review of the UPS shipping documents noted the following unusual items:
- Of the 33 shipping documents provided, only 11 included the ship date. Of those 11 dates, only 5 agreed to the ship date(s) listed on the Global Products invoices.
 - Multiple deliveries occurred on the same day, including 6 occasions where 2 deliveries were shipped on the same date with the same weight, and 1 occasion where 4 deliveries were shipped on the same date. However, the UPS shipping documents did not document weight so we were unable to determine whether shipments were of duplicate items.

We issued a subpoena to Equity National Bank, Global Products' financial institution, in an attempt to identify Global Products' supplier(s). Equity National Bank refused to comply with our subpoena. We were unable to obtain any financial records of Global Products.

In addition to Global Products' financial institution discussed above, Global Products also cashed FCMRDD checks at United Check Cashing in Sicklerville, New Jersey. According to officials at United Check Cashing, Adrian Noveck established an account at United Check Cashing using the name Global Products. Only Adrian Noveck and his wife, Hepy, were authorized to cash Global Products' checks at United Check Cashing. We were unable to determine a relationship between Mr. and Mrs. Noveck and Roy and Andy James, who, according to FCMRDD officials, were the owners of Global Products. Due to the suspicious nature of the transactions with Global Products, we will refer this matter the Franklin County Prosecutor's Office for further review.

- 3c. FCMRDD's computerized general ledger did not include payments to Global Products for any of its locations except Northeast School.
4. We identified 111 instances of multiple payments for the same amount (greater than \$750) to the same vendor for invoices with the same invoice date, charged to the same project code. The following is a categorization of the 111 instances:
- 20 instances which were reviewed as part of Issue No. 2, Procedure No. 2.
 - 26 instances which were reviewed as part of Issue No. 2, Procedure No. 3.
 - 64 instances which were resolved upon our review of the physical copy of the invoices.
 - 1 instance where the physical copies of the invoices were the same, indicating that a possible duplicate invoice was paid. We contacted the vendor, Avaya, who agreed the invoice was a duplicate charge and indicated they would repay \$1,428 to FCMRDD. At the time of the Exit Conference, Avaya had not repaid the FCMRDD; therefore, a Notice of Proposed Finding for Recovery was mailed to Avaya on May 14, 2003. We did not receive a response to that notice. Accordingly, we will issue a Finding for Recovery against Avaya and in favor of the FCMRDD for \$1,428.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We identified 381 instances of multiple payments totaling in excess of \$15,000 (the Ohio Rev. Code threshold for competitive bidding requirements), to the same vendor, for which we noted the following:

- 356 instances were exempt from competitive bidding requirements.
- 9 instances which were reviewed as part of Issue No. 2, Procedure No. 2.
- 2 instances which were reviewed as part of Issue No. 2, Procedure No. 3.
- 14 instances where competitive bidding requirements were fulfilled.

Our review of competitive bidding requirements also revealed 3 instances where MDDD did not issue contract change orders. We will issue a Noncompliance Citation for failing to complete change orders.

A total of 23 expenditures totaling \$317,186, to Reynolds Plumbing and Heating, Miles-McClellan Construction, VSP Fire Systems, and Michael Building Maintenance did not have purchase orders or vendor requisition forms. Additionally, there was no contract between Michael Building Maintenance and FCMRDD. Michael Building Maintenance charged FCMRDD \$39,360 for 14 days of snow plowing and \$147,840 for salt materials allegedly provided on 17 different dates. The Assistant Superintendent indicated the price of the snow removal services was negotiated by the former FCMRDD Superintendent. We will issue a Noncompliance Citation for failing to accept competitive bids and recommend FCMRDD enter into a Board-approved, written contract prior to the next winter season.

Although FCMRDD leased space from the 350 E. Broad Street Trust, the Board did not approve 2 leases dated June 19, 1996, and May 12, 1999, and those lease agreements did not include applicable dates in the bodies of the contracts. We will issue a Management Comment regarding these weaknesses.

During our review of expenditures, we noted that FCMRDD had large cellular telephone bills with no supporting detail. Although the Board does have an "Equipment Usage" policy, it does not specifically address the use of cellular phones, nor does it establish guidelines for what constitutes allowable phone calls. We will issue a Management Comment that a policy, specific to cellular phone usage, be established.

During our interviews with the Northeast School Principal, he identified 2 additional vendors, Overall Supply and Gahanna Hardware, where vendor requisition forms were not submitted. We reviewed supporting documentation for the transactions with these vendors.

Overall Supply

Between August 2, 2001 and January 15, 2002, 7 payments were issued to Overall Supply, totaling \$5,435. Upon speaking with the Northeast School Principal, we learned that several Overall Supply boxes had been sitting on the dock, unopened, from the beginning of the school year, until the time when Mr. Thompson resigned. At that time, the Northeast School Principal questioned Mr. Thompson, who denied he had ordered the products. Additionally, during the Period, FCMRDD purchased 10 dozen brown jersey gloves at a cost of \$500. The Northeast School Principal informed us that there was no reason for the school to have any brown jersey gloves, as the teachers were only permitted to use latex gloves. We will issue a recommendation that FCMRDD attempt to return the unnecessary items.

Gahanna Hardware

During the Period, FCMRDD paid \$14,685 to Gahanna Hardware. Payments were supported by 268 invoices. Our review of those invoices revealed the following:

- 83 invoices where the received date stamp placed on the invoice by the Account Clerks was prior to the invoice date. We will issue a recommendation that FCMRDD not pay for goods until after they are received.

The invoices contained numerous small items such as nuts and bolts that were difficult to identify because varying sizes were not included. FCMRDD was also purchasing nuts and bolts from other vendors. We will issue a recommendation that vendor requisition forms be utilized to help monitor the quantity of goods purchased.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- There were no vendor requisition forms/FCMRDD purchase orders for Gahanna Hardware purchases. Mr. Thompson was able to obtain the goods by simply stating his name, because his name was on FCMRDD's account. We will issue a recommendation that FCMRDD require that Gahanna Hardware see a completed vendor requisition form prior to FCMRDD employees purchasing goods.
- We noted 1 instance (not related to Northeast School) where the invoice did not have a signature on the "received by" line. We noted 5 instances where a maintenance worker other than Bob Thompson, signed the "received by" line on Gahanna Hardware invoices. We will issue a recommendation that FCMRDD establish a list of individuals allowed to purchase goods and not pay invoices unless the "received by" line is completed.

We selected easily identifiable items from the Gahanna Hardware invoices to determine if the items could be located at Northeast School. Of 27 items we selected, 23 were located. A drill, wire stripper, vise grip, and a dust mask with a combined value of \$117, were not located. We will issue a recommendation that all tools and equipment be marked with an identifying sticker and that FCMRDD maintain a list of assets.

FINDING FOR RECOVERY

FCMRDD issued check no. 012055 to Avaya on September 7, 2001, in the amount of \$1,428. This check was supported, in part, by invoice no. 0216221763, dated May 6, 2001, for \$1,428, which had previously been paid by FCMRDD on May 22, 2001, with check no. 1012742, resulting in a duplicate payment.

In accordance with the foregoing facts and pursuant to the Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Avaya, and in favor of the FCMRDD, in the amount of \$1,428.

NONCOMPLIANCE CITATIONS

Competitive Bidding

Ohio Rev. Code Section 307.86 establishes guidelines for competitive bidding. "Anything to be purchased, leased, leased with an option or agreement to purchase, or constructed, including, but not limited to, any product, structure, construction, reconstruction, improvement, maintenance, repair, or service, except the services of an accountant, architect, attorney at law, physician, professional engineer, construction project manager, consultant, surveyor, or appraiser, by or on behalf of the county of contracting authority, as defined in section 307.92 of the Ohio Rev. Code, at a cost in excess of \$15,000, except as otherwise provided..., shall be obtained through competitive bidding."

Ohio Rev. Code Section 307.87 states, in part, "Where competitive bidding is required by section 307.86 of the Revised Code, notice thereof shall be given in the following manner: (A) Notice shall be published once a week for not less than 2 consecutive weeks preceding the day of the opening of bids in a newspaper of general circulation within the county for any purchase, lease, lease with option or agreement to purchase, or construction contract in excess of \$10,000.

During the Period, roofing repairs were divided into smaller, identical billings below the \$15,000 competitive bidding threshold. The total of these billings was \$344,050. Also during the Period, FCMRDD paid \$187,200 for snow plowing and salt materials without soliciting bids or entering into a contract with the provider. FCMRDD did not advertise its intention to accept bids for the roofing project, and the snow removal services were verbally negotiated by FCMRDD's former Superintendent. By not requesting competitive bids for both roofing repair and snow removal services, FCMRDD may not have received the lowest price.

Competitive bidding should be performed in accordance with the above referenced Ohio Rev. Code Sections. We recommend FCMRDD develop policies and procedures to ensure that competitive bidding procedures are utilized, thereby enabling FCMRDD to receive the best price. We further recommend FCMRDD solicit bids for snow-removal services and enter into a Board-approved contract prior to the next winter season.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Emergency Purchases

Ohio Rev. Code Section 307.86(A) states, in part, "Competitive bidding is not required when the board of county commissioners, by a unanimous vote of its members, makes a determination that a real and present emergency exists and such determination and the reasons therefore are entered in the minutes of the proceedings of the board when: (1) the estimated cost is less than \$50,000; or (2) there is actual physical disaster to structures, radio communications equipment, or computers. Whenever a contract or purchase, lease, or construction is exempted from competitive bidding under division (A) (1) of this section because the estimated cost is less than \$50,000, but the estimated cost is \$15,000 or more, the county or contracting authority shall solicit informal estimates from no fewer than 3 persons who could perform the contract, before awarding the contract. With regard to such contract, the county or contracting authority shall maintain a record of such estimates, including the name of each person from whom an estimate is solicited, for no less than one year after the contract is awarded.

Assistant Superintendent Don Harlow informed us that all expenditures related to Buckeye Roofing were due to an emergency. However, FCMRDD did not follow the above requirements governing emergency purchases. A determination of an emergency had not been documented in the Board minutes, the cost of expenditures to Buckeye Roofing exceeded \$50,000, and informal estimates were not documented as having been received.

We recommend FCMRDD officials familiarize themselves with Ohio Rev. Code requirements governing emergency purchases and follow the procedures outlined therein.

Blanket Purchase Orders

Ohio Rev. Code Section 5705.41 (D) (3) establishes guidelines for blanket purchase orders as follows: Fiscal officers may prepare so-called "blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding 3 months or running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only 1 blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

During the Period, 7 blanket purchase orders for Buckeye Roofing were open for more than 3 months. Four blanket purchase orders for Global Products were open for more than 3 months. As a result, funds were encumbered and unavailable for other projects.

We recommend that FCMRDD does not keep blanket purchase orders open for more than 3 months.

Contract Change Orders

Ohio Rev. Code Section 153.62 states, in pertinent part, "If the bidder to whom the work is awarded must undertake additional work ..., the awarding body shall issue a change order setting forth the additional work that must be undertaken and authorizing additional cost to the contractor."

FCMRDD failed to issue change orders on 2 occasions, totaling \$7,671, and failed to maintain a signed copy of a change order on 1 occasion in the amount of \$6,350.

We recommend FCMRDD issue and maintain change orders on contracts as required by Ohio Rev. Code.

MANAGEMENT COMMENTS

Payment of Invoices and Vendor Requisition Forms

Invoices were sent to Don Harlow directly and initialed by him or an Account Clerk prior to payment, without any reconciliation or verification that services were received. Additionally, vendor requisition forms were not used for any of the Buckeye Roofing expenditures and there was only 1 vendor requisition form for purchases made from Global Products. The vendor requisition form serves as an important control when compared to the invoice to ensure FCMRDD is only billed for what was ordered, to ensure FCMRDD is taking advantage of any due credits, and to monitor the quantity of goods purchased. By not completing and reconciling the vendor requisition form to the invoices, FCMRDD may pay for goods which were not ordered or received.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

To strengthen controls over the payment process, we recommend that prior to making payments on invoices, FCMRDD compare the vendor requisition forms to the appropriate invoice and note any variance concerning the quantity ordered and quantity billed on the invoice. Further, we recommend that even in emergency situations, vendor requisition forms be utilized stating the exact location and the circumstances which make the purchase an emergency. Vendor requisition forms, both prior to the expenditures and after the related services are provided, should be signed by the building authority in order to ensure that the work was completed.

Vendor Proposals for Roofing Companies

Although there was no documented request for bids included in the Minute Record, Buckeye Roofing submitted 2 proposals stating the cost of covering the entire roof with a protective material was \$148,789. These proposals were not submitted for review to the Board.

During the Period, \$416,728 was paid to Buckeye Roofing for expenditures related to roof repairs at ARC South. Approximately 30% of ARC South's roof had been repaired by Buckeye Roofing using protective materials. By not following competitive bidding requirements or following through on the proposals submitted by Buckeye Roofing, FCMRDD spent more money to repair 30% of the roof than the cost of covering the entire roof in protective material.

We recommend that all proposals be sent to the Board for review. This will enable the Board to consider the use of preventative maintenance versus emergency repairs.

Goods Purchased

During our review of goods purchased by FCMRDD, we noted that Northeast School purchased 30 8-foot light bulbs; however, Northeast School does not have any lighting fixtures that can utilize these light bulbs. As a result, goods were purchased that were unnecessary. Further, none of these bulbs remain in FCMRDD's inventory. Additionally, \$500 was spent on brown jersey gloves which employees at Northeast School are unable to use.

We recommend that FCMRDD purchase only items which are compatible with the existing light fixtures and purchase only the number of items necessary for routine, day-to-day building operations. Further, we suggest FCMRDD investigate the possibility of returning items which it is unable to use.

Received Date

FCMRDD repeatedly stamped invoices "received" prior to the invoice date. For example, 83 Gahanna Hardware invoices had a received date prior to the invoice date. There were 55 Global Products invoices where the received date was before the ship date and 5 instances where the received date was the same as the ship date. By stamping invoices as received prior to the invoice date and/or ship dates, it appears invoices may have been received prior to the receipt of goods. Alternatively, it is possible that FCMRDD employees are not utilizing due diligence in stamping the received dates on the invoices (e.g., invoices stamped "received" prior to the date which the vendor has placed on the invoice). It is possible that FCMRDD paid invoices prior to the receipt of goods.

We recommend FCMRDD employees use care when stamping invoices as "received" and physically verify that the goods have been received. FCMRDD should not pay for goods which have not been received.

Cellular Telephone Usage

FCMRDD does not have a policy regarding cellular telephone usage. Our review of expenditures noted large cellular telephone bills with no supporting detail. As a result, personal telephone calls could have been made and no reimbursement was received by FCMRDD.

We recommend that FCMRDD establish a cellular telephone policy. FCMRDD should request detailed cellular telephone billings for each phone from the service provider. The cellular telephone billings should be sent to each employee with a cellular telephone for their signature indicating that all calls were for FCMRDD-related business. Any calls not related to County business should be reimbursed.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Gahanna Hardware

Gahanna Hardware submitted 268 invoices for supplies for which a vendor requisition form was not completed. As a result, goods were not approved prior to purchase. Additionally, we noted 5 instances where a maintenance employee, other than Mr. Thompson, signed the "received by" line on the Gahanna Hardware invoices; therefore, goods may have been purchased by an unauthorized employee. There was also 1 invoice from Gahanna Hardware which was not signed as received. Consequently, whether FCMRDD received the documented items is unknown.

We recommend that FCMRDD request that Gahanna Hardware require a copy of a completed vendor requisition form prior to allowing goods to be purchased. This will ensure that the goods were approved prior to purchase. We further recommend that FCMRDD establish a list of individuals authorized to purchase goods. That list should be provided to FCMRDD vendors, who should request the purchasing employee to provide identification. Additionally, FCMRDD should not pay an invoice unless the "received by" line has been completed.

Fixed Assets

Certain assets at Northeast School did not have identification tags to denote the assets belong to the school. The school was unable to determine if any assets were removed from the building when Mr. Thompson was asked to resign. The County Auditor's Office maintains a list of fixed assets over \$5,000 for FCMRDD; however, FCMRDD does not maintain a listing of assets that are less than \$5,000.

We recommend that all tools and equipment be marked with an identifying sticker and FCMRDD determine an internal threshold for recording fixed asset listings. Someone independent from preparing this list should periodically compare the list to the physical items and investigate any discrepancies.

Telephone Orders

FCMRDD officials stated most orders placed to Global Products had been done by telephone. When placing telephone orders, the vendor is writing the order, as it is dictated over the telephone by the employee at the school. FCMRDD did not maintain any documentation to support the telephone order, including who initiated the order at FCMRDD, who received the order at Global Products, and the quantity and types of items requested. By using telephone orders so frequently and not creating or maintaining any documentation supporting those orders, FCMRDD is not able to compare orders with packing slips to ensure only items which were ordered were received. This could lead to the vendor shipping unordered items, and then billing FCMRDD for payment on unauthorized orders. This weakness also hampered our ability to audit the Global Products transactions.

We recommend FCMRDD utilize phone orders only in the case of true emergencies. When using telephone orders, we recommend FCMRDD establish a detailed log of items ordered by telephone, who ordered the items, and who, at the vendor location, accepted the order.

Receipt of Goods

The person who initially filled out the requisition form was also responsible for signing the requisition form as proof that the goods were received. By allowing the person who ordered the goods or services to sign for the receipt of items, there was no independent verification that the goods or services were received.

We recommend that someone other than the person who initially filled out the requisition form be responsible for signing the copy of the requisition form that is returned to the Account Clerks prior to the processing of the invoice.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Additional Internal Control Weaknesses

Although not directly the result of the issues and procedures of the Special Audit, we noted the following additional internal control weaknesses that we wanted to bring to FCMRDD's attention:

Access to the FCMRDD's Purchase Order System

During the Period, the Account Clerk responsible for creating purchase orders transferred out of the Finance Office but was still able to create purchase orders on an emergency basis. Her title had not been changed and her user identification and password were being used by her replacement; therefore, it was not possible to tell when a purchase order was created in the system by the current or the former Account Clerk.

We recommend updating the former Account Clerk's title in order to more accurately describe her position and thereby evaluate her job performance. We recommend the current Account Clerk be given her own user identification and password, so that the system accurately records who is creating the purchase order.

Packing Slip Documentation

FCMRDD did not maintain packing slips included with vendor deliveries. Accordingly, there was no specific documentation or verification that all items included in a shipment were received, nor was there a mechanism in which to follow-up on partial orders, missing items, or excess charges.

We recommend FCMRDD maintain all packing slips and use those slips as a method of verifying that all items included on the slip were properly received. Each item should be documented as received and the reviewer should affix his or her signature to the packing slip as verification of such review. The packing slips should then be compared to the vendor requisition forms and any outstanding items should be investigated. Copies of the signed packing slips and vendor requisition forms should be forwarded to the Account Clerks for payment.

West Central School Parents Funds

West Central School does not utilize a petty cash fund. Emergency expenditures that required cash were paid with West Central School Parents Group funds, which were held at the school. Documentation of the expenditure was submitted to FCMRDD for reimbursement, and the checks were written directly to West Central Parent Group. By not using FCMRDD's school purchasing procedures, funds were not encumbered until after the expenditure had already been made. As a result, the fund balances are not accurate.

We recommend that West Central School utilize their own petty cash system for expenditures. This will allow for a more accurate accounting of petty cash expenditure versus School Parents Group expenditures.

Outside Employment Policy

The FCMRDD Board Policy Manual includes a policy on outside employment; however, that policy does not require employees to disclose such employment. As a result, FCMRDD employees could hold positions that conflict with their current job duties.

We recommend that FCMRDD revise the Board Policy Manual to include language that requires employees to disclose outside employment. At a minimum, those employees involved in finance positions, purchasing agents at the individual buildings, and general managers should be required to periodically certify his or her outside employment for the Board's review and determination as to whether a potential conflict of interest exists.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Coding of Invoices

The Account Clerks did not divide items on supply invoices into subcategories if more than one subcategory was listed on the invoice (e.g., when cleaning supplies and light bulbs were purchased from the same vendor, the entire amount of the invoice was coded to cleaning supplies). Reports by subcategories would not have accurately reflected the goods purchased.

We recommend invoices be coded to individual supply subcategories, if the items are for multiple areas. This will allow for more accurate budgeting and monitoring of expenditures.

Payroll Adjustments

FCMRDD currently uses an internal payroll system and the County Auditor's payroll system to track payroll and leave balances. During our review of Bob Thompson's leave usage, we noted that FCMRDD made manual adjustments in the County Auditor's payroll system to certain FCMRDD employees' payroll records. As a result, the amounts of year-to-date vacation earned and used were turned into negative numbers on the County Auditor's system. Therefore, there are discrepancies between the payroll balances in the County Auditor's system and FCMRDD's payroll system.

We recommend that FCMRDD utilize only the County Auditor's payroll system to track payroll. This will eliminate discrepancies between the two payroll systems. This will also allow the County Auditor's office to enhance the accuracy of compensated absences balances on the County's Comprehensive Annual Financial Report.

Account Clerk's Responsibilities

Prior to payment, the following invoices were not matched to purchase orders or vendor requisition forms:

- 268 Gahanna Hardware invoices
- 157 Buckeye Roofing invoices
- 152 Global Products invoices
- 15 Radio Shack invoices
- 7 Overall Supply invoices
- 5 Reynolds Plumbing & Heating invoices

By not matching invoices to purchase order or vendor requisitions forms, there was no independent verification that the goods or services were approved.

We recommend the Account Clerk match every invoice to a signed purchase order and receiving document(s) prior to payment. This will ensure that payments are made only for valid expenditures. If a signed purchase order and receiving document(s) cannot be located, the purchase should not be entered into the MUNIS system until the appropriate paperwork is received. The situation should be brought to the attention of the Assistant Superintendent immediately.

Board Minutes

There were 2 instances where the Board approved roofing work to the lowest bidder; however, the minutes did not indicate the vendor's name. As a result, if FCMRDD ever lost the documentation related to the bids, FCMRDD would not be able to prove the successful bidder. Additionally, FCMRDD entered into 2 lease agreements that were not approved by the Board and were not dated, which may have resulted in charges for unauthorized services for an unauthorized period of time.

We recommend the vendor name whose bids are accepted be documented in the minutes. This will provide another source of documentation of the vendor's name. We also recommend the Board formally approve all lease agreements, ensure agreements include applicable dates, and monitor financial activities surrounding such agreements.



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FRANKLIN COUNTY BOARD OF MRDD

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 24, 2003**