



## **AGENDA**

### **STATE BOARD OF EDUCATION**

May 16, 2011

Arkansas Department of Education

Auditorium, State Education Building

9:00 AM

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### **Reports**

#### **Report-1 Chair's Report**

*Presenter: Dr. Naccaman Williams*

#### **Report-2 Commissioner's Report**

*Presenter: Dr. Tom Kimbrell*

#### **Report-3 Recognition of Master Principal Awardees - Arkansas Leadership Academy**

*The Arkansas Leadership Academy will announce and recognize Arkansas school principals completing the Master Principal Program. Recipients will be announced from the podium.*

*Presenter: Diana Peer and Dr. Tom Kimbrell*

#### **Report-4 Coordinated School Health Report: NASBE/ASTHO, Collaborating for Success: Advancing School Health Policies**

*The presenters will share information learned from national experts, federal agencies and eight participating states, including Arkansas, while attending the NASBE/ASTHO, Collaborating for Success: Advancing School Health Policies seminar. This seminar focused on collaboration between State Boards of Education and Health, the strength of state level wellness policies, making the connection between academic achievement and policies to promote physical activity, physical education and climate change.*

*Presenter: Brenda Gullett and Laura McDowell*

#### **Report-5 Arkansas School Performance Report**

*The goal of the Arkansas School Performance Report (Report Card) is to disseminate statistical performance information to students, parents and interested community members so they can work with their schools to ensure Arkansas provides every student access to an extraordinary education. This information is organized into seven essential accountability indicators that all parents need to know: Student Achievement, School Performance, Retention, Safe and Orderly Environment, Teacher Quality, Choice and School Funding.*

*Presenter: Dr. Charity Smith*

#### **Report-6 Arkansas Graduation Rate**

*The U.S. Department of Education has amended the existing regulations implementing Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), by the No Child Left Behind Act of 2001 (NCLB). This amendment, 34 C.F.R. §200.19, is designed to establish a uniform and accurate measure of the high school graduation rate that is comparable across states by including new requirements for calculating graduation rate. The Title I regulations require states and local educational agencies (LEAs) to report on their annual report cards a four-year adjusted cohort graduation rate, disaggregated by subgroups, at the school, LEA, and state levels, respectively. This report summarizes how the ADE and local school districts will comply with these regulations.*

**Presenter:** Dr. Charity Smith

## **Consent Agenda**

### **C-1 Minutes - April 11, 2011**

**Presenter:** Phyllis Stewart

### **C-2 Commitment to Principles of Desegregation Settlement Agreement: Report on the Execution of the Implementation Plan**

*By the Court Order of December 1, 1993, the Arkansas Department of Education (ADE) is required to file a monthly Project Management Tool (PMT) to the court and the parties to assure its commitment to the Desegregation Plan. This report describes the progress the ADE has made since March 15, 1994, in complying with the provisions of the Implementation Plan (Plan) and itemizes the ADE's progress against the timelines presented in the Plan. The May report summarizes the PMT for April.*

**Presenter:** Dr. Charity Smith and Willie Morris

### **C-3 Newly Employed, Promotions and Separations**

*The applicant data from this information is used to compile the Applicant Flow Chart forms for the Affirmative Action Report which demonstrates the composition of applicants through the selecting, hiring, promoting and terminating process.*

**Presenter:** Beverly Williams and Clemetta Hood

### **C-4 Report on Waivers to School Districts for Teachers Teaching Out of Area for Longer than Thirty (30) Days, Ark. Code Ann. § 6-17-309**

*Act 1623 of 2001 requires local school districts to secure a waiver when classrooms are staffed with unlicensed teachers for longer than 30 days. Waiver requests were received from 28 school districts covering a total of 37 teaching positions. Long-term substitute waivers were requested from 9 school districts for a total of 10 waivers. None of these requests were from a district in academic distress. These requests have been reviewed, either approved or denied by Department staff and are consistent with program guidelines.*

**Presenter:** Beverly Williams

### **C-5 Consideration of Recommendation of the Professional Licensure Standards Board for a Written Reprimand and a Fine of \$50 for Case #10-055 – Elizabeth Hopson-Scott**

*The Professional Licensure Standards Board Subcommittee on Ethics is recommending a written reprimand and a fine of \$50 for Elizabeth Hopson-Scott for violation of Standard 7: An educator refrains from using, possessing and/or being under the influence of alcohol, tobacco, or unauthorized drugs while on school premises or at school-sponsored activities involving students.*

**Presenter:** Michael Smith

**C-6      Consideration of Recommendation of the Professional Licensure Standards Board for a Written Warning for Case #11-038 – Taneisha Tane Flowers**

*The Professional Licensure Standards Board Subcommittee on Ethics is recommending a written warning for Taneisha Flowers for violation of Standard 1: An educator maintains a professional relationship with each student, both in and outside the classroom.*

**Presenter:** Michael Smith

**C-7      Consideration of Recommendation of the Professional Licensure Standards Board for a Written Warning for Case #11-051 – Scott Alan Walston**

*The Professional Licensure Standards Board Subcommittee on Ethics is recommending a written warning for Scott Walston for violation of Standard 1: An educator maintains a professional relationship with each student, both in and outside the classroom.*

**Presenter:** Michael Smith

**C-8      Consideration of Recommendation of the Professional Licensure Standards Board for Probation of Teaching License for Two (2) Years and a Fine of \$75 for Case #11-052 – Lee Sadler**

*The Professional Licensure Standards Board Subcommittee on Ethics is recommending probation of the teaching license for two (2) years of Lee Sadler with a fine of \$75 for violation of Standard 1: An educator maintains a professional relationship with each student, both in and outside the classroom.*

**Presenter:** Michael Smith

## **Action Agenda**

**A-1      Arkansas Better Chance 2010-11 Funding Recommendations**

*Pursuant to the authority granted the State Board of Education, DHS/Division of Child Care and Early Childhood Education requests approval of the attached recommendations under the Arkansas Better Chance program.*

**Presenter:** Jamie Morrison

**A-2      Consideration of Awarding Wavier Day - Alpena School District**

*The Alpena School District missed nine (9) days of school due to inclement weather prior to the April 25 outbreak of severe weather. Five (5) days were accounted for in the 2010-11 school calendar. The other four (4) days were made up by using three (3) days of spring break and Good Friday. School was cancelled April 26, 2011, due to flooding (25% of the student body could not get to school), loss of power to the school and no phone service to the school.*

*The district is seeking a waiver of one (1) day making the 2010-2011 school year a total of 177 instructional days.*

**Presenter:** James Trammell, Superintendent

**A-3      Consideration of Awarding Wavier Days - Beebe School District**

*During the 2010-2011 school year, the Beebe School District missed a total of five (5) school days due to inclement weather. The school district used days previously scheduled as holidays to make up the five missed days.*

*The district missed an additional three (3) days April 27-April 29, 2011, due to a tornado that damaged the elementary school roof and caused loss of power to the main campus.*

*The district is seeking a waiver of three (3) days making the 2010-2011 school year a total of 175 instructional days.*

**Presenter:** Dr. Belinda Shook, Superintendent

#### **A-4 Consideration for Awarding Waiver Days - Clinton School District**

*During the 2010-2011 school year, the Clinton School District missed 11 days due to inclement weather. The District will make up all missed days by using days previously scheduled for staff development, holidays, extending the school year and attending school one Saturday.*

*The severe weather that occurred the later part of April left the district without water April 28 and 29. Therefore, an additional two days were missed.*

*The district is seeking a waiver of two days making the 2010-2011 have a total of 176 instructional days.*

**Presenter:** James McGaha, Superintendent

#### **A-5 Consideration for Awarding Waiver Days - Des Arc School District**

*The Des Arc School District has committed all scheduled snow days to make up days missed due to inclement winter weather.*

*Because of the severe weather that occurred the later part of April, the district has been closed due to flooding. The river is not expected to crest until May 8, and the water will not recede for approximately 10 days.*

*The district is seeking a waiver of 15 days making the 2010-2011 school year have a total of 163 instructional days.*

**Presenter:** Rick Green, Superintendent

#### **A-6 Consideration for Awarding Waiver Day - Huntsville School District**

*During the 2010-2011 school year, the Huntsville School District missed 14 days due to inclement weather. The District will make up all missed days by using days previously scheduled as holidays, two days of spring break, two days of Thanksgiving break, two days of Christmas break and by extending the school year.*

*The severe weather in late April washed out roads and made low-water bridges impassable causing the district to miss an additional day.*

*The district is seeking a one-day waiver making the 2010-2011 school year have a total of 177 instructional days.*

**Presenter:** Shelby Sisemore, Superintendent

#### **A-7 Consideration of Awarding Waiver Days - Pulaski County Special School District**

*The severe weather that occurred the later part of April damaged North Pulaski High making it necessary to close the school April 26, 27 and 28. The storm also caused power outage at Arnold Drive Elementary and school was closed April 26 and 27. Lawson Elementary was also without power and was closed April 26.*

*The district is seeking a waiver of three days for North Pulaski High; a waiver of two days for Arnold Drive Elementary; and a one-day waiver for Lawson Elementary.*

**Presenter:** Dr. Charles Hopson, Superintendent

#### **A-8 Consideration for Awarding Waiver Days - Vilonia School District**



*During the 2010-2011 school year, the Vilonia School District missed a total of five (5) school days due to inclement weather. The district missed an additional four (4) days April 26-April 29, 2011, after a tornado left much of the community in ruins.*

*The district is seeking a waiver of four (4) days making the 2010-2011 school year a total of 174 instructional days.*

**Presenter:** Dr. Frank Mitchell, Superintendent

**A-9      Request for Open-Enrollment Public Charter School Charter Amendment: Little Rock Preparatory Academy**

*The State Board of Education approved the application for Little Rock Preparatory Academy at its November 4, 2008 meeting. Grades 5-8 are served with a maximum enrollment of 432. The entity is requesting a hearing before the State Board of Education to amend their current charter regarding grade levels of service, school management, and additional waivers.*

**Presenter:** Dr. Mary Ann Duncan

**A-10      Consideration for Approval of the Arkansas Department of Education's Recommendation to Cease Norm-Referenced Testing of Kindergarteners as Part of the Large-Scale Assessment Program**

*The Arkansas Department of Education has contacted all fifty states and the District of Columbia to determine whether or not they are assessing kindergarteners with a norm-referenced test as part of their large-scale state assessment program. Four states did not respond. All other states do not use a norm-referenced test as part of their large-scale state testing program for kindergarteners.*

*Therefore, because of issues of developmental appropriateness, it is recommended that the State Board of Education give requisite approval to the Arkansas Department of Education's recommendation to cease norm-referenced testing of kindergarteners as part of the large-scale assessment program. Appropriate emphasis for state-level assessment for kindergarteners shall focus on a robust and comprehensive screener and the use of formative assessment.*

**Presenter:** Dr. Gayle Potter

**A-11      Request for Change in Boundary Lines between the Foreman School District No. 25 of Little River County and the Horatio School District No. 55 of Sevier County**

*Pursuant to Ark. Code Ann. § 6-13-1414, the Foreman School District requests that the State Board change the boundary line separating the Foreman School District from the Horatio School District. The Horatio School District opposes this request. Copies of the following are attached for review by the State Board: (1) The notice letters to the parties; (2) Proposed State Board hearing procedures; (3) A copy of the applicable law, Ark. Code Ann. § 6-13-1414; (4) Submissions by the Foreman School District; (5) Submissions by the Horatio School District; and (6) Maps of the Foreman and Horatio school districts.*

**Presenter:** Jeremy Lasiter, ADE General Counsel; George Matteson, Attorney for Foreman School District; Jay Bequette, Attorney for Horatio School District

**A-12      Classification of North Little Rock School District in Fiscal Distress**

*Pursuant to Ark. Code Ann. §6-20-1905, the North Little Rock School District received notice by certified mail as being identified by the Arkansas Department of Education for Fiscal Distress status. The recommendation for classification, and any appeal will be presented at the May 16, 2011, State Board meeting. The District was informed at the time of identification that they could not incur any future debt obligations without prior written approval from ADE.*

*The deadline for appeal was May 1, 2011, and North Little Rock did not file an appeal.*

*The Department recommends that the North Little Rock School District be classified as being in Fiscal Distress.*

**Presenter:** Bill Goff

### **A-13      Classification of Earle School District in Fiscal Distress**

*Pursuant to Ark. Code Ann. §6-20-1905, the Earle School District received notice by certified mail as being identified by the Arkansas Department of Education for Fiscal Distress status. The recommendation for classification, and any appeal will be presented at the May 16, 2011 State Board meeting. The District was informed at the time of identification that they could not incur any future debt obligations without prior written approval from ADE.*

*On March 18, 2011, the Earle School District filed a letter of appeal. Therefore, the State Board will need to consider the Earle School District's appeal.*

*The Department recommends that the Earle School District be classified as being in Fiscal Distress.*

**Presenter:** Bill Goff

### **A-14      Classification of Pulaski County Special School District in Fiscal Distress**

*Pursuant to Ark. Code Ann. §6-20-1905, the Pulaski County Special School District received notice by certified mail as being identified by the Arkansas Department of Education for Fiscal Distress status. The recommendation for classification, and any appeal will be presented at the May 16, 2011 State Board meeting.*

*The District was informed at the time of identification that they could not incur any future debt obligations without prior written approval from ADE. On April 28, 2011, the Pulaski County Special School District filed a letter of appeal. Therefore, the State Board will need to consider the Pulaski County Special School District's appeal.*

*The Department recommends that the Pulaski County Special School District be classified as being in Fiscal Distress.*

**Presenter:** Bill Goff

### **A-15      Consideration of Surrender of Teacher License – Craig Wadley**

*Craig Wadley voluntarily surrendered his license after conviction for a disqualifying offense with the understanding that the Board does not have a method for accepting surrender of a license and that his surrender would result in permanent revocation. The State Board of Education may take disciplinary action against an educator's license if the educator has been convicted of a disqualifying offense under Ark. Code Ann. § 6-17-410. Mr. Wadley is not represented by counsel in this matter.*

**Presenter:** Katherine Donovan

### **A-16      Hearing on Waiver Request for Certified Teacher's License – David Yarbrough**

*David Yarbrough is up for renewal of his license and requests a waiver for his February 27, 2011 conviction for felony theft of property from the Guy-Perkins School District for misappropriation of band booster funds and district activity funds while he was their music director. He resigned February 25, 2011. The State Board of Education may take disciplinary action against an educator's license if the educator has been convicted of a disqualifying offense under Ark. Code Ann. § 6-17-410. Mr. Yarbrough is not represented by counsel.*

**Presenter:** Katherine Donovan

### **A-17      Hearing on Waiver Request for Certified Teacher License – John Ford**

*John Ford has applied for his initial teaching license and requests a waiver for his October 8, 1981 disqualifying convictions for two felonies, theft of property and breaking and entering, for which he completed a ten year suspended imposition of sentence and his record was sealed June 10, 2010. He is graduating from ASU Jonesboro this spring.*

*The State Board of Education may take disciplinary action against an educator's license if the educator has been convicted of a disqualifying offense under Ark. Code Ann. § 6-17-410. Mr. Ford requests a waiver of his disqualifying convictions. He is not represented by counsel.*

**Presenter:** Katherine Donovan

## **A-18      Hearing on Waiver Request for Certified Teacher License – Rodney Major.**

*Rodney Major requests a waiver hearing. His license was revoked in AL and MS; however, both have reinstated his licenses. He has a felony conviction in Alabama which was pardoned. He is currently on probation for violation of the Ethics Code in PLSB Case No. 10-049 for violation of standard 1 in November 2009.*

*The State Board of Education may take disciplinary action against an educator's license when it has been revoked in another state, when an educator has a disqualifying conviction, or when an educator knowingly submits or provides false or misleading information or knowingly fails to submit or provide requested information to the Department of Education under Ark. Code Ann. § 6-17-410. Mr. Major requests a waiver of his felony conviction, licensure revocation, and his failure to report those disqualifiers. He is not represented by counsel.*

**Presenter:** Katherine Donovan

## **A-19      Consideration of Approval for Public Comment: Amended Rules Governing Athletic Expenditures for Public Schools**

*The primary objective of the proposed amendment is to provide a more reasonable allocation method for school districts to use in recording the cost of property insurance, utilities and other facilities costs that pertain to athletics.*

**Presenter:** Bill Goff

## **A-20      Consideration for Approval for Public Comment: Repeal Rules Governing Use of Net Athletic Event Gate Receipts by Public Schools**

*Consideration for Approval for Public Comment: Repeal Rules Governing the Use of Net Athletic Event Gate Receipts by Public School Districts. The provisions of this rule are being included in the proposed amended Rules Governing Athletic Expenditures for Public Schools.*

**Presenter:** Bill Goff

## **A-21      Consideration of Approval of Nominated Members for the Professional Licensure Standards Board to Replace Members Whose Terms are Expiring June 30, 2011**

*Pursuant to § 6-17-422 members of the PLSB serve rotating terms. Three (3) members of the Professional Licensure Standards Board will complete their three-year terms on June 30, 2011. Nominations to fill these positions are as follows: Brad Baine, Dean of College of Education, Williams Baptist College, has been nominated by the Arkansas Council of Deans to represent Private Institutions of Higher Education. His term will expire June 30, 2014. Evelyn Thrower, Special Education Teacher and Media Center Director at Bearden High School in the Bearden School District, has been nominated for re-appointment by the Arkansas Education Association to represent classroom teachers from the 4th through 8th grades. Her term will expire June 30, 2014. Dr. Randy Willison, Superintendent of Batesville School District, has been nominated by the Arkansas Association of Educational Administrators to represent Rural School Superintendents. His term will expire June 30, 2014*

**Presenter:** Beverly Williams

**A-22****Election of Officers: State Board of Education for Fiscal Year 2011-2012**

*In accordance with the Operating Guidelines, a Nominating Committee was formed at the March 14, 2011 meeting. Members include Alice Mahony, Chair, Brenda Gullett and Toyce Newton. The Nominating Committee reported their recommended slate of officers April 11, 2011. Nominations included: Chairman: Dr. Ben Mays; Vice-Chairman: Jim Cooper.*

**Presenter:** *Dr. Naccaman Williams*

**Minutes  
State Board of Education Meeting  
Monday, April 11, 2011**

The State Board of Education met Monday, April 11, 2011, in the auditorium of the Department of Education building. Dr. Naccaman Williams, Chairman, called the meeting to order at 9 a.m.

Present: Dr. Naccaman Williams, Chairman; Dr. Ben Mays, Vice-Chair; Sherry Burrow; Jim Cooper; Brenda Gullett; Sam Ledbetter; Alice Mahony; Vicki Saviers; Toyce Newton; Dr. Tom Kimbrell, Commissioner; and Vandy Nash, Arkansas Teacher of the Year

Absent: None

**Reports**

**Chair's Report:**

Ms. Gullett gave an overview of the NASBE/CCSSO Conference held at the end of March. She was part of a group that spent a couple hours with Secretary Arne Duncan discussing hot topic education issues. She said the Secretary was resolute in not granting waivers from Adequate Yearly Progress. Instead, he asked states to contact their congressional delegates and urge them to authorize ESEA.

**Commissioner's Report:**

Dr. Kimbrell reported the General Assembly was completing final work on redrawing the state's congressional districts. He said the Department had some hard work ahead in developing rules for recently enacted legislation particularly regarding the teacher excellence and support system effective 2014-15, the same time as full implementation of Common Core State Standards and a new assessment system.

**National Title I Distinguished School Program**

Eastside Elementary School in the Rogers School District was recognized for its school-wide academic performance over the past two years. Gibbs Albright Elementary School in the Newport School District was acknowledged for reducing the academic achievement gap between sub-groups. Both schools represented the state at the National Title I conference in January.

**Coordinated School Health: School Flu Vaccination Clinics**

Randy Lee, Director of Local Public Health, expressed appreciation to the

Department and the state's school districts for their assistance in offering flu vaccinations to students in grades K-12. According to Mr. Lee, approximately 300,000 doses were administered in the seasonal school clinics. He said vaccinating school-age students helps reduce the spread of flu which means fewer parents missing work.

### **Consent Agenda**

Ms. Gullett moved, seconded by Ms. Saviers, approval of the Consent Agenda. The motion carried unanimously.

Items included in the Consent Agenda:

- Minutes of the March 14, 2011, Board Meeting
- Commitment to Principles of Desegregation Settlement Agreement: Report on the Execution of the Implementation Plan
- Newly Employed, Promotions and Separations
- Waivers to School Districts for Teachers Teaching Out of Area for Longer than 30 Days
- A revolving loan application for Norphlet School District--\$75,760; and ten—second lien bond applications—Bald Knob School District--\$1,455,000; Bryant School District--\$25,655,000; County Line School District--\$1,270,000; Cutter Morning Star School District--\$215,000; Glen Rose School District--\$460,000; Hamburg School District--\$635,000; Parkers Chapel School District--\$1,045,000; Pottsville School District--\$1,560,000; Russellville School District--\$10,450,000; Southside School District--\$2,070,000.
- A progress report of five school districts in fiscal distress—Armored, Forrest City, Helena-West Helena, Strong-Huttig and Yelleville-Summit.
- Sanctions for Teachers as Recommended by the Professional Licensure Standards Board
  - Ronald Hart
  - Clem Bilgischer
  - Brenda Taylor

### **Action Agenda**

*(Complete records of the hearings are available in the State Board office.)*

### **Arkansas Better Chance 2010-11 Funding Recommendation**

Ms. Mahony moved, seconded by Ms. Saviers, to approve a recommendation for Arkansas Better Chance funding in the amount of \$12,000 to the Jefferson Comprehensive Care PAT program. The motion carried unanimously.

### **Consideration for Awarding Waiver Day – Jasper School District**

Kerry Saylor, Jasper School District Superintendent, reported his district missed 11 days due to inclement weather. He said the district would make up 10 days by using three (3) days of spring break, Good Friday and by adding the remainder of the days to the end of the school year. Mr. Saylor requested a one-day waiver making the 2010-2011 school year a total of 177 instructional days.

Mr. Cooper moved, seconded by Mr. Ledbetter, to grant the one-day waiver. The motion carried unanimously.

### **Classification of District in Fiscal Distress—Dermott School District**

Bill Goff, Assistant Commissioner for Fiscal Services, presented a recommendation to identify the Dermott School District as fiscally distressed because of declining fund balances. The district did not appeal the designation.

Ms. Saviers moved, seconded by Mr. Cooper, to identify the Dermott School District as being in fiscal distress. The motion carried unanimously.

### **Classification of District in Fiscal Distress—West Side Cleburne County School District**

Bill Goff, Assistant Commissioner for Fiscal Services, presented a recommendation to identify the West Side Cleburne County School District as fiscally distressed because of declining fund balances. The district did not appeal the designation.

Mr. Ledbetter moved, seconded by Ms. Mahony, to identify the West Side Cleburne County School District as being in fiscal distress. The motion carried unanimously.

### **Classification of District in Fiscal Distress—Earle School District**

At the request of the school district, this item was postponed until the May State Board meeting.

### **Request for District Conversion Charter School Hearing: Little Rock School District Felder Alternative Learning Academy**

Dr. Larry Russell, Charter School Education Program Analyst, presented a request from the Little Rock School District to surrender the charter of the Felder Alternative Learning Academy effective June 30, 2011.



Dr. Morris Holmes, Interim Superintendent of the Little Rock School District, explained that Felder Academy was started in 2005 as a joint project of the three Pulaski County school districts and the Pulaski County government to serve adjudicated youth. Dr. Holmes said the Pulaski County Special School District and the North Little Rock School District had withdrawn from the project leaving the Little Rock School District saddled with the costs.

Dr. Holmes said students could be served at the district's other alternative school saving the district approximately \$1.2 million per year.

Mr. Ledbetter moved, seconded by Dr. Mays, to approve the Little Rock School District's request to surrender the Felder Academy charter effective June 30, 2011. The motion carried unanimously.

### **Request for Open Enrollment Public Charter School Amendment: LISA Academy**

Dr. Larry Russell, Charter School Education Program Analyst, presented a request from LISA Academy to amend their charter to include grades 4 and 5 and increase their student enrollment cap from 600 to 800.

Board members expressed concern that the high school program is on alert status because African American students and students from low-income families have failed to meet minimum achievement requirements on End-of-Course exams in algebra I and geometry.

Superintendent Cuneyt Akdemir said the high school program was quality and pointed to the college placement of recent graduates, the above-average student success rate on Advanced Placement exams and the school's ACT scores that are above the state's average.

Ms. Burrow moved, seconded by Ms. Newton, to approve the request to amend the charter to include grades 4 and 5 and increase the enrollment by 200. The motion failed six to two in a roll call vote.

Yeas: Newton and Burrow

Nays: Gullett, Mays, Ledbetter, Mahony, Saviers, Cooper

### **Consideration of Acceptance of Surrender of Teaching License by Ginger Robbin Garcia**

Ginger Robbin Garcia surrendered her teaching license as part of a plea agreement in Crawford County for theft by deception.

Dr. Mays moved, seconded by Ms. Saviers, to accept the surrender of the teaching license of Ginger Robbin Garcia. The motion carried unanimously.

### **Hearing on PLSB Case #09-084 Steven Lynch**

Katherine Donovan, PLSB counsel, said former Bergman School District coach Steven Lynch violated Standard 1 of the Code of Ethics when he failed to appropriately supervise and discipline students during a basketball camp. Ms. Donovan said the subcommittee recommended a written reprimand and \$50 fine.

Marcia Barnes, legal counsel representing Mr. Lynch, said the school district failed to assist Mr. Lynch in the investigation. She argued that Mr. Lynch responded as directed by the principal to conduct an investigation. Ms. Barnes asked that the finding and the fine be dismissed.

Mr. Ledbetter moved, seconded by Ms. Saviers, that the complaint was not substantiated and that the case be closed. The motion carried unanimously.

### **Hearing on Waiver Request for Certified Teacher's License-Barbara Flint**

PLSB Attorney Katherine Donovan reported that when Barbara Flint applied for her initial teaching license it was discovered she had a felony theft of public benefits conviction from Faulkner County in 2002.

Ms. Flint said the conviction was because of failure to report all income. She graduated from college with honors and passed the first background check. After completing the field experience she discovered she failed the second background check. She said she paid the fine and served her probation and thought the record was sealed.

Ms. Newton moved, seconded by Ms. Burrow, to grant the waiver with the stipulation that while serving two years probation there would be no violation of Code of Ethics. The motion carried unanimously.

### **Consideration of Request to Suspend the Teaching License of Four National Board of Professional Teaching Standards Candidates Who Owe Money to ADE**

Beverly Williams, Assistant Commissioner of Human Resources, Licensure and Teacher Quality, reported that Sam Davis, Teresa Grant, Michael Holcomb and Lamarica Miller failed to complete the NBPTS program and, therefore, owed the Department money. She said all attempts to contact the individuals and collect the money failed.

Mr. Cooper moved, seconded by Dr. Mays, to suspend the teaching license of the individuals until payment is received. The motion carried unanimously.

## **Consideration of New Praxis II Cut Scores in Art and Principles of Learning and Teaching to be Effective September 1, 2011**

Assistant Commissioner Beverly Williams presented a recommendation for the following Praxis II assessments and cut scores:

Art Content Knowledge exam (#0134) with a cut score of 158  
Art Content and Analysis exam (#0135) with a cut score of 161  
PLT: Early Childhood exam (#0621) with a cut score of 157  
PLT: Grades 5-9 exam (#0623) with a cut score of 160  
PLT: Grades 7-12 exam (#0624) with a cut score of 157

Ms. Saviers moved, seconded by Ms. Gullett, to approve the Praxis II tests and cut scores. The motion carried unanimously.

## **Consideration of Waiver Requests for Licensure Purposes of Teachers Assisting in the Development of the Praxis II Exam for Instructional Facilitators**

Beverly Williams presented a request for waiver from testing for the eleven teachers who assisted in the development of the Praxis II exam for instructional facilitators.

Mr. Cooper moved, seconded by Mr. Ledbetter, to approve the waiver. The motion carried unanimously.

The Board will discuss the instructional facilitator endorsement at the May meeting.

## **Request to Address the Board: Unifying Voices for Quality Education**

Dr. Mary Olson, a member of the Unifying Voices for Quality Education organization in Helena-West Helena, addressed the Board and asked for assistance in stopping the elimination of 120 district employees. She said the reduction in force plan proposed by the school district needed to be stopped until the community has confidence in its superintendent and can develop a strategic plan.

## **Change in May Board Meeting**

It was announced that the May meeting would be moved from May 9 to May 16.

## **Adjournment**

The meeting adjourned at 3:16 p.m.

*These minutes were recorded by Phyllis Stewart.*

ADE'S PROJECT MANAGEMENT TOOL EXECUTIVE SUMMARY  
APRIL 30, 2011

This document summarizes the progress that ADE has made in complying with the provisions of the Implementation Plan during the month of April 2011.

IMPLEMENTATION PHASE ACTIVITY

***I. Financial Obligations***

- A. As of March 31, 2011, State Foundation Funding payments paid for FY 10/11 totaled \$42,502,728 to LRSD, \$26,025,448 to NLRSD, and \$32,227,900 to PCSSD.
- B. As of March 31, 2011, the Magnet Operational Charge paid for FY 10/11 totaled \$11,026,391. The allotment for FY 10/11 was \$15,051,190.
- C. As of March 31, 2011, the M-to-M incentive checks paid for FY 10/11 totaled \$3,433,633 to LRSD, \$4,192,237 to NLRSD, and \$7,334,831 to PCSSD.
- D. ADE pays districts three equal installments each year for their transportation budgets.
  - 1. In September 2010, General Finance made the last one-third payment to the Districts for their FY 09/10 transportation budget. As of September 30, 2010, transportation payments for FY 09/10 totaled \$4,054,730.00 to LRSD, \$1,471,255.67 to NLRSD, and \$2,544,356.20 to PCSSD.
  - 2. In September 2010, General Finance made the first one-third payment to the Districts for their FY 10/11 transportation budget. As of September 30, 2010, transportation payments for FY 10/11 totaled \$1,354,368.33 to LRSD, \$510,218.13 to NLRSD, and \$905,109.15 to PCSSD.
  - 3. In February 2011, General Finance made the second one-third payment to the Districts for their FY 10/11 transportation budget. As of February 28, 2011, transportation payments for FY 10/11 totaled \$2,708,736.66 to LRSD, \$1,020,436.26 to NLRSD, and \$1,810,218.30 to PCSSD.
- E. Bids were opened on May 7, 2010 for sixteen Magnet and M-to-M buses. The low bid was by Diamond State Bus Sales for a total of \$1,135,960. There are fourteen 65 passenger buses at \$71,210 per unit and two 47 passenger units at \$69,510 per unit. Little Rock will get 8 - 65 passenger buses. Pulaski County Special will get 4 - 65 passenger buses and 2 - 47 passenger buses. North Little Rock will get 2 - 65 passenger buses. In September 2010, 16 new Magnet and M-to-M buses were delivered to the districts in Pulaski County. Finance paid Diamond States Bus Sales \$1,135,960.
- F. In July 2010, Finance paid the Magnet Review Committee \$92,500. This was the total amount due for FY10/11.
- G. In July 2010, Finance paid the Office of Desegregation Monitoring \$200,000. This was the total amount due for FY 10/11.

## ***II. Monitoring Compensatory Education***

On April 7, 2011, the ADE Implementation Phase Working Group met to review the Implementation Phase activities for the previous quarter. Mr. Willie Morris, ADE Lead Planner for Desegregation, updated the group on all relevant desegregation issues. There was discussion about the lawsuit from the Little Rock School District that accuses the state of violating the desegregation agreement by approving charter schools in Pulaski County. The ADE has asked U.S. District Judge Brian Miller to reject the Little Rock School District subpoena of information about students attending charter schools. An attorney for the ADE stated that the requested information could not be released because of Federal student privacy regulations. Judge Miller said that he would delay a decision about the subpoena until after his decision about whether or not the Pulaski County Special and North Little Rock districts should be given unitary status. A report released by Attorney General Dustin McDaniel stated that some of the desegregation funding provided to the Pulaski County Special and North Little Rock districts was placed in their general funds instead of being used for desegregation purposes. The financial records for the Little Rock School District are being analyzed. The 88th Arkansas General Assembly passed an act to provide oversight of and accountability for state desegregation funding received and expended by the Pulaski County school districts. The next Implementation Phase Working Group Meeting is scheduled for July 7, 2011 at 1:30 p.m. in room 201-A at the ADE.

## ***III. A Petition for Election for LRSD will be Supported Should a Millage be Required***

Ongoing. All court pleadings are monitored monthly.

## ***IV. Repeal Statutes and Regulations that Impede Desegregation***

The ADE attorney is reviewing laws and regulations to look for any that may impede desegregation.

## ***V. Commitment to Principles***

On April 11, 2011, the Arkansas State Board of Education reviewed and approved the PMT and its executive summary for the month of March.

## ***VI. Remediation - Evaluate the impact of the use of resources for technical assistance***

On March 17, 2011, ADE staff met with the grant writing team at Jacksonville High School in the PCSSD. The group established accounts to allow PCSSD staff to pull reports for use as perceptual data. ADE staff reviewed and assisted with data needed to evaluate grant goals.

On March 29, 2011, the ADE conducted a webinar to train district personnel on issues related to measuring Adequate Yearly Progress (AYP). Topics included four-year adjusted cohort graduation rate, extended year graduation rate, documentation required for adjusting the graduation cohort, graduation lag, graduation rate used in AYP, updating enrollment information before data for test labels is pulled, and restrictions on restarting the school improvement timeline for schools.

## ***VII. Test Validation***

On February 12, 2001, the ADE Director provided the State Board of Education with a special update on desegregation activities.

### ***VIII. In-Service Training***

On March 15, 2011, LRSD mid-level special educators attended a Site-Based Observation Training at Forrest Heights Middle School. This was Part I of their monthly Instructional Clinic professional development. The observation took place in a special education resource literacy class in which the teacher was implementing a workshop model. After the observation, the teachers debriefed and discussed the observation protocol and implications for their own classrooms.

### ***IX. Recruitment of Minority Teachers***

In December 2010, the ADE Office of Professional Licensure sent a request to the three Pulaski County school districts asking for a list of anticipated teacher shortage areas by grade and subject.

During the month of December 2010, the ADE Office of Professional Licensure contacted all institutions of higher education with teacher education programs requesting a listing of minority graduates for the fall of 2010.

In December 2010, the ADE Professional Licensure Unit contacted all Pulaski County school districts asking for a statement evaluating the effectiveness of ADE minority recruitment assistance.

### ***X. Financial Assistance to Minority Teacher Candidates***

Ms. Lisa Smith of the Arkansas Department of Higher Education reported minority scholarships for Fiscal Year 2010-2011 on April 11, 2011. These included the State Teacher Assistance Resource (STAR) Program, the Minority Teacher Scholars (MTS) Program, and the Minority Masters Fellows (MMF) Program. The scholarship awards are as follows:

STAR	Male	Male	Female	Female	Total	Total
Race	Count	Award	Count	Award	Count	Award
White	13	60,000	61	232,500	74	292,500
Black	1	3,000	9	28,500	10	31,500
Hispanic			1	3,000	1	3,000
Other			2	9,000	2	9,000
Totals	14	63,000	73	273,000	87	336,000

MTS	Male	Male	Female	Female	Total	Total
Race	Count	Award	Count	Award	Count	Award
Black	3	12,500	7	27,500	10	40,000
Asian			1	5,000	1	5,000
Native Amer			1	5,000	1	5,000
Totals	3	12,500	9	37,500	12	50,000

MMF	Male	Male	Female	Female	Total	Total
Race	Count	Award	Count	Award	Count	Award
Black	1	3,750	8	21,250	9	25,000
Totals	1	3,750	8	21,250	9	25,000

***XI. Minority Recruitment of ADE Staff***

The MRC met on November 3, 2010 at the ADE. A report was presented at the meeting that showed ADE employees in grades C121 to C129 by race and section for the quarter ending September 30, 2010. A graph was also presented that showed the percentage of black, white and other employees for the ADE as a whole and by division. During the quarter ending September 30, 2010, the following three groups met the Desegregation Agreement target of 25% black: Central Administration, Academic Accountability, and Research & Technology. The ADE as a whole was 21% black.

***XII. School Construction***

This goal is completed. No additional reporting is required.

***XIII. Assist PCSSD by communicating with local colleges and universities to facilitate lowering the cost of Black History course offerings to its certified staff***

Goal completed as of June 1995.

***XIV. Scattered Site Housing***

This goal is completed. No additional reporting is required.

***XV. Standardized Test Selection to Determine Loan Forgiveness***

Goal completed as of March 2001.

***XVI. Monitor School Improvement Plans - Follow-up and assist schools that have difficulty realizing their school improvement objectives***

On March 31, 2011, Pulaski County Special School District personnel met in the district's special education director's office with State Personnel Development Grants (SPDG) consultants to discuss special education services at PCSSD middle schools. The purpose of SPDG authorized under the Individuals with Disabilities Education Act (IDEA) 2004 Amendments is to assist SEAs in reforming and improving their systems for personnel preparation and professional development in early intervention, educational, and transition services in order to improve results for children with disabilities. Implementation of Scholastic READ 180 and Scholastic System 44 for students with disabilities was discussed. Scholastic READ 180 is a comprehensive system of curriculum, instruction, assessment and professional development proven to raise reading achievement for struggling readers, designed to maximize student engagement, teacher effectiveness, and leader empowerment. Scholastic System 44 is a foundational reading and phonics program designed for the most challenged, struggling readers. The group talked about developing a plan for informal assessment and progress monitoring for students with disabilities. How to determine when co-teaching is an appropriate service delivery model was also discussed.

***XVII. Data Collection***

The ADE Office of Public School Academic Accountability has released the 2010 Arkansas School Performance Report (Report Card). The purpose of the Arkansas School Performance Report is to generally improve public school accountability, to provide benchmarks for measuring individual school improvement, and to empower parents and guardians of children enrolled in Arkansas public schools by providing them with the information to judge the quality of their schools. The Department of Education annually produces a school performance report for each individual public school in the state.



***XVIII. Work with the Parties and ODM to Develop Proposed Revisions to ADE's Monitoring and Reporting Obligations***

On July 10, 2002, the ADE held a Desegregation Monitoring and Assistance Plan meeting for the three school districts in Pulaski County. Mr. Willie Morris, ADE Lead Planner for Desegregation, presented information on the No Child Left Behind Act of 2001. A letter from U.S. Secretary of Education, Rod Paige, was discussed. It stated that school districts that are subject to a desegregation plan are not exempt from the public school choice requirements. "If a desegregation plan forbids the school district from offering any transfer option, the school district should secure appropriate changes to the plan to permit compliance with the public school choice requirements". Schools in Arkansas have not yet been designated "Identified for Improvement". After a school has been "Identified for Improvement", it must make "adequate yearly progress". Schools that fail to meet the definition of "adequate yearly progress", for two consecutive years, must provide public school choice and supplemental education services. A court decision regarding the LRSD Unitary Status is expected soon. The LRSD and the NLRSD attended the meeting. The next meeting about the Desegregation Monitoring and Assistance Plan will be held in August, 2002, after school starts.

**NEWLY EMPLOYED FOR THE PERIOD OF March 19 – April 15, 2011**

\*Brandon McClinton – Administrative Specialist I, Grade C106, Division of Human Resources /Licensure, Time and Leave, effective 03/28/11.

\*Al Morgan – ADE APSCN Field Analyst, Grade C121, Division of Fiscal and Administrative Services, Arkansas Public School Computer Network (APSCN), effective 03/28/11.

**PROMOTIONS/ LATERAL TRANSFERS FOR THE PERIOD OF March 19 – April 15, 2011**

Michael Smith – from Education Investigator, Grade C121, Division of Human Resources /Licensure, Professional Licensure Standards Board, to Education Chief Investigator, Grade C125, Division of Human Resources /Licensure, Professional Licensure Standards Board, effective April 11, 2011.

**SEPARATIONS FOR THE PERIOD OF March 19 – April 15, 2011**

James Harrison – Administrative Specialist III, Grade C112, Division of Research and Technology, Technical Support, effective 04/15/11. 2 Years, 0 months, 25 days. Code: 01

Linda Remele – ADE Special Advisor, Grade N908, Division of Learning Services, Federal Programs, effective 03/22/11. 0 Years, 7 months, 27 days. Code: 01

\*Minority

**AASIS Code:**

01 – Voluntary Termination

Waivers for Teachers Teaching Out of Area  
May 2011

LEA	District	# Waivers Requested	Teacher	License Areas	ALP		Yrs ALP	Granted/ Denied
					Code	Out of Area		
6092	Ark. School For The Deaf	1	Sappington, Daniel	Life/Earth Science 7-12	169	Physical /Earth Science 7-12	10-11	Granted
4101	Ashdown School District	1	Long, John	PE/Wellness/Leisure	168	Science/Mathematics 4-8	10-11	Granted
0401	Bentonville School District	1	Churchman, Ashley	ECE P-4	107	Grade 5/6 Endorsement (P-4)	10-11	Granted
5204	Camden Fairview School Dist.	1	Steelman, Alicia	Middle School Math/Elementary 1-6	209	Algebra I Endorsement 8	10-11	Granted
3212	Cedar Ridge School District	1	Seay, Janet	Special Education K-12	318	Curr Program Adm. Sp. Ed P-4	09-10, 10-11	Granted
1702	Cedarville School District	1	Parks, Terry	Physical Education; Coaching, MS Social Studies	411	Career Orientation Endorsement 7-12	10-11	Granted
2601	Cutter Morning Star School District	2	Gadberry, Sheila	Business Technology	299	Guidance & Counseling P-8	09-10, 10-11	Granted
			Gadberry, Sheila	Business Technology	300	Guidance & Counseling 7-12	09-10, 10-11	Granted
7201	Elkins School District	1	Stolz, Randallene Jennifer	Science, MS Science, Life/Earth Science, Adult Education	230	Sp Education Instructional Specialist 4-12	09-10, 10-11	Granted
7203	Fayetteville School District	1	Kornig, Carol	Life/Earth Science; Social Studies	169	Physical /Earth Science 7-12	10-11	Granted
	First Step, Inc.	2	Owens, Breanna	ECE P-4	231	Sp Ed Ech Inst Specialist P-4	10-11	Granted
			Stephenson, Lianne	Elem 1-6	231	Sp Ed Ech Inst Specialist P-4	10-11	Granted
4102	Foreman School District	1	Friday, Cody	PE/Wellness/Leisure	293	Coaching 7-12	10-11	Granted
6602	Greenwood School District	1	Clements, Linda	ECE P-4, Elementary K-6	168	Science/Mathematics 4-8	10-11	Granted

Waivers for Teachers Teaching Out of Area  
May 2011

LEA	District	# Waivers Requested	Teacher	License Areas	ALP Code	Out of Area	Yrs	
							ALP	Granted/ Denied
0203	Hamburg School District	2	Smith, Billy	PE/Wellness/Leisure	168	Science/Mathematics 4-8	09-10, 10-11	Denied
			Stahley, Nina	Elementary 1-6	230	Sp Education Instructional Specialist 4-12	09-10, 10-11	Granted
0701	Hampton School District	1	Williams, Laura	ECE P-4	230	Sp Education Instructional Specialist 4-12	09-10, 10-11	Granted
5105	Jasper School District	1	Davidson, Casey	ECE P-4	200	Mathematics 7-12	09-10, 10-11	Granted
7205	Lincoln School District	1	Thorman, Marsha	Elementary 1-6, Social Studies	312	Building Administrator P-8	09-10, 10-11	Granted
6001	Little Rock School District	3	Fowler, Rhonda	English, Journalism, Oral Comm	113	Drama Endorsement 7-12	10-11	Granted
				French, Life/Earth Science, Library Media, Chemistry, Astronomy, Geology	169	Physical /Earth Science 7-12	10-11	Granted
			Norwood, Marsha	Middle Level Education	209	Algebra I Endorsement 8	10-11	Granted
7403	McCrary School District	1	Simmons, Ava	Elementary 1-6, PE P-12, Coaching	299	Guidance & Counseling P-8	09-10, 10-11	Granted
3104	Mineral Springs School District	1	Clemons, Jacque	ECE P-4, Elem K-6	231	Sp Ed Ech Inst Specialist P-4	09-10, 10-11	Granted
5008	Nevada School District	1	Lamb, Breana	ECE P-4	231	Sp Ed Ech Inst Specialist P-4	09-10, 10-11	Granted
7006	Norphlet School District	1	Kitchens, Dana	Middle Level Education; Social Studies 7-12; Coaching	236	Physical Education, Wellness & Leisure 7-12	10-11	Granted

Waivers for Teachers Teaching Out of Area  
May 2011

LEA		District	# Waivers Requested	Teacher	License Areas		ALP Code	Out of Area	Yrs ALP	Granted/ Denied
0504	Omaha School District	2	Dillon, Dawn	ECE P-4			107	Grade 5/6 Endorsement (P-4)	08-09, 09-10, 10-11	Granted
			Thomason, Pam	Elementary			167	Social Studies 7-12	08-09, 09-10, 10-11	Granted
4605	Texarkana School District	2	Buchanan, Rebecca	Life/Earth Science, MS Math, Physical Education			229	Adult Education PS	10-11	Granted
5605	Trumann School District	1	Randal, Minnie	Mathematics 7-12			229	Adult Education PS	10-11	Granted
			Mink, Kristin	English 7-12			295	Library Media Science P-8	10-11	Granted
0505	Valley Springs School District	1	Livingston, Barbara	Elementary K-6			204	Vocal Music 7-12	09-10, 10-11	Denied
	Vista Health	2	Parnell, Amanda	ECE P-4			230	Sp Education Instructional Specialist 4-12	10-11	Granted
			Parnell, Amanda	ECE P-4			231	Sp Ed Ech Inst Specialist P-4	10-11	Granted
1204	West Side School District	2	Matthews, Kendra	ECE P-4			299	Guidance & Counseling P-8	10-11	Granted
			Matthews, Kendra	ECE P-4			300	Guidance & Counseling 7-12	10-11	Granted
1304	Woodlawn School District	1	Hutson, Jessica	ECE P-4			107	Grade 5/6 Endorsement (P-4)	09-10, 10-11	Granted
28	# Districts Requesting Waivers this Month	37	# Waivers Requested this Month					# Waivers Granted this Month		35
								# Waivers Denied this Month		2
								Total Waivers Requested		37

Waivers Requested for Long Term Substitute Teachers

May 2011

LEA	District	# Waivers Requested	Substitute Name	Subject	Teacher of Record	Granted/ Denied
1602	Westside Consolidated School District	1	Bartelt, Alex	Gifted & Talented	Donaghy, Joseph	Granted
2002	Fordyce School District	1	Humphrey, Dimples	English, Drama/Speech	Gordon, Susan	Granted
5802	Dover School District	2	Turner, Brittany	Second Grade	Hiemer, Mona	Granted
			Teague, Sarah	Kindergarten	Stanton, Stephanie	Granted
1703	Mountainburg School District	1	Hoelscher, Randall	Health, PE, Remediation	Blanton, Dan	Granted
4702	Blytheville School District	1	Foster, LaDonna	Literacy 7th/8th	Easley, Erica	Granted
	Logan County Day Service for Limited Children	1	Hogan, Susan Mosley	Special Education	Hooten, Amber	Granted
5204	Camden Fairview School District	1	Weaver, Jay	Math 7th/Pre-Algebra	Harris, Josh	Granted
7203	Fayetteville School District	1	Mauldin, Whiteford	Special Education	Garrett, Jessica Claire	Granted
	Vista Health	1	Scarberough, Kevin	Special Education	Bettencourt, Bailee	Granted
9	# Districts Requesting Waivers for Substitute Teachers	10	# Substitute Waivers Requested			

Agency	Purpose of Grant	Amount
Dollarway School District	I/T Enhancement Grant	\$ 48,680.00
Black River Area Development	I/T Enhancement Grant	\$ 294,720.00
Friendship Community Care	I/T Enhancement Grant	\$ 32,540.00
Southwest AR Comm. Dev.	I/T Enhancement Grant	\$ 24,120.00
Western Arkansas Child Dev.	I/T Enhancement Grant	\$ 70,780.00
Midland School District	I/T Enhancement Grant	\$ 11,400.00
Playschool	I/T Enhancement Grant	\$ 152,440.00
Rainbow of Challenges	I/T Enhancement Grant	\$ 21,660.00
Paragould District	I/T Enhancement Grant	\$ 48,240.00
North Little Rock School District	I/T Enhancement Grant	\$ 48,240.00
EOA of Washington County	I/T Enhancement Grant	\$ 6,840.00
Concord School District	I/T Enhancement Grant	\$ 39,380.00
Kiddie Kollege	I/T Enhancement Grant	\$ 42,100.00
Child Development Inc	I/T Enhancement Grant	\$ 191,200.00
Batesville School District	I/T Enhancement Grant	\$ 22,800.00
ASU Childhood Services	I/T Enhancement Grant	\$ 122,080.00
Rutgers University	Longitudinal Study	\$ 327,000.00
Lincoln School District	Quality Grant	\$ 800.00
Southeast AR Education Coop	Americorps Grant	\$ 570,000.00
<b>Totals</b>		<b>\$ 2,075,020.00</b>



# ALPENA PUBLIC SCHOOLS

P.O. Box 270  
Alpena, AR 72611

**James Trammell**  
Superintendent  
Phone: 870-437-2220  
Fax: 870-437-2133

**Tim Smith**  
Counselor  
Phone: 870-437-2228  
Fax: 870-437-5638

**Dave Bennett**  
High School Principal  
Phone: 870-437-2228  
Fax: 870-437-5638

**Geneva Bailey**  
Elementary Principal  
Phone: 870-437-2229  
Fax: 870-437-2133

April 28, 2011

Dr. Tom Kimbrell  
Commissioner of Education  
Arkansas Department of Education  
Four Capitol Mall  
Little Rock, Arkansas 72201

Dr. Kimbrell,

Alpena School District would like to request one (1) waiver day for the 2010-2011 school year.

Prior to the flooding of late April, Alpena had missed nine (9) days of school for weather related issues. Five of the missed days were accounted for in the calendar. The other four days were made up by using three days of spring break and Good Friday.

I called off school for April 26, 2011 for three reasons: flooding to the extent that approximately 25% of our students could not get to school, loss of power to the school, and no phone service to the school.

There are no more spring break days or any other vacation/break days to use for make-up during this school year. Our options are to use a Saturday or extend the year past Memorial Day. I would like to think that any make-up option would have educational value, but I'm not sure either of these options would. Our last scheduled day is May 27.

I realize that several schools are going into June, but their decision to not use scheduled spring breaks or other days could have changed that. Other schools in this area did not miss school on April 26, but they were not without power or phone service.

I humbly ask for one waiver day for the 2010 -2011 school year.

Sincerely,

  
James Trammell

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COMMISSIONER'S OFFICE

MAY 02 2011

DEPARTMENT OF EDUCATION

Brenda McKown, President

Tommy Vanaman, Vice President

Harold Davis, Secretary

**Beebe Public Schools**  
**1201 West Center Street**  
**Beebe, Arkansas 72012**  
**Phone 501-882-5463, Fax 501-882-5465**

Robert Jenkins, Member

Lucy Mahoney, Member

Dr. Belinda Shook, Superintendent

Dr. Tom Kimbrell, Commissioner  
Arkansas Department of Education  
#4 State Capitol Mall  
Little Rock, Arkansas 72201-1071

April 29, 2011

Dear Dr. Kimbrell,

As you are aware, the state of Arkansas recently experienced severe storms, which included tornados that ripped through the Beebe School District on the evening of April 25<sup>th</sup>, 2011. The storms and tornados did major structural damage, as well as uprooted many trees and downed power lines all over the district.

Along with the damage of trees and power lines, a roof was blown off Beebe Elementary School. There was damage to both the north and south ends of the building. In addition, since most of the buildings in the school district are located on one main campus, restoration of power was a slow process, and was not completed until the evening of April 28, at approximately 7:00 p.m. On Tuesday, action was taken quickly, debris was removed, a temporary roof installed, and school was back in session by Friday, April 29. The total days missed for tornado and power outage was three days.

Earlier in the year, Beebe students missed five days due to bad weather. The school board and administration worked to revise the calendar for 2010-11 by making up several days on holidays, incorporated into the calendar. After the revisions, the last day of school was scheduled to be June 1, 2011. If the District had known in advance, spring break could have been used, but as you realize, natural disasters are unpredictable.

I am requesting a waiver for the three days for tornado damage and power outages for the following reasons:

1. The experience was devastating to the students in the Beebe School District.
2. Summer school is scheduled to begin on June 6<sup>th</sup> in the district.
3. Teachers who attend graduate school will begin on June 6<sup>th</sup> at several universities.
4. The District has professional development scheduled for staff members on June the 6<sup>th</sup> and June 7<sup>th</sup>.
5. Several churches in the area have vacation bible school scheduled to begin on June 6<sup>th</sup>.

6. The Beebe School District uses buses to provide transportation from Harding University to the State Capitol for Girls' State. If we are still in school, we will need the buses and will not be able to assist with this service.
7. A basketball camp is scheduled to begin on June 6<sup>th</sup>.

It would benefit the District to have a waiver for three days to wrap up the school year, put this year behind us and move on to plans for next year. Many of our students and faculty members have experienced damage to their homes, flooding to their classrooms and destruction to their community. To illustrate the loss, I am including pictures of the school and samples of houses in the area. Families deal with the physical and emotional repair of this sort of destruction for months, if not forever. While three days would be most beneficial, if it is impossible to grant three days, a waiver for even one day would be helpful, since it would allow us to finish on June 3 and continue the plans above, beginning on June 6<sup>th</sup>.

I would appreciate any assistance you might provide.

Sincerely,

Dr. Belinda P. Shook  
Superintendent  
Beebe School District

**CLINTON PUBLIC SCHOOLS**  
**James H. McGaha, Superintendent**

Telephone (501)745-6005  
[mcgahaj@clinton.k12.ar.us](mailto:mcgahaj@clinton.k12.ar.us)

683 Poplar St.  
Clinton, Arkansas 72031

Fax (501)745-2475

May 02, 2011

Dr. Tom Kimbrell, Commissioner  
Arkansas Department of Education  
#4 State Capitol Mall, Room 304-A  
Little Rock, AR 72201

Dear Dr. Kimbrell:

The Clinton School District (LEA 71-02) is requesting a waiver of school days missed Thursday, April 28, and Friday, April 29, 2011, because of water problems in our community. The city could not process enough water to send out to all of the Clinton area. The rivers and their tributaries churned silt into the lake which is our source of water. There were many areas that were without water and our community is still under a boil order at this time. We are having bottled water brought in from the Office of Emergency Services for our students so that we can attend school at the present time.

Our district missed eleven (11) days for inclement weather during the 2010-2011 school year. We used a staff development day on March 18, 2011, as a student day, attended school on Saturday, March 19, 2011, will be attending Memorial Day, and are extending our school year by three (3) days to make up these days. Before missing the extra two (2) days due to water problems our last day was scheduled to be June 3, 2011. By missing an additional two (2) days because of the water issue we will have missed a total of thirteen (13) days.

Thank you for considering a request for a waiver of two (2) days for April 28 and April 29, 2011. Please feel free to contact me if you have any questions concerning this request.

Sincerely,

James H. McGaha  
Superintendent

May 5, 2011

Dear Dr. Tom Kimbrell,

The Des Arc School District has already committed all of our scheduled “snow” days to make up for days missed due to inclement weather earlier. We are currently experiencing a disaster with the flood. According to the Office of Emergency Services personnel and Prairie County Judge we are expecting to be out of school for at least 15 additional days because of all of the roads being flooded. We have been told that river is predicted to crest Sunday, May 18 and that it will be approximately 10 days after that before the river goes down enough to make some of the roads passable. We will resume school as soon as the roads passable to the point of establishing safe alternate bus routes.

We are requesting a waiver for 15 days due to the flood. We appreciate any assistance that you can give us regarding this matter.

Sincerely,

Rick Green



Shelby Sisemore  
Superintendent

Dr. Robert Allen  
Assistant Superintendent



## HUNTSVILLE SCHOOL DISTRICT

P.O. Box F  
570 West Main St.  
Huntsville, AR 72740



To: Dr. Tom Kimbrell, Commissioner, ADE  
Phyllis Stewart, State Board/Commissioner's Liaison  
State Board of Education  
From: Shelby Sisemore, Superintendent  
Re: Waiver day  
Date: April 27, 2011

On behalf of the Huntsville School District, we would like to request a waiver of one day for the 2010/11 school year. The reason for this request is that we have just experienced perhaps the worst round of severe thunderstorms in anyone's memory, resulting in a significant portion of our roads washing out, and our low-water bridges becoming impassable. On Monday, April 25, 2011, many of our bus drivers were forced to bring students back to our campuses, where they were attended until their family could get them. Two of our primary school children were finally delivered to their grandmother at 8:15 p.m. that night. With that in mind, and after discussions with the Madison County Road Superintendent, we decided to call off school for the next day. That gave us the opportunity to formulate a plan to transport the maximum number of students, as many of the roads and bridges will not be passable for several weeks. Barring any more calamities, we plan to complete the year as indicated on the calendar.

The Huntsville School District has already missed 14 days due to snow. We did not ask for a waiver for any of these days. However, we also feel that we made a very good-faith effort to keep ourselves from asking for a waiver, since it was indicated to us that a waiver would not be considered unless we were willing to use all of our Spring Break. We build six days into our calendar, and did use two of the Spring Break days. In addition, we tried to be proactive, by taking advantage of possible holidays that would occur prior to the advent of bad weather. Consequently, we went to school during the first two days of the Thanksgiving week, the first two days of the first week of Christmas break, Martin Luther King, Jr. Day, President's Day, and Good Friday. Additional days were added to the end of the school year.

Unfortunately, at this late date, we have run out of potential holidays when we could go to school. As most of our testing is completed, going on Saturday would not be a good option either. Consequently, it is our request that the State Board of Education grant the Huntsville School District a waiver of one day for

the 2010/11 school year. A copy of this letter, along with the school calendar and pictures of some of the damage in the district, is being mailed to you. Please note that the school calendar does not reflect a make-up day for April 25. If our request for a waiver is denied, the last student day for the District will be June 9, 2011.

Thank you for your consideration. Please feel free to contact me at (479)-738-2011, if you have any questions about this.

Sincerely,

*Shelby Sisimore*



**HUNTSVILLE SCHOOL DISTRICT**  
**Approved 2010-2011 Calendar-Revised after Snow Days**

Event	Date	Teacher Days	Student Days
Teacher Workshops	August 11-13, 16-17	5	
Dead Day	August 18		
First Day of School	August 19		
Labor Day	September 6		
End First Quarter	October 18		42
Begin Second Quarter	October 19		
Parent/Teacher Conf. (1-7 PM)	October 26 (Tuesday)	1	
Teacher Workshop (8-12 AM)		.5	
Thanksgiving Holiday	November 24-26		
End of Second Quarter	December 21		42
Christmas Break	December 22 – January 2		
Begin Third Quarter	January 3		
<b>Snow Days</b>	<b>January 10, 11, 12</b>		
<b>Snow Days</b>	<b>January 20, 21</b>		
<b>Snow Days</b>	<b>February 1, 2, 3, 4, 7, 8, 9, 10, 11</b>		
Grade 11 Literacy Exam	March 8-9		
End of Third Quarter	April 1		48
Begin Fourth Quarter	April 4		
Parent/Teacher Conf. (1-7 PM)	April 7	1	
Teacher Workshop (8-12 AM)		.5	
Spring Break	March 23-25 (see note below)		
ITBS (K-2) ITED (9)	Window April 5-16		
Benchmark Exams Grades 3-8	April 11-15		
End of Course Geometry Exam	April 19-20		
End of Course Biology Exam	April 26-27		
End of Course Algebra 2 Exam	May 4		
End of Course Algebra 1 Exam	May 10-11		
Graduation Day – St. Paul	May 13		
Graduation Day – Huntsville	May 17		
Memorial Day- No School	May 30		
Last Day of School	June 8		46 + 6 snow days
<b>TOTAL SCHOOL DAYS</b>		<b>12 (8 + 4)</b>	<b>42 + 42 + 48 + 46 = 178 days</b>

Notes:

- Six (6) snow days have been added to the calendar. If all 6 days are not used, the extra days will come off the end of the school year.
- Four (4) contracted teacher days will be earned during the summer or on weekends as per the Huntsville School District Staff Development Plan.
- Five (5) spring break days are listed on the calendar. However, only 3 of the 5 days are guaranteed. If make-up days are needed due to snow days used, spring break will be March 23-25.
- If more than two (2) additional snow days are needed, they will be added to the end of the year.

APPROVED May 10, 2010



**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**

Office of the Superintendent

May 2, 2011

RECEIVED  
COMMISSIONER'S OFFICE

MAY 04 2011

Dr. Tom Kimbrell  
Commissioner  
Arkansas Department of Education  
4 State Capitol Mall  
Little Rock, AR 72201-1071

DEPARTMENT OF EDUCATION

Dear Dr. Kimbrell:

On Monday, April 25<sup>th</sup>, 2011, North Pulaski High School was damaged by a tornado. Arnold Drive Elementary and Lawson Elementary Schools were affected by the same storm. North Pulaski High School was closed April 26, April 27, and April 28 due to the damage. Because of power outage due to the storm, Arnold Drive Elementary was closed on April 26, April 27; and Lawson Elementary was closed on April 26.

Pulaski County Special School District requests a waiver of the attendance requirement as stated in Rules Governing Standards for Accreditation of Arkansas Public Schools and School Districts (Standard V, 10.01.1) for North Pulaski's three missed days; Arnold Drive's two missed days; and Lawson's one missed day.

Thank you for consideration of this request. If additional information is needed, please feel free to contact me.

Sincerely,

Charles L. Hopson  
Superintendent

**Subject:** Waiver for missed days

**Date:** Thursday, April 28, 2011 4:02:48 PM CT

**From:** Frank Mitchell

**To:** Doug Bradberry (ADE)

April 28, 2011

Dr. Tom Kimbrell, Commissioner  
Arkansas Department of Education  
#4 State Capitol Mall  
Little Rock, AR 72201-1071

Dear Dr. Kimbrell:

I am requesting a waiver for days missed this week due to the tornado that came through our school district on Monday evening. We will miss four days this week. We hope to resume classes on Monday, May 2nd.

Damage to our school facilities is light. The major problem in regard to our facilities has been loss of electrical service. Service was restored late Wednesday.

Our other major problems concern broken utility poles and debris on bus routes as well as the number of houses with roof and structural damage and no electrical service. Several hundred homes in the school district have significant damage ranging from totally destroyed to minor roof leaks.

We missed five days earlier in the year due to inclement weather. We have five scheduled make-up days on Wednesday, June 1st through Tuesday, June 7th. Our 2010-11 calendar is attached.

Over the years, we have rarely dismissed school early and, we schedule full days for parent/teacher conferences as we believe this is the intent of the rules and regulations. We also respect the importance of maintaining standards for student days and your responsibility of maintaining these standards.

I don't believe that we have requested a waiver in the past. I am doing so on behalf of our students and their families who will struggle to regain a normal school and home life in the next few weeks.

Your consideration will be appreciated.

Sincerely,

Frank Mitchell



# ARKANSAS DEPARTMENT OF EDUCATION

Dr. Tom W. Kimbrell  
Commissioner

State Board  
Of Education

Dr. Naccaman Williams  
Springdale  
Chair

Dr. Ben Mays  
Clinton  
Vice Chair

Sherry Burrow  
Jonesboro

Jim Cooper  
Melbourne

Brenda Gullett  
Fayetteville

Sam Ledbetter  
Little Rock

Alice Mahony  
El Dorado

Toyce Newton  
Crossett

Vicki Saviers  
Little Rock

April 21, 2011

Mr. Benjamin Lindquist  
Little Rock Preparatory Academy  
1205 S. Schiller Street  
Little Rock, AR 72202

Re: Notice of State Board Meeting

Dear Mr. Lindquist:

This letter is to inform you that your request for an amendment hearing regarding Little Rock Preparatory Academy will be considered at the State Board of Education's meeting on May 16, 2011. The meeting is scheduled to begin at 9:00 a.m., and will be held in the auditorium of the Arch Ford Education Building at Four Capitol Mall in Little Rock.

Please ensure that you have all the necessary personnel in attendance, as well as all documentation in order to address any questions from the Arkansas State Board of Education concerning your request.

Please feel free to contact the Charter School Office at (501) 683-5313, should you have any questions.

Sincerely,

Mary Ann Duncan, Ed.D.  
Charter Schools, Program Coordinator

MAD/jf

c/c: Jeremy Lasiter, General Counsel  
Dr. Charles Hopson, Superintendent, Pulaski County Special School District  
Dr. Morris Holmes, Interim Superintendent, Little Rock School District  
Kenneth Kirspel, Superintendent, North Little Rock School District

Four Capitol Mall  
Little Rock, AR  
72201-1019  
ArkansasEd.org

# LITTLE ROCK PREPARATORY ACADEMY

PREPARARE SUCCESBUS

April 20, 2011

Dr. Mary Ann Duncan  
Charter School Director  
Arkansas Department of Education  
Four Capitol Mall  
Little Rock, AR 72201

Dear Dr. Duncan:

On behalf of Little Rock Preparatory Academy (LRPA), I am writing to request the opportunity to appear before the Arkansas State Board of Education on Monday, May 16, 2011 at the next regularly scheduled board meeting.

Thank you in advance for your assistance with this request. I will follow up with additional documentation on the supporting rationale and details of the charter amendment that we are seeking in the next three days.

Please do not hesitate to contact me should you require further information.

With best regards,

  
Benjamin Lindquist  
Executive Director

cc: Charles Stewart, Chairman, Board of Trustees, Little Rock Preparatory Academy

RECEIVED  
APR 20 2011

CHARTER SCHOOL OFFICE

# LITTLE ROCK PREPARATORY ACADEMY

P R A E P A R A R E                      S U C C E S S U S

April 22, 2011

Dr. Mary Ann Duncan  
Charter School Director  
Arkansas Department of Education  
Four Capitol Mall  
Little Rock, AR 72201

Dear Dr. Duncan:

I am writing to explain the rationale for our request to appear before the Arkansas State Board of Education on Monday, May 16, 2011 to request an amendment to the charter agreement for Little Rock Preparatory Academy (LRPA).

As you know, I began my tenure as Executive Director of LRPA in January 2011. Over the past three months, I have been retained without remuneration to assist the school in evaluating its progress to date and determining the best course of action moving forward. During that time, I have worked closely with board chairman Charles Stewart, other members of the board of trustees, and the staff of the school to complete three related tasks:

- First, we conducted a thorough review of the school's target population, staff, programs and progress to date.
- Second, based on the findings of that review, we went through a strategic planning process to determine how best to ensure that LRPA can succeed in fulfilling its mission.
- Third, we prepared a request that would allow LRPA to make the necessary amendments in its charter to achieve the five-year goals set forth in its August 2008 charter application.

During the board meeting, we will present our request for the state board's consideration. This letter is designed to provide a summary of the background and rationale behind that request.

## **Target Population**

The review of LRPA's target population yielded the following findings:

First, LRPA is serving "traditionally underserved students" consistent with its charter application. Currently, approximately 78% of LRPA's students qualify for the Federal Free and Reduced Lunch Program and 98% of students are African American. The Academy's student body is significantly more disadvantaged than the population of the surrounding district when compared on measures of income, ethnicity and community need. LRPA has developed a strong, loyal following of families from Central Little Rock, which is the geographic region of the city that has been least well served educationally for the past two decades or more.

RECEIVED  
APR 22 2011

CHARTER SCHOOL OFFICE



# LITTLE ROCK PREPARATORY ACADEMY

P R A E P A R A R E

S U C C E S S U S

Second, from a practical standpoint, LRPA's student body is very challenging to serve. Many of LRPA's incoming students struggle with low self-esteem, tardiness, absenteeism, a history of academic failure, and frequent displays of insubordination and disrespect for adults and peers alike. In each of the past two years, over 25% of students have relocated out of the school over the course of the year due to changes in family, employment and residence. Currently, over 12% of students have classified disabilities with more under evaluation.

Third, student achievement levels are low among incoming students. On average, only 50% of LRPA's first class of 5<sup>th</sup> grade students scored proficient and advanced on the Arkansas Benchmark Exams in the spring of 2010. These students made significant progress from where they were in their previous schools just 8 months prior, but have a long way to go to prepare for college-preparatory high school programs.

In response to these realities, LRPA's leadership has come to view fulfilling its mission as an iterative undertaking – a continuous problem-solving process that involves confronting, resolving and overcoming the many challenges that stand in the way of enabling every student to develop college-ready skills and attributes. Even though many of its students come from the most historically underserved region of the city, LRPA's team remains determined to prepare graduating students to earn entrance into Central High School, Parkview Arts Science Magnet High School, and other public high schools with college-preparatory programs.

## **Progress to Date**

Over the past 18 months, LRPA has made major strides forward in achieving its mission and vision, including:

- Assembling a High Caliber Team: LRPA has attracted an impressive team that is talented, diverse and dedicated. Every school day, members of the staff arrive between 6:15 and 7:00 am and depart between 5:30 and 7:00 pm. To ensure instructional effectiveness, LRPA's staff prepares lessons in the evenings and on weekends using a painstaking process that requires between 2.0 and 3.5 hours of preparation for every 1.0 hour of delivery. Likewise, LRPA's board of trustees is accomplished, well rounded, and actively engaged with professional backgrounds in banking, law, human resources, non-profit management, fundraising, advanced science and education administration.
- Creating a Safe, Healthy, Orderly Climate: When they join LRPA, all school staff commit themselves to modeling P.U.S.H., *Perseverance, Urgency, Scholarship* and *Honesty*, a set of character values that pervades the atmosphere of the school. Through P.U.S.H. Block Challenges and other incentive programs, LRPA's team motivates students to demonstrate strong character throughout the school day. By setting a high bar for student conduct, the

# LITTLE ROCK PREPARATORY ACADEMY

## P R A E P A R A T O R Y                      S U C C E S S U S

school eliminates the behavioral challenges that prevent students from learning in surrounding schools. Although LRPA's staff has been very effective in establishing a safe, healthy, orderly climate that is focused on learning, it frequently takes 3-9 months for students to acclimate to LRPA's culture and expected code of conduct.

- **Raising Student and Family Expectations:** In the 4 parent meetings that I have attended during my time at the school, LRPA's parents have consistently expressed a high degree of confidence in the Academy's staff and programs, frequently after acknowledging that they were concerned about the longer school day and year and strict code of conduct at time of enrollment. LRPA's students have set their sights on college even though many entered the school with little or no knowledge of the postsecondary options available to them.
- **Making a Longer School Day and Year the Standard:** LRPA offers a school day that runs from 7:15 to 5:00 pm, which includes over 2.5 hours of additional instructional time relative to surrounding schools. Every day, students benefit from 2 hours of instruction in mathematics, 2 hours of instruction in English Language Arts, 1 hour of instruction in History and 1 hour of instruction in Science. LRPA's annual calendar runs for 188 days compares to 178 days in the surrounding district. So in total, LRPA is offering its students over 25% more learning time than they would receive in surrounding schools.

As these findings illustrate, LRPA has put many of the right ingredients in place over the 20 months since opening. But unfortunately, due to small sample size and other variables, LRPA has not been in operation long enough to allow for a meaningful analysis of student achievement to be completed on standardized tests. Upon close review, it is evident that available data on state tests does not yet provide a valid picture of student learning.

### **Areas of Improvement**

With these findings as a baseline, the objective of the strategic planning process was to determine how to ensure that LRPA will be successful in achieving its mission and vision. During the planning process, several needs were identified:

1. **Current Feeder Schools Inadequate:** To determine how well its feeder schools prepare students for entry into LRPA, we undertook an evaluation of student achievement among other high-poverty elementary and middle schools in Little Rock. The findings were surprising. In schools like LRPA – where over 75% of students qualify for the Federal Free & Reduced Lunch Program – over two-thirds of students are failing to achieve proficient or advanced on state exams. Among high-poverty elementary schools, the failure rates were higher on 2007-08 data than among middle schools. *As a result, LRPA cannot rely on its feeder schools to prepare students for middle school.*



# LITTLE ROCK PREPARATORY ACADEMY

## PREPARE SUCCESS

2. Students Need a Longer Runway: Over the past year and a half, it has become amply clear that Incoming 5<sup>th</sup> grade students are already far behind their peers on both qualitative and quantitative measures of behavior, development and achievement. To prepare these students for college-preparatory programs at area high schools by the time they graduate from 8<sup>th</sup> grade, LRPA must provide students with a longer runway. *By adding grades K-4, LRPA can give students the additional time and support they need to develop college-ready skills and attributes.*
3. Running a Great Urban Charter School is a 'Team Sport': To be successful, LRPA must take a team-based approach to managing all aspects of its programs and activities. Establishing an exemplary public charter school in an underserved community is a complex, challenging undertaking that requires a collaborative team-based approach. *By moving from a school led by a single executive director to a school led by a management team, LRPA can leverage the strength of a diverse, well-rounded team of highly capable professionals.*
4. Ongoing Access to Best Practices and Research-based Methods is Essential: There is no one silver formula for opening a charter school that closes the achievement gap in impoverished communities nationwide. The management teams of the best charter schools in the nation succeed by continuously improving – confronting their shortcomings openly and honestly, finding best practices that have proven effective in other strong schools, testing those practices, and making adjustments until a proven framework emerges. *To facilitate this process, LRPA is seeking to affiliate with a larger charter school network that can provide ongoing access to expertise, best practices and resources.*

### **Requested Charter Amendment**

With these needs identified, we evaluated the charter application that was approved by the State Board of Education to determine what changes need to be made to ensure LRPA's success. During our appearance before the state board, we will request two changes in LRPA's approved charter:

- First, the state board must recognize that LRPA is putting a new management team in place, which will be led by Benjamin Lindquist, who replaces Latoya Goree as executive director. The management team will be expanded to include six members.
- Second, LRPA must add grades K-4, which will enable us to serve our students from kindergarten through eighth grade so that we can fully prepare them for college-preparatory programs by the time they graduate 8<sup>th</sup> grade. The requested expansion would occur within LRPA's existing enrollment targets, which were already approved by the state board.

# LITTLE ROCK PREPARATORY ACADEMY

P R A E P A R A R E

S U C C E S S U S

## Requested Waivers

Upon review of our current charter requirements and in light of the requested amendments, we are asking the State Board of Education for two (2) additional waivers:

1. Ark. Code Ann. § 6-13-604 et seq.:

To allow our Board of Trustees to: (1) be composed of more than seven (7) members; and (2) potentially contain an even number of members. We are asking to be waived from the usual school board election and composition requirements applicable to school districts. It is our understanding that this is a waiver commonly requested by open-enrollment public charter schools.

2. ADE Rules Governing Standards for Accreditation of Arkansas Public Schools and School Districts, Section 10.02 "Class Size and Teaching Load":

It is our intent to have an average class size of thirty (30) students per classroom in Grades K-4 with two (2) co-teachers per classroom. Class size will not exceed a maximum of 32 students but may range above the expected average of 30 students. With this average class size, we believe that we may still be in compliance with the state-required student-to-teacher ratio. However, to the extent that our request is deemed to not comply with the class size requirement, we ask for a waiver from the requirements of Section 10.02.

With these changes made, LRPA expects to come before the board again in the next 12 months to request approval of a new location. The landlord of LRPA's current facility, the Liberty Hill Baptist Church, has determined that it wants to repurpose the school's existing space for religious programs, so LRPA must relocate to a more suitable permanent location. By relocating to a new site, we will position ourselves to achieve the enrollment growth projections set forth in our charter application.

We are grateful for the state board's consideration of this request. Please do not hesitate to contact me should you require further information. We would be happy to speak with you, the education commissioner, members of the state board and/or the legal counsel for the state board in advance of the May 16<sup>th</sup> meeting if it would be helpful in laying the groundwork for the state board's vote on our request. Together, we will improve public education in the most historically underserved region of Little Rock.

With best regards,



Benjamin Lindquist  
Executive Director

## **NOTICE LETTERS**



# ARKANSAS DEPARTMENT OF EDUCATION

Dr. Tom W. Kimbrell  
Commissioner

April 12, 2011

State Board  
of Education

Dr. Naccaman Williams  
Springdale  
Chair

Dr. Ben Mays  
Clinton  
Vice Chair

Sherry Burrow  
Jonesboro

Jim Cooper  
Melbourne

Brenda Gullett  
Fayetteville

Sam Ledbetter  
Little Rock

Alice Mahony  
El Dorado

Toyce Newton  
Crossett

Vicki Saviers  
Little Rock

Mr. George M. Matteson  
Harrelson & Matteson, P.A.  
The Foreman Building  
300 State Line Avenue  
Texarkana, Arkansas 71854-5926

Mr. Jay Bequette  
Bequette & Billingsley  
425 West Capitol Avenue, Suite 3200  
Little Rock, Arkansas 72201

**Re: In the Matter of the Request for Change in Boundary Lines Between  
the Foreman School District No. 25 of Little River County and the  
Horatio School District No. 55 of Sevier County**

Dear Gentlemen:

Please be advised that the date for the May 2011 meeting of the Arkansas State Board of Education (State Board) has changed. The State Board will now consider the above-referenced petition on **Monday, May 16, 2011**. The meeting will begin at **9:00 a.m. in the Auditorium of the Arch Ford Education Building, Four Capitol Mall, Little Rock, Arkansas**. The parties should submit any briefs, exhibits, documents or other supporting materials referenced in my April 5, 2011 letter to my office **no later than noon on April 27, 2011**.

On April 12, 2011, my office received the enclosed letter (dated April 8, 2011) and resolution from the Foreman School District. The letter and resolution are enclosed for your files.

Thank you for your attention to this matter. Please do not hesitate to contact me at (501) 682-4227 should you have any questions or require additional information.

Respectfully,

Jeremy C. Lasiter  
General Counsel

Enclosure

Four Capitol Mall  
Little Rock, AR  
72201-1019  
(501) 682-4475  
ArkansasEd.org

cc: Tom W. Kimbrell, Ed.D., Commissioner of Education  
Ms. Phyllis Stewart, State Board Liaison  
Mr. Heath Bennett, Superintendent, Foreman School District  
Mr. John (Skipper) Ward, Superintendent, Horatio School District



# ARKANSAS DEPARTMENT OF EDUCATION

Dr. Tom W. Kimbrell  
Commissioner

April 5, 2011

State Board  
of Education

Dr. Naccaman Williams  
Springdale  
Chair

Dr. Ben Mays  
Clinton  
Vice Chair

Sherry Burrow  
Jonesboro

Jim Cooper  
Melbourne

Brenda Gullett  
Fayetteville

Sam Ledbetter  
Little Rock

Alice Mahony  
El Dorado

Toyce Newton  
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Mr. George M. Matteson  
Harrelson & Matteson, P.A.  
The Foreman Building  
300 State Line Avenue  
Texarkana, Arkansas 71854-5926

Mr. Jay Bequette  
Bequette & Billingsley  
425 West Capitol Avenue, Suite 3200  
Little Rock, Arkansas 72201

**Re: In the Matter of the Request for Change in Boundary Lines Between  
the Foreman School District No. 25 of Little River County and the Horatio  
School District No. 55 of Sevier County**

Dear Gentlemen:

I am in receipt of the enclosed letter dated March 31, 2011 and received by the Arkansas Department of Education on April 4, 2011. Enclosed with the letter was a petition for a change in boundary lines between the Foreman School District and the Horatio School District.

The State Board will consider the petition during its next regularly scheduled meeting on **Monday, May 9, 2011**. The meeting will begin at **9:00 a.m. in the Auditorium of the Arch Ford Education Building, Four Capitol Mall, Little Rock, Arkansas**.

The applicable Arkansas statute concerning boundary changes by the State Board of Education (State Board) is Ark. Code Ann. § 6-13-1414. Please note that all statutory prerequisites must be met prior to the State Board's consideration of the petition. The parties should submit any briefs, exhibits, documents or other supporting materials to my office **no later than noon on April 20, 2011**. These supporting materials should include the present status of desegregation efforts, if any, of the Foreman and Horatio School Districts. If either district is currently under a desegregation order, please provide a copy of the applicable order. The parties should also address whether the proposed boundary line change will hamper, delay, or in any manner negatively affect the desegregation efforts of public school districts in the State of Arkansas.

Thank you for your attention to this matter. Please do not hesitate to contact me at (501) 682-4227 should you have any questions or require additional information.

Respectfully,

Jeremy C. Lasiter  
General Counsel

Enclosure

cc: Tom W. Kimbrell, Ed.D., Commissioner of Education  
Ms. Phyllis Stewart, State Board Liaison  
Mr. Larry Lairmore, Superintendent, Foreman School District  
Mr. John (Skipper) Ward, Superintendent, Horatio School District

Four Capitol Mall  
Little Rock, AR  
72201-1019  
(501) 682-4475  
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## **PROCEDURES**

**PROPOSED STATE BOARD HEARING PROCEDURES  
BOUNDARY CHANGE BY STATE BOARD OF EDUCATION**

**(Ark. Code Ann. § 6-13-1414)**

**May 2011**

1. The agenda item will be introduced by appropriate Arkansas Department of Education staff.
2. The Chair of the State Board shall serve as presiding officer for the hearing.
3. All parties, with the exception of the attorneys representing the parties, who plan to provide testimony to the State Board concerning the agenda item, will be sworn by a certified court reporter.
4. The representative of the petitioning district will be permitted twenty (20) minutes to present its case to the State Board. The presiding officer may, for good cause shown and upon request of the petitioning district, allow additional time for the petitioning district to present its case.
5. The representative of the responding district will be permitted twenty (20) minutes to present its case to the State Board. The presiding officer may, for good cause shown and upon request of the responding district, allow additional time for the responding district to present its case.
6. During the presentation of the case by the parties, any member of the State Board may question any party, any party's representative, any witness, or any other person whose testimony may be found useful by the State Board in determining an appropriate resolution of the matter.
7. Following the presentation of the case by the parties, the State Board will discuss the matter.
8. The State Board will vote on whether to grant the petition pursuant to Ark. Code Ann. § 6-13-1414. If the local board of directors of each of the affected districts is unable to agree on the proposed change in boundary lines, the State Board shall adjust and change the boundary lines in accordance with its best judgment, or shall rule that the boundary lines remain unchanged. The vote of the State Board shall be by a majority of the members of a quorum present.

### **Other Procedures Applicable to the State Board Hearing**

1. All members of the State Board shall conduct themselves in an impartial manner and may at any time withdraw from the proceedings if they deem themselves disqualified.
2. As the moving party, the petitioning party shall have the burden of proving each fact of consequence to the determination by a preponderance of the evidence.
3. Irrelevant, immaterial, and unduly repetitious evidence shall be excluded.
4. Any other oral or documentary evidence, not privileged, may be received if it is of a type commonly relied upon by reasonably prudent people in the conduct of their affairs.
5. Objections to evidentiary offers may be made and shall be noted of record. When a hearing will be expedited and the interests of the parties will not be substantially prejudiced, any part of the evidence may be received in written form.
6. Parties shall have the right to conduct such cross examination as may be required for a full and true disclosure of the facts.
7. Official notice may be taken of judicially cognizable facts and of generally recognized technical or scientific facts within the agency's specialized knowledge. Parties must be notified of material so noticed, including any staff memoranda or data, and shall be afforded a reasonable opportunity to show the contrary.



## **APPLICABLE LAW**

**6-13-1414. Boundary change by State Board of Education.**

**(a) (1)** The State Board of Education shall consider a petition from a local board of directors of any school district seeking an adjustment or change of boundary lines between its school district and an adjoining school district.

**(2)** The local board of directors must file the petition with the state board at least thirty (30) days prior to the next regularly scheduled state board meeting, at which time the petition will be presented for hearing before the state board.

**(b)** Upon proof to the state board of public notice issued in the local newspapers of general circulation in each affected school district no less than one time a week for two (2) consecutive weeks, the state board may, by approval of a majority of the members of a quorum present of the state board, issue an order changing or adjusting the boundary lines between the adjoining school districts.

**(c)** If the local board of directors of each of the affected school districts is unable to agree on the proposed change in boundary lines, the state board shall adjust and change the boundary lines in accordance with its best judgment subject to the requirement of subsection (f) of this section or shall rule that the boundaries remain unchanged.

**(d)** Upon an order from the state board to change or adjust boundary lines, it shall be the duty of the Department of Education to immediately make changes in the maps of the school districts of the county to show the changes of boundaries.

**(e)** The state board shall issue an order establishing the changed boundaries and shall file the order with the county clerk in each county in which every affected school district lies. The county clerk shall make a permanent record of the order, and thereafter the boundaries so established shall be the boundaries of the affected school districts until changes are made according to the provisions of law.

**(f)** The state board shall not order any change in school district boundaries which hampers, delays, or in any manner negatively affects the desegregation efforts of the public school districts in the State of Arkansas.

**HISTORY:** Acts 2001, No. 1037, § 1.

# **FOREMAN SCHOOL DISTRICT SUBMISSIONS**



HARRELSON & MATTESON, P.A.

Gene Harrelson  
Jeff Harrelson <sup>CR</sup>  
Steve Harrelson <sup>LA</sup>  
George M. Matteson <sup>FL</sup>

<sup>CR</sup> - Board Certified in Criminal Law  
Texas Board of Legal Specialization

<sup>LA</sup> - Also admitted in Louisiana

<sup>FL</sup> - Also Admitted in Florida

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All Attorneys Admitted to Practice in  
Arkansas and Texas

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Author's E-mail:  
george@harrelsonfirm.com

April 26, 2011

Dr. Tom Kimbrell  
Commissioner  
Four Capitol Mall  
Little Rock, AR 72201

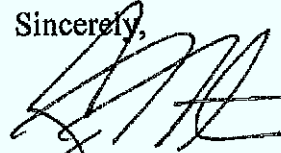
*Re: In the Matter of the Request for Change in Boundary Lines Between  
Foreman School District No. 25 of Little River County, and Horatio School  
District No. 55 of Sevier County*

Dear Dr. Kimbrell:

Enclosed please find a Submittal in Support of the Petition for Change in Boundary Lines previously submitted by my client, Foreman School District No. 25 of Little River County. I respectfully request that the enclosed be included in information provided to the member of the State Board of Education for use in connection with the hearing on such petition currently scheduled for May 16, 2011.

If you have any questions or need additional information, please feel free to contact me.

Sincerely,



George Matteson

GMM/lo  
Enclosure  
cc (with enclosure):

Matt Corley, Heath Bennett, Jason Sanders, Mr. Jay Bequette, Mr. Jeremy Lasiter

**Before the Arkansas State Board of Education,**  
**Arkansas Department of Education,**  
**Little Rock, Arkansas**

<i>In the Matter of the Request for</i>	§	
<i>Change in Boundary Lines Between the</i>	§	Hearing Date:
<i>Foreman School District No. 25 of</i>	§	May 16, 2011
<i>Little River County and the Horatio</i>	§	
<i>School District of Sevier County</i>	§	

**Submittal In Support of Petition for Change in Boundary Lines**

TO: The State Board of Education, Arkansas Department of Education  
FROM: Foreman School District No. 25 of Little River County  
George M. Matteson, Attorney at Law, Counsel for Applicant  
DATE: April 26, 2011  
RE: The Request for Change in Boundary Lines Between the Forman School  
District No. 25 of Little River County and the Horatio School District No.  
55 of Sevier County

In support of the referenced request of Foreman School District No. 25 for a change in boundary lines pursuant to Ark. Code Ann §6-13-1414, the Foreman School District Number 25 of Little River County does submit the attached informational package and requests that the State Board of Education grant the proposed boundary line change.

**Table of Contents**

- I. Executive Summary
- II. Petition
- III. Resolution of the Board of Directors of Foreman School District
- IV. Satisfaction of Notice Requirements
- V. Arkansas Code Annotated §6-13-1414(f) Compliance
- VI. Little River County/City of Foreman Location
- VII. Foreman School District Boundary and Location
- VIII. Foreman School District Current/Projected Enrollment and Teacher Information
- IX. Ad Valorem Tax Information
- X. Practical Considerations

## **I. Executive Summary**

### **Executive Summary**

Pursuant to Ark. Code Ann. §6-13-1414, Foreman School District No. 25 of Little River County does request that the State Board of Education modify the boundary lines of the Foreman School District to include within the same the former Winthrop School District No. 12 of Little River County.

In 1992, by order of the Circuit Court of Little River County, Arkansas, Winthrop School District was made a part of Horatio School District No. 55 of Sevier County. Neither that order, nor any existing order relate to or affect any desegregation efforts. Likewise, the proposed boundary line change will not hamper, delay or in any way affect any desegregation efforts of public school districts in Arkansas.

The Winthrop School District facilities are now closed and, at present, approximately seventy-one (71) students having a Winthrop address are enrolled in the Foreman School District. Although Foreman welcomes such additional enrollment, the same constitutes approximately 13% of the total enrollment of Foreman School District, for which Foreman receives no contribution from ad valorem property tax assessments of real and personal property located within the former Winthrop School District.

The former Winthrop School District is located entirely within Little River County, Arkansas; immediately adjacent to the existing Foreman School District boundary line; and accessible by a network of Little River County roads at numerous points.

In order to procure ad valorem property tax collections from the former Winthrop School District area; make long-term staffing, teacher, capital improvement and budgetary decisions; best serve the community and students; and, accommodate practical efficiencies created by the location of the former Winthrop School District in relation to the existing Foreman School District, Foreman does requests that the boundary lines of its district be modified as set forth herein.

## **II. Petition**

**Petition for Change in Boundary Lines Submitted on Behalf of Foreman School District No. 25 of Little River County on March 31, 2011, and Received by Arkansas Department of Education on April 4, 2011**

**(Attached)**

**BEFORE THE ARKANSAS STATE BOARD OF EDUCATION**

**IN THE MATTER OF THE REQUEST FOR CHANGE IN BOUNDARY LINES  
BETWEEN FOREMAN SCHOOL DISTRICT NO. 25 OF LITTLE RIVER COUNTY,  
AND HORATIO SCHOOL DISTRICT NO. 55 OF SEVIER COUNTY.**

**PETITION FOR CHANGE IN BOUNDARY LINES**

COMES NOW the Board of Directors of Foreman School District No. 25 of Little River County, pursuant to A.C.A. §6-13-1414, and petitions the State Board of Education for a change of boundary lines between the Foreman School District No. 25 of Little River County (Foreman) and the Horatio School District No. 55 of Sevier County (Horatio).

1. The changes in the districts' boundaries sought by Foreman are: designation as a part of Foreman that portion of Horatio that was formerly Winthrop District No. 12 of Little River County (and annexed to Horatio pursuant to that Judgment and Order of Annexation from the Circuit Court of Little River County, Arkansas entered on April 29, 1992, in the matter styled *Winthrop School District No. 12 of Little River County v. Little River County Board of Education* (Cause Number CIV-92-37)).

2. Proof will be made to the State Board of public notice having been made pursuant to subparagraph (b) of the boundary line statute.



3. Based upon information and belief, it is anticipated that the affected school districts will be unable to agree on the proposed change in boundary lines.

4. Petitioner, upon notice and hearing, will present evidence in support of this request, including, without limitation, that (i) at present, approximately seventy-one (71) students currently residing in the former Winthrop School District No. 12 of Little River County attend Foreman; (ii) of said seventy-one (71) students, more than sixty-nine percent (69%) are enrolled in grades 7 - 12; (iii) that said seventy-one (71) students constitute approximately thirteen percent (13%) of total student attendance at Foreman; (iv) Foreman welcomes such enrollment, but, in turn, incurs significant additional teacher, staff, transportation and physical plant expense as a result of the same; (iv) Foreman does not receive any applicable portion of ad valorem taxes assessed upon property owners in the former Winthrop School District No. 12 of Little River County; (v) due to the aforementioned tax distribution, Foreman is placed at a severe disadvantage in making decisions concerning budgetary and long-term teacher, staffing and expenditure needs; and, (vi) practical efficiencies will be served in that the former Winthrop School District No. 12 of Little River County is wholly located in Little River County, opposed to Horatio, which is

based in Sevier County and, further, that it is approximately 10.43 miles from Winthrop, Arkansas, to Foreman, Arkansas, whereas it is 13.10 miles from Winthrop, Arkansas, to Horatio, Arkansas.

5. Upon information and belief, Petitioner opines that subsection (f) of the boundary line statute is not applicable in this instance.

WHEREFORE, Foreman School District No. 25 of Little River County prays for an Order of the State Board of Education for the boundary changes petitioned for herein.

Respectfully Submitted,

BOARD OF DIRECTORS, FOREMAN SCHOOL  
DISTRICT NO. 25 OF LITTLE RIVER  
COUNTY

By: 

George M. Matteson  
Arkansas Bar No. 2000096  
Harrelson & Matteson, P.A.  
300 N. State Line Avenue  
Texarkana, Arkansas 71854  
870-772-0300 Telephone  
870-772-3002 Facsimile

ATTORNEY FOR FOREMAN SCHOOL  
DISTRICT NO. 25 OF LITTLE RIVER  
COUNTY

**III. Resolution of the Board of Directors of Foreman School District No. 25 of  
Little River County, Arkansas**

(Resolution Attached)

**Resolution of the Board of Directors of  
Foreman School District No. 25 of  
Little River County, Arkansas**

On March 14, 2011, the Board of Directors of Foreman School District No. 25 of Little River County, Arkansas, met in regular session. A quorum being determined present, the Board, upon proper motion, second, consideration and discussion, adopted the following resolution:

**WHEREAS**, pursuant to Arkansas Code Annotated §6-13-1414, a school district within the State of Arkansas may petition the State Board of Education for a change in boundary lines of the school district; and,

**WHEREAS**, a significant number of students residing in the former Winthrop School District No. 12 of Little River County ("Winthrop") (Winthrop currently being a part of the Horatio School District No. 55 of Sevier County ("Horatio")) currently attend and are enrolled in the Foreman School District No. 25 of Little River County ("Foreman"); and,

**WHEREAS**, the attendance and enrollment at Foreman of the students residing in the former Winthrop school district is welcome; and,

**WHEREAS**, the attendance at Foreman of the students residing in the former Winthrop school district constitutes approximately thirteen percent (13%) of the total enrollment of Foreman, from time to time; and,

**WHEREAS**, as a result of such enrollment, Foreman incurs significant

additional teacher, staff, transportation and physical plant expense; and

**WHEREAS**, Foreman does not receive any applicable portion of ad valorem taxes assessed upon property owners in the former Winthrop School District No. 12 of Little River County; and,

**WHEREAS**, due to the aforementioned tax distribution, Foreman is placed at a severe disadvantage in making decisions concerning budgetary and long-term teacher, staffing and expenditure needs; and,

**WHEREAS**, should Winthrop be made a part of Forman, practical efficiencies will be served in that the former Winthrop School District No. 12 of Little River County is wholly located in Little River County, opposed to Horatio, which is based in Sevier County and, further, that it is approximately 10.43 miles from Winthrop, Arkansas, to Foreman, Arkansas, whereas it is 13.10 miles from Winthrop, Arkansas, to Horatio, Arkansas.

**BE IT THEREFORE RESOLVED**, that this Board approves and directs that formal petition be made of the State Board of Education requesting a modification of the current school district boundary lines of Forman School District No. 25 of Little River County to include within such boundary lines the former Winthrop School District No 12 of Little River County.

**AND, BE IT FURTHER RESOLVED**, that the President of this Board or the Superintendent of the Foreman School District may take such action as may be reasonably necessary to so petition the State Board of Education, including,

without limitation, publication of any notices required by statute, execution of any petitions or letters for such purpose or any other lawful action required to effectuate such petition and appear, if necessary at any hearing or other proceeding before the State Board of Education.

**AND BE IT FURTHER RESOLVED**, that any lawful action taken by or at the direction of the Superintendent of this school district prior to this date in effort to so adjust boundary lines as contemplated by this Resolution, including any publication of notice made prior to this date, is hereby ratified in all respects.

This Resolution is adopted by the Board of Directors of Foreman School District No. 25 of Little River County as of the date and year first above written.

Signed:

Foreman School District No. 25 of Little River  
County

By:

  
Matt Corley  
President

Attest:

Foreman School District No. 25 of Little River  
County

By:

  
Tina Moore  
Secretary

**IV. Satisfaction of Notice Requirements**

Publisher's Affidavit of Little River News – Publication Dates:  
April 13 and 20, 2011

Affidavit for Proof of Publication of DeQueen Bee – Publication Dates:  
April 14 and 21, 2011

(Attached)

# PUBLISHER'S AFFIDAVIT

I, Quinton Boyles, do solemnly swear that I am the editor of the LITTLE RIVER NEWS; that the same is a weekly newspaper published in Ashdown, in the County and State aforesaid; that said paper has a bona fide circulation in said County and has been published regularly therein once a week for more than one month next preceding the first insertion of the Legal Notice - Foreman School District a copy of which is hereto attached.

That said advertisement and notice has been published in the LITTLE RIVER NEWS weekly for 2 consecutive weeks, the first publication thereof being on the 13 day of April, 2011 and the last insertion being on the 20 day of April, 2011.

Quinton Boyles

Editor and Publisher.



Sworn and subscribed to before me this the 20 day of April A.D. 2011

Debra Garland  
Notary Public,

My Commission Expires: Jan 29, 2014

LEGAL NOTICE  
The Board of Directors of Foreman School District Number 25 of Little River County, pursuant to Act 56-43-1414, has petitioned the State Board of Education for a change of boundary lines between the Foreman School District No. 25 of Little River County (Foreman) and the Horatio School District No. 55 of Sevier County (Horatio).  
The changes in the districts' boundaries sought by Foreman are: designation as a part of Foreman that portion of Horatio that was formerly Winthrop District No. 12 of Little River County (and annexed to Horatio pursuant to that judgment and Order of annexation from the Circuit Court of Little River County, Arkansas entered on April 29, 1992, in the matter styled Winthrop School District No. 12 of Little River County v. Little River County Board of Education (Cause Number 01-92-37)).  
George M. Matteson  
ATTORNEY FOR FOREMAN SCHOOL DISTRICT NO. 25 OF LITTLE RIVER COUNTY  
Herndon and Matteson, P.A.  
300 West State Avenue  
Jackson, Arkansas 71854  
870-772-0300 Telephone  
870-772-3002 Facsimile  
2013



# The DeQueen Bee

## AFFIDAVIT FOR PROOF OF PUBLICATION

State of Arkansas  
County of Sevier

SS.

I, JOE BEN OLLER, Editor of the DEQUEEN BEE, a newspaper of general circulation, published at DeQueen, Arkansas, do solemnly swear that the notice herewith attached was published WEEKLY in the regular and entire issue of said newspaper for two (2) consecutive weeks, commencing with the issue dated April 14, 2011, and ending with the issue dated April 21, 2011.

Editor or Accounting Officer

Subscribed and sworn to before me this date 4-21-11

NOTARY PUBLIC

My commission expires 10-4-17

# Inches        # Words 170

Total Prepaid

\$ 108.40 Amount Due



283033 Boulevard  
# Matteson, P.A.

12/57

Mena/Waldron/DeQueen News  
Papers & Trading Post  
P.O. Box 1307  
Mena, AR 71953-1307

### LEGAL NOTICE

The Board of Directors of Foreman School District Number 25 of Little River County, pursuant A.C.A. §6-13-1414, has petitioned the State Board of Education for a change of boundary lines between the Foreman School District No. 25 of Little River County (Foreman) and the Horatio School District No. 55 of Sevier County (Horatio).

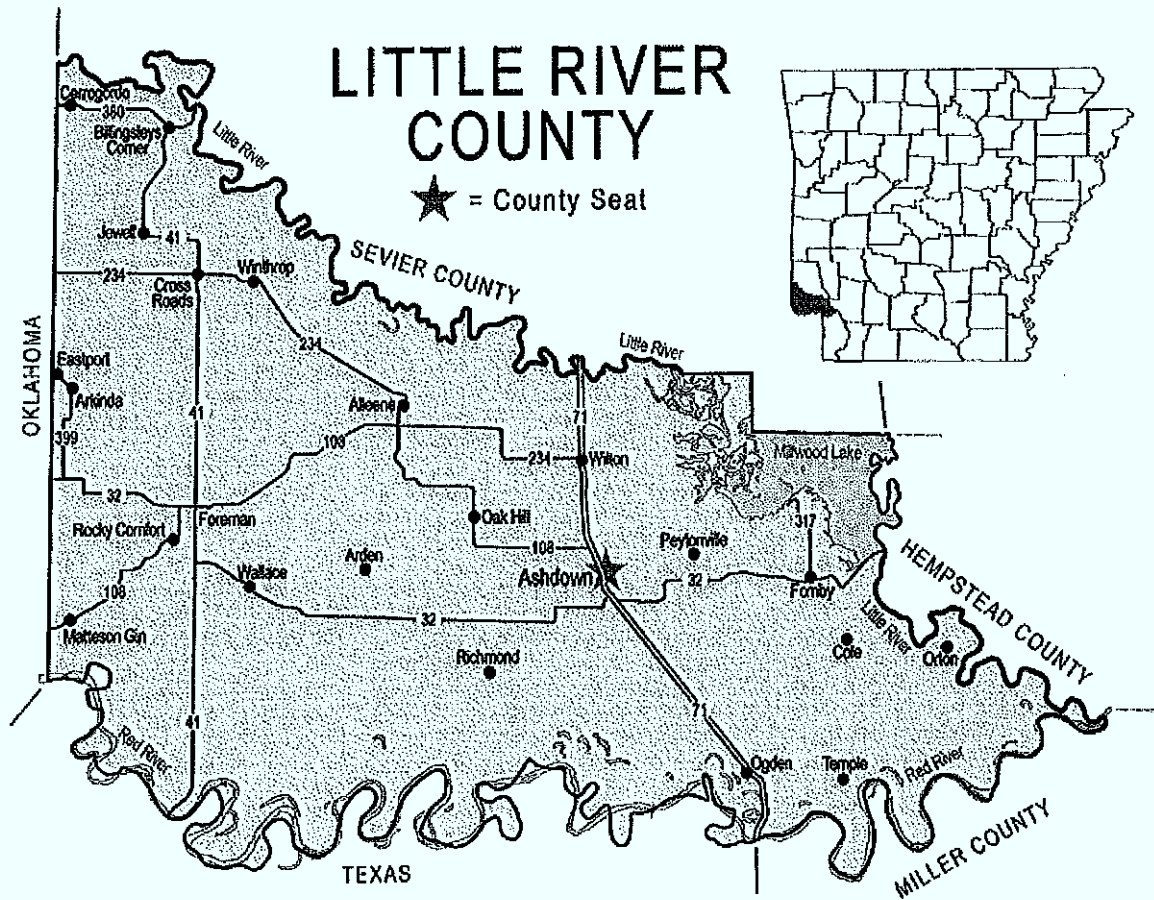
The changes in the districts' boundaries sought by Foreman are: designation, as a part of Foreman that portion of Horatio that was formerly Winthrop District No. 12 of Little River County (and annexed to Horatio pursuant to that judgment and Order of Annexation from the Circuit Court of Little River County, Arkansas entered on April 29, 1992, in the matter styled *Winthrop School District No. 12 of Little River County v. Little River County Board of Education* (Cause Number CIV-92-37)).

George M. Matteson  
ATTORNEY FOR  
FOREMAN SCHOOL  
DISTRICT NO. 25 OF  
LITTLE RIVER COUNTY  
Hartelton & Matteson, P.A.  
300 N. State Line Avenue  
Texarkana, Arkansas 71854  
870-772-0300 Telephone  
870-772-3002 Facsimile  
Bee April 14, 21, 2011  
#13157

**V. Arkansas Code Annotated §6-13-1414(f) Compliance**

To the knowledge of the Board of Directors of Foreman School District Number 25 of Little River County, neither Foreman School District, nor Horatio School District Number 55 of Sevier County are engaged in any desegregation efforts or operating under any desegregation order; and, further, the proposed boundary line change will not hamper, delay or in any matter negatively affect any desegregation efforts of public school districts in the State of Arkansas.

## VI. Little River County/City of Foreman Location



### Little River County, Arkansas

2010 Census Population: 13,171 people

#### Major Cities:

##### 1. Ashdown (County Seat)

Population:

Industry, Community Notes:

Domtar Paper Mill

Agriculture

Millwood Lake

Ashdown School District

##### 2. Foreman (in Western Little River County):

Population: 1,125 people (2000 U.S. Census)

1,071 people (per 2005 U.S. Census Estimate)

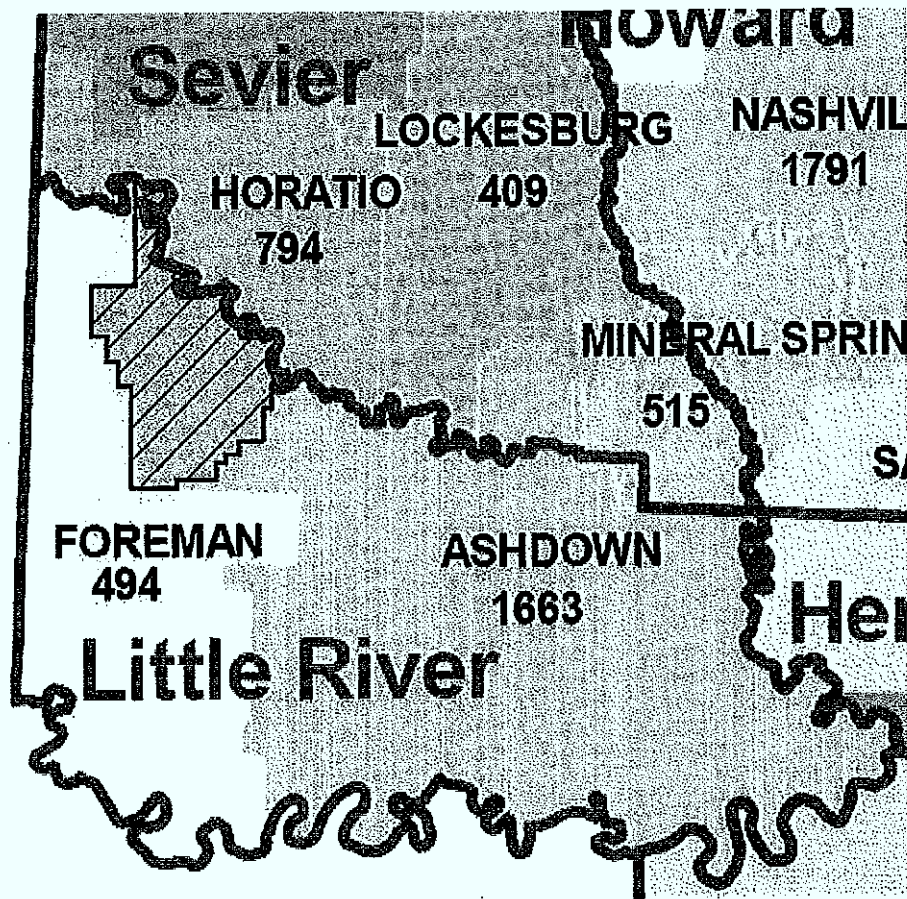
Industry, Community Notes:

Ashgrove Cement

Agriculture

Foreman School District

## VII. Foreman School District Boundary and Location



- Existing Foreman School District Shown Above

Bordered to the south by Texas, the west by Oklahoma, the east by Ashdown and the north and east by the existing Horatio School District

- Former Winthrop School District Designated as Cross-Hatched Area

This is the area subject to the pending petition and located wholly in Little River County. This area was formerly Winthrop School District No. 12 of Little River County (annexed to Horatio pursuant to Judgment and Order of Annexation from the Circuit Court of Little River County, Arkansas entered on April 29, 1992, in the matter styled *Winthrop School District No. 12 of Little River County v. Little River County Board of Education* (Case Number CIV-92-37))

**VIII. Foreman School District Current/Projected Enrollment and  
Teacher Information**

- Average Daily Membership (2009-10): 551 Students<sup>1</sup>
- Average Daily Attendance (2009-10): 526 Students<sup>2</sup>
- Percent Teachers with Bachelors (2010): 58.3%<sup>3</sup>
- Percent Teachers with Masters (2010): 41.7%<sup>4</sup>
- 5 Year Enrollment Projection: +67 Students<sup>5</sup>
- 5 Year Additional Square Footage Requirement: 9,581 square feet<sup>6</sup>
- 5 Year Additional Square Footage Requirement Est. Cost: \$958,100<sup>7</sup>
- 10 Year Enrollment Projection: +98 Students<sup>8</sup>
- 10 Year Additional Square Footage Requirement: 12,727 square feet<sup>9</sup>
- 10 Year Additional Square Footage Requirement Est. Cost: \$1,272,700<sup>10</sup>

**Winthrop Student Breakout (per internal accounting):**

- 71 Students Residing in Former Winthrop School District are currently enrolled in the Foreman School District.
- Those 71 Students make up approximately 13% of the total Average Daily Membership of the Foreman School District
- Foreman School District provides facilities, transportation, staffing and teachers for that additional 13% enrollment

---

<sup>1</sup> Arkansas Department of Education Fiscal Report Analysis 2009-2010 Actual

<sup>2</sup> Id.

<sup>3</sup> Arkansas School Performance Reports 2010; <http://mormessasweb.uark.edu>; Summary Information for (4102)

<sup>4</sup> Id.

<sup>5</sup> Website Report – Arkansas Division of Public Schools Academic Facilities and Transportation;  
<http://arkansasfacilities.arkansas.gov/index.aspx>

<sup>6</sup> Id.

<sup>7</sup> Id.

<sup>8</sup> Id.

<sup>9</sup> Id.

<sup>10</sup> Id.

### **IX. Ad Valorem Tax Information**

- 2010 Real Prop. Assessed Value in Former Winthrop School Dist.: 4,904,827<sup>11</sup>
- 2010 Personal Prop. Assessed Value in Former Winthrop Schl. Dist.: \$2,864.885<sup>12</sup>
- Foreman School Dist. Real and Personal Property Millage Rate: 35.50<sup>13</sup>
- Est. 2010 Winthrop City Real and Personal Prop. Tax (1.50 Mills): \$1,096.52<sup>14</sup>

#### **Totals (based on Foreman School District Millage Rate):**

Est. 2010 Potential Real Property Ad Valorem Tax Proceeds:	\$174,121.36
Est. 2010 Potential Personal Property Ad Valorem Tax Proceeds:	\$101,703.42
Est. 2010 Winthrop City Real and Personal Prop. Tax:	<u>\$1,096.52</u>
<b>Total Estimated Potential Gain:</b>	<b>\$276,921.30</b>

---

<sup>11</sup> Little River County Arkansas, Assessor's Office

<sup>12</sup> Little River County Arkansas, Assessor's Office

<sup>13</sup> Little River County, Arkansas, Assessor's Office

<sup>14</sup> Little River County, Arkansas, Assessor's Office



## **X. Practical Considerations**

- The former Winthrop School District is located wholly in Little River County.
- The Horatio School District facilities in use are located in Horatio in Sevier County.
- According to GoogleMaps, it is 10.43 miles from the City of Winthrop to the City of Foreman.
- According to GoogleMaps, it is 13.10 miles from the City of Winthrop to the City of Horatio.
- The existing Foreman School District reaches from Texas to the south, to the Little River to the north.
- Little River County is separated from Sevier County by the Little River; the Former Winthrop School District is located wholly in Little River County.
- A network of Little River County Roads connect the Foreman School District to the former Winthrop School District; these roads are used by the Foreman School District to transport students residing in the former Winthrop School District to and from school in Foreman.
- The former Winthrop School District is connected to the remainder of the Horatio School district by use of the Arkansas Highway 41 bridge crossing the Little River.
- According to GoogleEarth, at its closest point, the former Winthrop School District is approximately 3.7 miles from the Foreman High School

Attached:

1. GoogleEarth satellite map depicting the respective locations of the cities of Foreman, Winthrop and Horatio
2. NORMES, National Online Google Geographic Information Network for Schools (NOGGINS) maps of the existing Boundary Lines of the Foreman School District and the Horatio School District (<http://mormessasweb.uark.edu>)







**HARRELSON & MATTESON, P.A.**

Gene Harrelson  
Jeff Harrelson <sup>CR</sup>  
Steve Harrelson <sup>LA</sup>  
George M. Matteson <sup>FL</sup>

<sup>CR</sup> - Board Certified in Criminal Law  
Texas Board of Legal Specialization

<sup>LA</sup> - Also admitted in Louisiana

<sup>FL</sup> - Also Admitted in Florida

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75504-0040

Author's E-mail:  
george@harrelsonfirm.com

April 8, 2011

Jeremy Lasiter, General Counsel  
Arkansas Department of Education  
Four Capital Mall  
Little Rock, Arkansas 72201

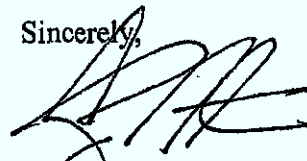
Re: *In the Matter of the Request for Change in Boundary Lines Between the  
Foreman School District No. 25 of Little River County and the Horatio  
School District No. 55 of Sevier County*

Dear Mr. Lasiter:

To supplement my client's initial petition in the referenced matter, enclosed please find a Resolution of the Board of Directors of Foreman School District approving the boundary line change request. I ask that you include this with the original petition for the Board. I am currently working with my client to address the other matters and requests raised in your most recent letter to me. Please note that I have been advised that Proof of Publication will occur prior to the meeting, but the actual affidavits may not be available by the 20<sup>th</sup> of April. If this presents a problem, please let me know. Otherwise, I will provide the Proof of Publication Affidavits to you as soon as possible and prior to the Board meeting.

Thank you for your attention to this matter.

Sincerely,



George Matteson

GMM/lo  
Enclosures

cc. Jay Bequette  
Heath Bennett, Superintendent, Foreman Public Schools  
Matt Corley, President, School Board, Foreman Public Schools

RECEIVED  
ATTORNEY'S OFFICE  
APR 12 2011  
DEPARTMENT OF EDUCATION  
GENERAL DIVISION

**Resolution of the Board of Directors of  
Foreman School District No. 25 of  
Little River County, Arkansas**

On March 14, 2011, the Board of Directors of Foreman School District No. 25 of Little River County, Arkansas, met in regular session. A quorum being determined present, the Board, upon proper motion, second, consideration and discussion, adopted the following resolution:

**WHEREAS**, pursuant to Arkansas Code Annotated §6-13-1414, a school district within the State of Arkansas may petition the State Board of Education for a change in boundary lines of the school district; and,

**WHEREAS**, a significant number of students residing in the former Winthrop School District No. 12 of Little River County ("Winthrop") (Winthrop currently being a part of the Horatio School District No. 55 of Sevier County ("Horatio")) currently attend and are enrolled in the Foreman School District No. 25 of Little River County ("Foreman"); and,

**WHEREAS**, the attendance and enrollment at Foreman of the students residing in the former Winthrop school district is welcome; and,

**WHEREAS**, the attendance at Foreman of the students residing in the former Winthrop school district constitutes approximately thirteen percent (13%) of the total enrollment of Foreman, from time to time; and,

**WHEREAS**, as a result of such enrollment, Foreman incurs significant

additional teacher, staff, transportation and physical plant expense; and

**WHEREAS**, Foreman does not receive any applicable portion of ad valorem taxes assessed upon property owners in the former Winthrop School District No. 12 of Little River County; and,

**WHEREAS**, due to the aforementioned tax distribution, Foreman is placed at a severe disadvantage in making decisions concerning budgetary and long-term teacher, staffing and expenditure needs; and,

**WHEREAS**, should Winthrop be made a part of Forman, practical efficiencies will be served in that the former Winthrop School District No. 12 of Little River County is wholly located in Little River County, opposed to Horatio, which is based in Sevier County and, further, that it is approximately 10.43 miles from Winthrop, Arkansas, to Foreman, Arkansas, whereas it is 13.10 miles from Winthrop, Arkansas, to Horatio, Arkansas.

**BE IT THEREFORE RESOLVED**, that this Board approves and directs that formal petition be made of the State Board of Education requesting a modification of the current school district boundary lines of Forman School District No. 25 of Little River County to include within such boundary lines the former Winthrop School District No 12 of Little River County.

**AND, BE IT FURTHER RESOLVED**, that the President of this Board or the Superintendent of the Foreman School District may take such action as may be reasonably necessary to so petition the State Board of Education, including,

without limitation, publication of any notices required by statute, execution of any petitions or letters for such purpose or any other lawful action required to effectuate such petition and appear, if necessary at any hearing or other proceeding before the State Board of Education.

**AND BE IT FURTHER RESOLVED**, that any lawful action taken by or at the direction of the Superintendent of this school district prior to this date in effort to so adjust boundary lines as contemplated by this Resolution, including any publication of notice made prior to this date, is hereby ratified in all respects.

This Resolution is adopted by the Board of Directors of Foreman School District No. 25 of Little River County as of the date and year first above written.

**Signed:**

Foreman School District No. 25 of Little River  
County

By:

  
Matt Corley  
President

**Attest:**

Foreman School District No. 25 of Little River  
County

By:

  
Tina Moore  
Secretary



HARRELSON & MATTESON, P.A.

Gene Harrelson  
Jeff Harrelson <sup>CR</sup>  
Steve Harrelson <sup>LA</sup>  
George M. Matteson <sup>PL</sup>

<sup>CR</sup> - Board Certified in Criminal Law  
Texas Board of Legal Specialization

<sup>LA</sup> - Also admitted in Louisiana

<sup>PL</sup> - Also Admitted in Florida

The Foreman Building  
300 State Line Avenue  
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71854-5926

870-772-0300  
870-772-0302 Fax  
www.harrelsonfirm.com

RECEIVED  
COMMISSIONER'S OFFICE

APR 01 2011

DEPARTMENT OF EDUCATION

All Attorneys Admitted to Practice in  
Arkansas and Texas

Mailing Address:  
Post Office Box 40  
Texarkana, Arkansas/Texas  
75504-0040

Author's E-mail:  
george@harrelsonfirm.com

March 31, 2011

Dr. Tom Kimbrell  
Commissioner  
Four Capitol Mall  
Little Rock, AR 72201

*Re: In the Matter of the Request for Change in Boundary Lines Between  
Foreman School District No. 25 of Little River County, and Horatio School  
District No. 55 of Sevier County*

Dear Dr. Kimbrell:

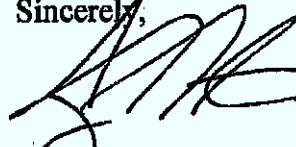
On behalf of my client, Foreman School District No. 25 of Little River County, enclosed please find a Petition for Change in Boundary Lines which is being presented under A.C.A §6-13-1414 pursuant to which my client is requesting that the State Board of Education approve a boundary line change making as a part of Foreman that area which was formally Winthrop School District No. 12 of Little River County, but which is currently a part of Horatio School District No. 55 of Sevier County.

This Petition has been approved by the Foreman School Board and a written Resolution evidencing that approval will be provided to you when available to me.

In accordance with the thirty day petition requirements included within the above-referenced statute, I respectfully request that you put the enclosed Petition in line for inclusion on your May 9, 2011, Board meeting date. I also respectfully request that you contact me regarding the anticipated Board meeting date so that I may make arrangements with my client to confirm the same.

Thank you for your attention to this matter. If you have any questions, or need additional information, please contact me.

Sincerely,



George Matteson

GMM/lo

Enclosures

cc. Heath Bennett  
Jason Sanders  
Matt Corley

**BEFORE THE ARKANSAS STATE BOARD OF EDUCATION**

**IN THE MATTER OF THE REQUEST FOR CHANGE IN BOUNDARY LINES  
BETWEEN FOREMAN SCHOOL DISTRICT NO. 25 OF LITTLE RIVER COUNTY,  
AND HORATIO SCHOOL DISTRICT NO. 55 OF SEVIER COUNTY.**

**PETITION FOR CHANGE IN BOUNDARY LINES**

COMES NOW the Board of Directors of Foreman School District No. 25 of Little River County, pursuant to A.C.A. §6-13-1414, and petitions the State Board of Education for a change of boundary lines between the Foreman School District No. 25 of Little River County (Foreman) and the Horatio School District No. 55 of Sevier County (Horatio).

1. The changes in the districts' boundaries sought by Foreman are: designation as a part of Foreman that portion of Horatio that was formerly Winthrop District No. 12 of Little River County (and annexed to Horatio pursuant to that Judgment and Order of Annexation from the Circuit Court of Little River County, Arkansas entered on April 29, 1992, in the matter styled *Winthrop School District No. 12 of Little River County v. Little River County Board of Education* (Cause Number CIV-92-37)).

2. Proof will be made to the State Board of public notice having been made pursuant to subparagraph (b) of the boundary line statute.

3. Based upon information and belief, it is anticipated that the affected school districts will be unable to agree on the proposed change in boundary lines.

4. Petitioner, upon notice and hearing, will present evidence in support of this request, including, without limitation, that (i) at present, approximately seventy-one (71) students currently residing in the former Winthrop School District No. 12 of Little River County attend Foreman; (ii) of said seventy-one (71) students, more than sixty-nine percent (69%) are enrolled in grades 7 - 12; (iii) that said seventy-one (71) students constitute approximately thirteen percent (13%) of total student attendance at Foreman; (iv) Foreman welcomes such enrollment, but, in turn, incurs significant additional teacher, staff, transportation and physical plant expense as a result of the same; (iv) Foreman does not receive any applicable portion of ad valorem taxes assessed upon property owners in the former Winthrop School District No. 12 of Little River County; (v) due to the aforementioned tax distribution, Foreman is placed at a severe disadvantage in making decisions concerning budgetary and long-term teacher, staffing and expenditure needs; and, (vi) practical efficiencies will be served in that the former Winthrop School District No. 12 of Little River County is wholly located in Little River County, opposed to Horatio, which is



based in Sevier County and, further, that it is approximately 10.43 miles from Winthrop, Arkansas, to Foreman, Arkansas, whereas it is 13.10 miles from Winthrop, Arkansas, to Horatio, Arkansas.

5. Upon information and belief, Petitioner opines that subsection (f) of the boundary line statute is not applicable in this instance.

WHEREFORE, Foreman School District No. 25 of Little River County prays for an Order of the State Board of Education for the boundary changes petitioned for herein.

Respectfully Submitted,

BOARD OF DIRECTORS, FOREMAN SCHOOL  
DISTRICT NO. 25 OF LITTLE RIVER  
COUNTY

By: 

George M. Matteson  
Arkansas Bar No. 2000096  
Harrelson & Matteson, P.A.  
300 N. State Line Avenue  
Texarkana, Arkansas 71854  
870-772-0300 Telephone  
870-772-3002 Facsimile

ATTORNEY FOR FOREMAN SCHOOL  
DISTRICT NO. 25 OF LITTLE RIVER  
COUNTY

# **HORATIO SCHOOL DISTRICT SUBMISSIONS**

The Law Firm of  
**BEQUETTE & BILLINGSLEY**  
A Professional Association

GEORGE J. BEQUETTE, JR.  
jbequette@bbpalaw.com

KEITH I. BILLINGSLEY  
kbillingsley@bbpalaw.com

Metropolitan National Bank Tower  
425 West Capitol Avenue, Suite 3200  
Little Rock, Arkansas 72201-3469  
www.bbpalaw.com

Telephone  
(501) 374-1107

Telecopier  
(501) 374-5092

April 27, 2011

**Via Email and U.S. Mail**

Jeremy C. Lasiter, Esq.  
General Counsel  
Arkansas Department of Education  
Four Capitol Mall  
Little Rock, AR 72201-1019

Re: In the Matter of the Request for Change in Boundary Lines Between the Foreman  
School District No. 25 of Little River County and the Horatio School District No. 55  
of Sevier County

Dear Mr. Lasiter:

This firm represents the Horatio School District No. 55 of Sevier County in connection with  
the above matter. Enclosed herewith please find Response to Petition for Change in Boundary Lines.

Should you have further questions or comments, please feel free to contact me.

Very truly yours,

  
Jay Bequette

Enclosure

cc: George M. Matteson, Esq. (*Via Email and U.S. Mail*)  
Tom W. Kimbrell, Ed.D., Commissioner of Education

BEFORE THE ARKANSAS STATE BOARD OF EDUCATION

Foreman School District No. 25 of	)	
Little River County,	)	
	)	
Petitioner,	)	In the Matter of the Request for Change in Boundary
	)	Lines Between Foreman School District No. 25 of
Horatio School District No. 55 of	)	Little River County, and Horatio School District
Sevier County,	)	No. 55 of Sevier County
	)	
Respondent.	)	
_____	)	

**RESPONSE TO PETITION FOR CHANGE IN BOUNDARY LINES**

Respondent, the Board of Directors of the Horatio School District No. 55 of Sevier County, Arkansas, by its attorneys, Bequette & Billingsley, P.A., for its Response to the Petition for Change in Boundary Lines filed by Petitioner, Foreman School District No. 25 of Little River County, Arkansas, alleges and states:

1. Respondent admits the existence of the document referred to in paragraph 1 of the Petition, which speaks for itself. Respondent otherwise denies the allegations set forth in paragraph 1 of the Petition. Respondent states affirmatively that the former Winthrop School District No. 12 of Little River County was annexed to the Horatio School District pursuant to the Judgment and Order of Annexation of the Circuit Court of Little River County, Arkansas, on April 29, 1992 (a copy of the Judgment is attached hereto as Exhibit "A"). The annexation resulted from the Arkansas General Assembly's movement to consolidate school districts which, like the Winthrop School District, could not meet state accreditation standards.

2. Respondent is without sufficient information to admit or deny the allegations set forth in paragraph 2 of the Petition, and therefore denies same.

3. Respondent admits the allegations set forth in paragraph 3 of the Petition.

4. Respondent is without sufficient information to admit or deny the allegations set forth in paragraph 4 of the Petition, and therefore denies same. Respondent states affirmatively that to the extent that students residing in the former Winthrop School District No. 12 of Little River County (which is now part of the Horatio School District) currently attend school in the Foreman School District, any alleged financial hardship suffered by the Foreman School District would be immediately remedied if the Foreman School District exercised its legal right to disapprove the school transfer requests of such students.

5. Respondent is without sufficient information to admit or deny the allegations set forth in paragraph 5 of the Petition, and therefore denies same.

6. Unless specifically admitted herein, Respondent denies each and every allegation set forth in the Petition.

7. Respondent affirmatively states that the Arkansas State Board of Education should summarily reject Petitioner's unprecedented attempt to change the boundary lines between the Horatio School District and the Foreman School District.

8. Ark. Code Ann. § 6-13-1414(c) provides in pertinent part that

[i]f the local board of directors of each of the affected school districts is unable to agree on the proposed change in boundary lines, the State Board shall adjust and change the boundary lines in accordance with its best judgment subject to the requirement of subsection (f) of this section or shall rule that the boundaries remain unchanged.

9. Here, for the reasons set forth herein, it would not be in the best judgment of the State Board to adjust and change the boundary lines of the districts. Further, the desegregation efforts of the Horatio School District would be hampered, delayed, negatively affected and thwarted by the proposed change in the school districts' boundaries.

10. Petitioner's proposed boundary change would have a dramatic adverse and deleterious effect on the Horatio School District. Approval of the request would immediately thrust Horatio into fiscal distress, since the change in boundary lines, and the consequential loss of the tax base that would necessarily follow from the proposed boundary lines change, would result in the Horatio School District losing approximately \$505,000.00 annually in revenue.

11. The Horatio School District's annual budget is approximately \$6,000,000.00. See attached Exhibit "B." Its projected ending balance for the 2010-2011 school year is approximately \$1.2 Million. *Id.* The Horatio School District's loss of the tax revenue from Petitioner's proposed boundary change would almost immediately result in declining fund balances and the inability of the Horatio School District to pay its obligations as they come due.


12. Attached hereto as Exhibit "C" is a projection which the Horatio School District caused to be prepared in order to estimate the potential impact of the proposed boundary change. These projections depict the serious financial problems the Horatio School District may face in the event the State Board approved the proposed boundary change.

13. Based upon the foregoing, it is clear that approval of the proposed boundary change (a) would not be in the "best judgment" of the State Board; (b) would immediately thrust the Horatio School District into fiscal distress; and (c) would hamper, delay and negatively affect its desegregation efforts due to the loss of revenue to the District. Finally, the putative boundary change also raises serious constitutional issues related to the proposed taking of the tax base of the Horatio School District.

WHEREFORE, Respondent, Horatio School District, prays that the Petition for Change in Boundary Lines submitted by the Foreman School District be denied by the Arkansas State Board of Education; and for all other relief to which Respondent may be entitled.

Respectfully submitted,

BEQUETTE & BILLINGSLEY, P.A.  
425 West Capitol Avenue, Suite 3200  
Little Rock, AR 72201-3469  
Phone: (501) 374-1107  
Fax: (501) 374-5092

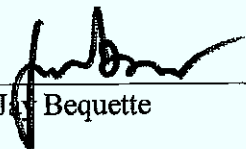
By:   
Jay Bequette, #87012

Attorneys for Horatio School District No. 55 of  
Sevier County, Arkansas

**CERTIFICATE OF SERVICE**

I, Jay Bequette, do hereby certify that a true and correct copy of the foregoing was sent via U.S. Postal Service, postage prepaid, to the following on this 27 day of April, 2011:

George M. Matteson, Esq.  
Harrelson & Matteson, P.A.  
300 N. State Line Avenue  
Texarkana, AR 71854

  
Jay Bequette

J:\MARGO\Horatio School\Response to Petition.wpd

IN THE CIRCUIT COURT OF LITTLE RIVER COUNTY, ARKANSAS

WINTHROP SCHOOL DISTRICT NO.  
12 OF LITTLE RIVER COUNTY,

Appellant,

v.

LITTLE RIVER COUNTY BOARD  
OF EDUCATION,

Appellee.

§  
§  
§  
§  
§  
§  
§  
§  
§  
§

NO. CIV-92-37

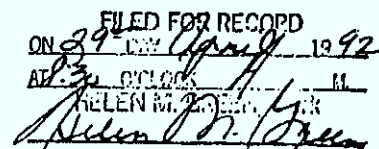
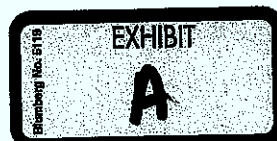
JUDGMENT AND ORDER OF ANNEXATION

105  
This appeal from a decision of the Little River County Board of Education came on for trial de novo and was tried on April 27, 1992 on the issues before the Court sitting without a jury. G. William Lavender appeared as counsel for Appellant, Winthrop School District No. 12 of Little River County, and Barry A. Bryant appeared as counsel for Appellee, Little River County Board of Education. Having heard the testimony, examined the other evidence adduced by the respective parties, and heard the arguments of their counsel, and this cause having been submitted for decision, the Court, being fully advised herein, makes the following findings of fact and conclusions of law:

Findings of Fact

1. The annexation of Winthrop School District No. 12 of Little River County to Horatio School District No. 55 of Sevier County would be in the best interests of the students of the Winthrop School District.

2. The annexation of the Winthrop School District to the Horatio School District will neither hamper, delay nor in any manner negatively affect the efforts of the State of Arkansas



Ex.A, p.1



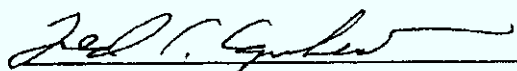
to assist a school district or districts in this state in the desegregation of the public schools of this state.

Conclusions of Law


1. This Court has jurisdiction of this proceeding pursuant to A.C.A. §6-12-111.
2. The Appellant, Winthrop School District No. 12 of Little River County, has met all requirements of Act 966 of the 1991 Acts of Arkansas (A.C.A. §6-13-1201, et seq.) and, therefore, is entitled to annex to Horatio School District No. 55 of Sevier County.

IT IS, THEREFORE, ORDERED AND ADJUDGED that Winthrop School District No. 12 of Little River County be, and it is hereby, annexed to Horatio School District No. 55 of Sevier County. Each party shall bear its own costs herein expended.

DATED at Ashdown in the County of Little River on this the 27th day of April, 1992.

  
Ted C. Capeheart, Circuit Judge

APPROVED AS TO FORM:

  
G. William Lavender, Attorney for Appellant

  
Barry A. Bryant, Attorney for Appellee

LEA: 6703000  
COUNTY: SEVIER  
DISTRICT: HORATIO SCHOOL DISTRICT  
FISCAL YEAR: 09/10

LEGAL BALANCE

PAGE: 235  
SIS: RPT520  
RUN: 01/07/2011:10:27  
Date Received:

	2010 ACTUAL	2011 BUDGETED
BEGINNING BALANCE	\$908,309.91	\$1,520,547.30
Total Op Fund & Debt Srvc Fund Rev	\$6,222,072.20	\$5,972,727.00
LESS Total Salary Fund Expenditures	\$2,956,799.74	\$3,132,307.58
LESS Total Bonuses	\$73,000.00	\$73,000.00
LESS Total Operating Fund Expenditures	\$2,535,287.57	\$2,946,337.17
LESS Total Debt Service Fund Expenditures	\$117,747.50 ✓	\$134,069.39
Accrued Revenue	\$ .00	\$ .00
LEGAL BALANCE	\$1,520,547.30 ✓ =====	\$1,280,560.16 ✓ =====

<i>Donita Hyman</i>	
ADE Approved By	
DATE	1-31-10



**Horatio School District**  
**Projected 2010/11 State and Local Funding (March 2, 2011)**

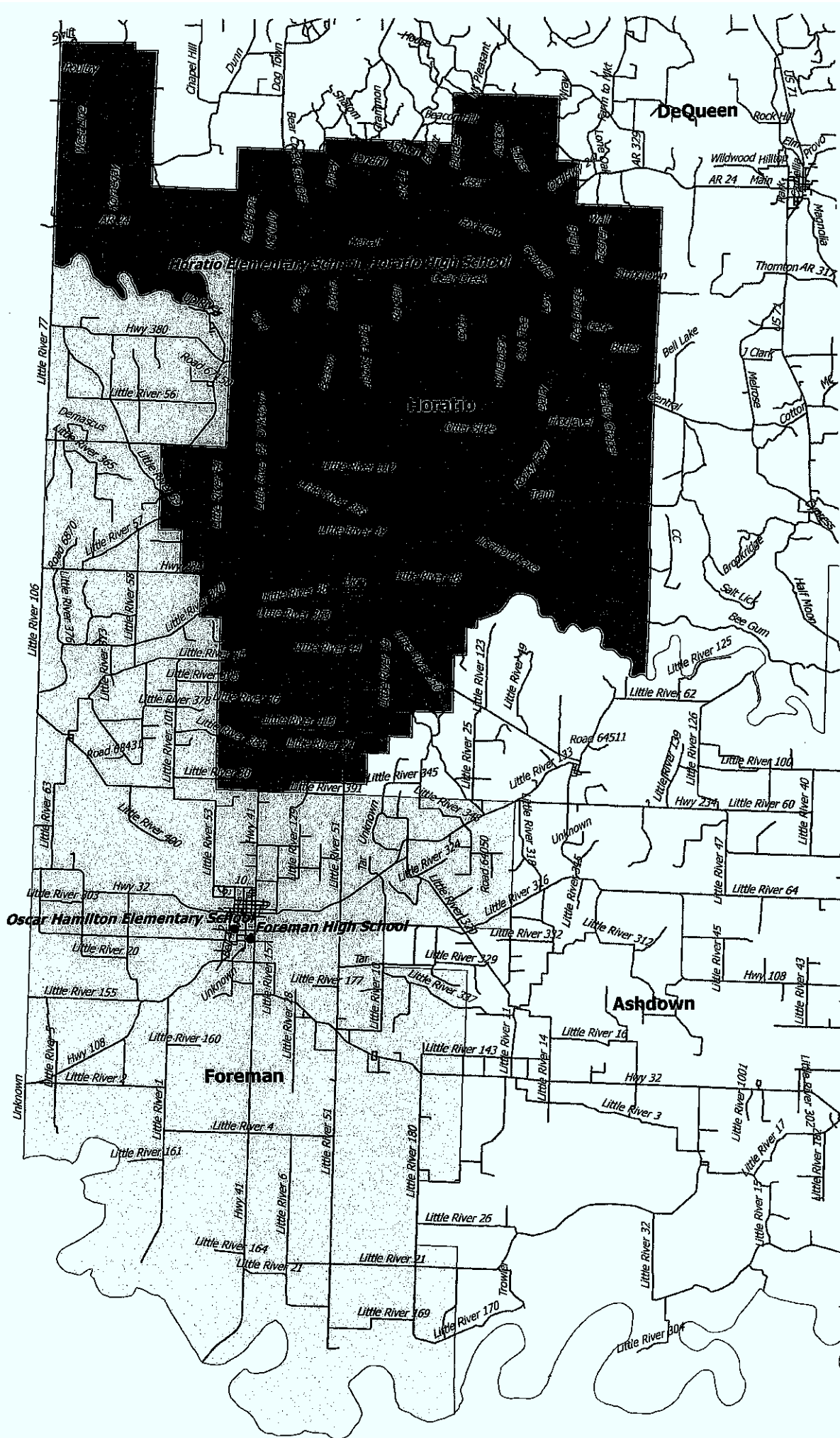
	2010/11 (Including Winthrop)	2010/11 (Excluding Winthrop)
<b><u>District Information</u></b>		
Assessment (2009)	27,533,671	20,960,068
Total millage	44.00	44.00
Prior Year 3 Qtr Avg ADM	826.80	763.80
2009 - 10 ADM (Quarter 1)		
2009 - 10 ADM (Quarter 2)		
2009 - 10 ADM (Quarter 3)		
2009 - 10 ADM (Quarter 4)		
Actual Fiscal Year Bond Payments	120,993	120,993
State Wealth Index	0.84310	0.87412
<b><u>State Foundation Funding</u></b>		
98% X URT X Assessment	674,575	513,522
Miscellaneous Funds (5 yr. avg. ended 08/09 X URT / Total Mills)	810	810
Total Local Revenues	675,385	514,332
Local Revenue Per Student	817	673
State Foundation Aid/Student (\$6,023 for 2010/11)	5,206	5,350
<b><u>Alternative Learning Environment Funding</u></b>		
Prior Year ALE FTEs	0.00	0.00
FTEs X \$4,063	0	0
<b><u>English Language Learner Funding</u></b>		
ELL Students	0.0	0.0
ELL Students X \$293	0	0
<b><u>National School Lunch Act Funding (NSLA)</u></b>		
% of Free or Reduced Lunch Students	61.8%	63.4%
# of Free or Reduced Lunch Students (Assumed # of students for 09/10 was same as 08/09)	511	484
NSLA Funding assuming \$1,488, \$992 or \$496	253,456	240,064
<b><u>NSLA Growth Funding</u></b> ( Assumed \$0 until data available from DOE)	0	0
<b><u>Bonded Debt Assistance</u></b>		
Eligible Debt Pmt (Fiscal yr. pmt of bonds outstanding 1/1/05)	120,993	120,993
Required Debt Mills	4.39	5.77
Millage for Mandatory Callable Bonds	0.00	0.00
Eligible Debt Mills Required	4.39	5.77
Bonded Debt Assistance (\$18.03)	49,706	62,540
<b><u>Other Funding Types</u></b>		
Professional Development (\$41.35 for 2010/11)	34,188	31,583
Student Growth Funding	0	0
General Facilities Funding*	10,795	10,795
Isolated Funding	0	0
Supplemental Millage Incentive Funding*	45,758	45,758
*(10% per year phase-out began in 06/07)		
<b><u>Declining Enrollment Funding</u></b>	0	0
<b><u>Funding Totals</u></b>	<b>2010/11</b>	<b>2010/11</b>
Local Tax Above URT (Assumes 98% Collection)	512,677	390,276
Total Foundation Aid (\$6,023 X ADM for 2010/11)	4,979,816	4,600,367
Student Growth Funding	0	0
Alternative Learning Environment Funding	0	0
English Language Learner Funding	0	0
National School Lunch Student Funding	253,456	240,064
NSLA Growth Funding	0	0
Professional Development	34,188	31,583
Isolated Funding	0	0
Bonded Debt Assistance	49,706	62,540
General Facilities Funding	10,795	10,795
Supplemental Millage Incentive Funding	45,758	45,758
Declining Enrollment Funding	0	0
Total State Funds including URT	5,373,721	4,981,106
Total State and Local Funds	5,886,397	5,371,304
<b>Difference</b>		<b>(50,093)</b>

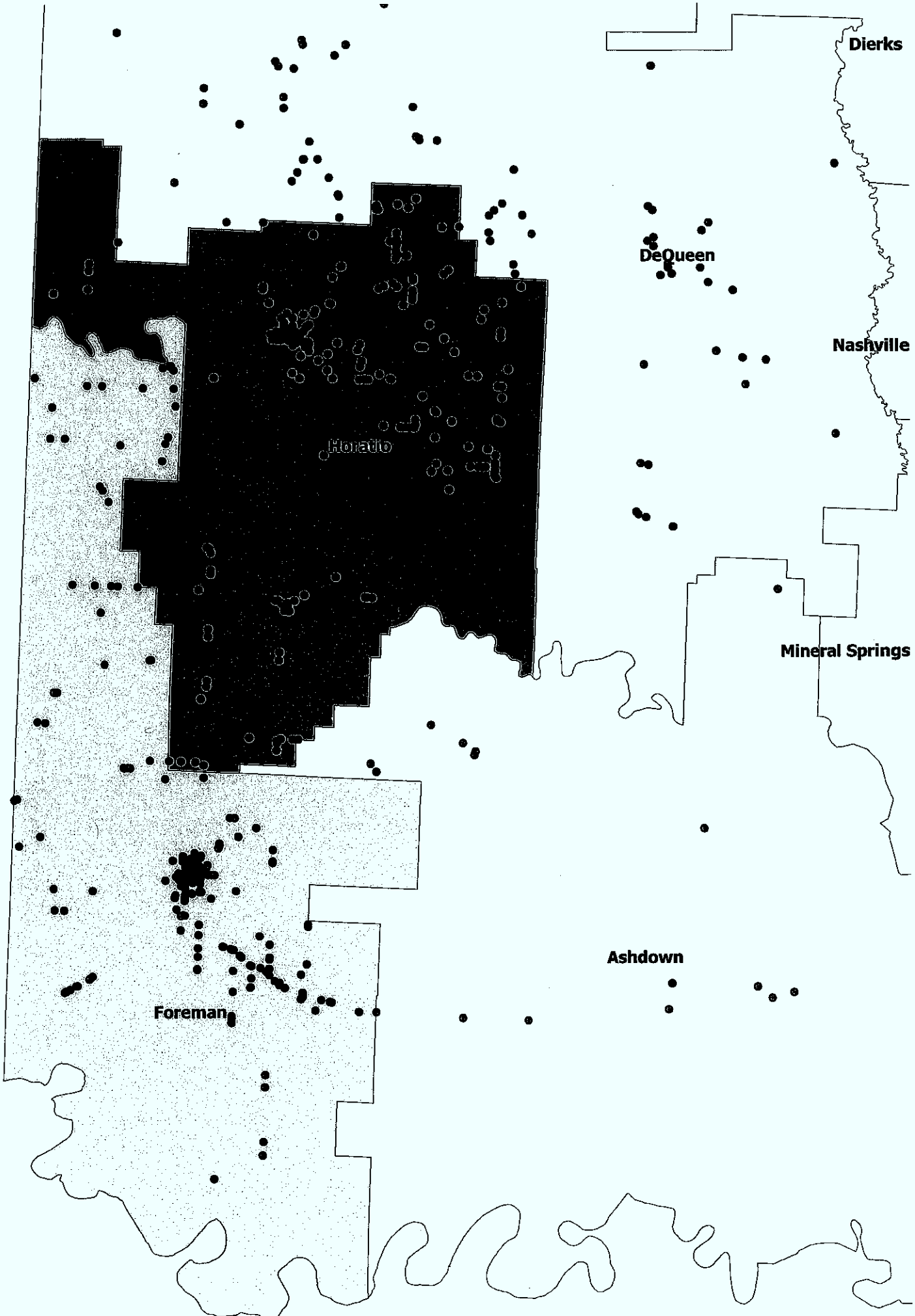


This information assumes the District receives the full 98% of the Uniform Rate of Tax (25 mills) as required by Act 272 of 2007.

This information is preliminary and should be used for discussion purposes only. The District should rely on funding projections from the Department of Education for budgeting purposes.

## MAPS







**North Little Rock School District**  
**LEA # 6002**  
**Pulaski County**

**Fiscal Distress Indicators and Additional Concerns:**

Material state or federal audit exceptions or violations

<b>District Profile:</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>
<b>Superintendent</b>	<b>Kenneth R. Kirspel</b>	<b>Kenneth R. Kirspel</b>	<b>Kenneth R. Kirspel</b>	<b>Kenneth R. Kirspel</b>
4 QTR ADM	8,835	8,832	8,375	8,997
Assessment	611,824,696	655,224,040	683,773,539	706,136,704
Total Mills	40.90	40.90	40.90	40.90
Total Debt Bond/Non Bond	30,719,191	28,932,627	28,340,391	32,410,722
Per Pupil Expenditures	8,929	9,735	10,330	10,698
Personnel-Non-Fed Certified FTE	768.27	759.32	757.01	728.24
Personnel-Non-Fed Certified Clsrm FTE	707.89	692.55	693.29	661.75
Avg Salary-Non-Fed Cert Clsrm FTE	48,447	47,939	48,053	48,880
Avg Salary-Non-Fed Cert FTE	49,722	49,626	50,056	50,951
Net Legal Balance (Excl Cat & QZAB)	8,598,383	13,846,196	4,001,301	11,985,630



# ARKANSAS DEPARTMENT OF EDUCATION

Dr. Tom W. Kimbrell  
*Commissioner*

March 30, 2011

**State Board  
of Education**

Dr. Naccaman Williams  
*Springdale  
Chair*

Jim Cooper  
*Melbourne  
Vice Chair*

Sherry Burrow  
*Jonesboro*

Brenda Gullett  
*Fayetteville*

Sam Ledbetter  
*Little Rock*

Alice Mahony  
*El Dorado*

Dr. Ben Mays  
*Clinton*

yce Newton  
*Crossett*

Vicki Saviers  
*Little Rock*

Mr. Ken Kirspel, Superintendent  
North Little Rock School District  
2700 Poplar Street  
N. Little Rock, AR 72114

Dear Mr. Kirspel:

Pursuant to Ark. Code Ann. § 6-20-1905, this letter is to provide notice that the North Little Rock School District has been identified by the Arkansas Department of Education (Department) as a school district in Fiscal Distress. According to Ark. Code Ann. § 6-20-1904, the North Little Rock School District meets one (1) or more of the criteria necessary to be identified as a school district in Fiscal Distress, including:

- Material state or federal audit exceptions or violations.

This identification is also based on acts or violations determined to jeopardize the fiscal integrity of the district including without limitations failure to fully develop and implement adequate corrective actions for previously identified audit findings and deficiencies.

The State Board of Education (SBE) will consider whether to classify the North Little Rock School District as being in Fiscal Distress at its meeting on, May 9, 2011. The meeting will begin at 9:00 a.m. in the Auditorium of the Arch Ford Education Building, Four Capitol Mall in Little Rock, Arkansas.

Please find included in this mailing a copy of the Department's Rules on Identifying and Governing the Arkansas Fiscal Assessment and Accountability Program. This document outlines the identification and classification of Fiscal Distress. It also provides the process by which a district may appeal the classification of Fiscal Distress to the SBE. If submitted within 30 days of this notice, an appeal would be heard at the same May 9, 2011, SBE Meeting. Additional information may be found in Arkansas Code Ann. § 6-20-1901 et seq.

Four Capitol Mall  
Little Rock, AR  
72201-1019  
(501) 682-4475  
ArkansasEd.org



Fiscal Distress Identification  
Page 2

Ark. Code Ann. §6-20-1907 states that no school district identified by the Department as being in Fiscal Distress may incur any debt without prior written approval from the Department. "Any debt" includes any employment contract, vendor contract, lease, loan, purchase, or any other obligation that will increase the district's financial obligations, accounts payable, or its liabilities. The district is required to obtain prior written approval from the Department, effective with its receipt of this letter. Please retain this notice in your District audit file.

Should the district have questions or comments, please contact the Fiscal Distress Services, at (501) 682-5124.

Sincerely,



Hazel Burnett,  
ADE Coordinator Fiscal Distress Accountability and Reporting

HB:ddm

cc: Dr. Tom Kimbrell, Commissioner of Education  
Mr. Tony Wood, Deputy Commissioner of Education  
Mr. Jeremy Lasiter, General Counsel  
Mr. William J. Goff, Assistant Commissioner  
Senator Linda Chesterfield  
Representative Tracy Steele  
Mr. Ron Treat, President of the Board

# ATTACHMENT A

## NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1 SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN ACCORDANCE WITH OMB CIRCULAR A-133 FOR THE YEAR ENDED JUNE 30, 2008

### SECTION I: SUMMARY OF AUDITORS' RESULTS

1. Type of Report Issued, Financial Statements  
The independent auditors' report expresses an unqualified opinion on the basic financial statements.
2. Significant Deficiencies, Financial Statements  
Significant deficiencies were disclosed during the audit of the basic financial statements.
3. Material Noncompliance, Financial Statements  
Instances of noncompliance material to the financial statements were disclosed during the audit.
4. Significant Deficiencies, Major Programs  
Significant deficiencies were disclosed during the audit of the major federal award programs.
5. Type of Report Issued, Compliance  
The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. Audit Findings Under Section 510(a)  
Audit findings relative to the major federal award programs are reported in this section.
7. Major Programs  
Child Nutrition Cluster - CFDA Number 10.553 and 10.555.
8. Threshold between Type A and Type B Programs  
The threshold for distinguishing Type A and B programs was \$305,520.
9. Type of Auditee  
North Little Rock School District No. 1 qualified as a low-risk auditee as that term is defined by OMB Circular A-133.

### SECTION II: FINANCIAL STATEMENT FINDINGS

1. Significant Deficiencies  
2008-1 Financial Reporting System  
*Condition:* Bank accounts had not been reconciled in a timely manner.  
*Criteria:* Internal control over monetary assets requires timely reconciliation of balances per books and balances per financial institutions.  
*Effect:* The reconciliation disclosed material transactions for which their effect had not been reported in the financial statements.  
*Cause:* Turnover in accounting staff and the conversion to a new accounting system delayed the timely preparation of bank reconciliations.

NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
FOR THE YEAR ENDED JUNE 30, 2008

1. Significant Deficiencies (Continued)

2008-1 Financial Reporting System (Continued)

*Auditors'*

*Recommendations:* Provide appropriate level of staffing and training necessary to ensure timely preparation of monthly bank reconciliations. Make entries to accounting system for unbooked transactions disclosed in the reconciliation. Ensure that the status of this project is reported to management and those charged with governance.

*Auditors' Response:* Management concurs with this finding and its response to this and other findings are included on pages 67 – 68 of this report.

2. Significant Deficiencies -- Prior Year

None

**SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

1. Significant Deficiencies

U.S. Department of Agriculture, Child Nutrition Cluster

2008-1 Financial Reporting System

*Condition:* Bank accounts had not been reconciled in a timely manner.

*Criteria:* Internal control over monetary assets requires timely reconciliation of balances per books and balances per financial institutions.

*Effect:* The reconciliation disclosed material transactions for which their effect had not been reported in the financial statements.

*Cause:* Turnover in accounting staff and the conversion to a new accounting system delayed the timely preparation of bank reconciliations.

*Auditors'*

*Recommendations:* Provide appropriate level of staffing and training necessary to ensure timely preparation of monthly bank reconciliations. Make entries to accounting system for unbooked transactions disclosed in the reconciliation. Ensure that the status of this project is reported to management and those charged with governance.

NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
FOR THE YEAR ENDED JUNE 30, 2008

1. Significant Deficiencies (Continued)

U.S. Department of Agriculture, Child Nutrition Cluster

2008-1 Financial Reporting System

*Auditors' Response:* Management concurs with this finding and its response to this and other findings are included on pages 67 - 68 of this report.

2. Significant Deficiencies -- Prior Year

None

NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
MANAGEMENT LETTER FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2008

I. Cash

The District initiated a change in its software program and encountered a considerable learning curve in preparing bank reconciliations, resulting in the following findings:

- A. Bank reconciliations had not been prepared in a timely manner throughout the year ended June 30, 2008.
- B. The recording of interest income to the various bank accounts was misclassified.
- C. Our review of the subsequent clearing of outstanding checks at June 30, 2008, noted the following items:
  - 1. There were insufficient funds in the payroll bank account on three days in July, 2008 for the amounts of \$15,742, \$593,174, and \$615,088.
  - 2. During July, 2008, there were 103 items that were presented for payment on overdrawn funds. Payroll taxes in the amount of \$814,066 was one of these items, and if the bank had not cleared these funds, the District would have been responsible for penalties and interest due to taxes not being paid in a timely manner.
  - 3. There were 29 payroll checks totaling \$9,092 that had either been voided during the year or had previously cleared and remained on the listing.
  - 4. There were 38 items which aggregated \$13,808 that were not represented on the outstanding check listing.
  - 5. Numerous reconciling items were not addressed during the year. These ranged from bank fees not being recorded, encoding errors, and a couple of checks totaling \$974 being paid twice.
- D. Transfers to payroll account from the general account for current payrolls did not agree to the net payroll on some occasions.
- E. The direct deposits for the payroll checks did not appear on the bank reconciliation.
- F. Numerous checks were voided, but not processed through the system, resulting in a material adjustment to the operating cash account.

NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
MANAGEMENT LETTER FINDINGS AND RECOMMENDATIONS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008

I. Cash (Continued)

The District has a fiduciary responsibility to manage the funds. In meeting this obligation, bank reconciliations should be prepared in a timely manner and balanced with the financial statements. Also, any journal entries that are posted to cash accounts need to have follow-through procedures in order to check the accuracy of the adjustment. Daily management of funds would prevent, or at least minimize, the likelihood that these bank accounts become overdrawn. Utilization of the online bank services would also help in this area. Due to the amount of interest income of various accounts, we recommend a spreadsheet of the monthly interest to ensure accuracy of recording data. Also, checks that have been lost should require a waiting period before a new check is issued to avoid employees being overpaid.

II. Property

The conversion of property to the new system required adjustments due to limited personnel and a lack of training. We recommend that the property be reconciled quarterly to insure the accuracy of information.

III. Payroll

Upon examining the District's payroll, taxes, and related benefits, we determined the following:

1. The Internal Revenue Service regularly submitted letters to the District asking for clarification on applying tax deposits that were made for the payroll.
2. For the quarters ended September 30, 2007 and December 31, 2007, data on the Employer's Quarterly Federal Tax Returns was submitted on 2008 forms where the 2007 had been replaced by typing 2007.
3. The date on all four of the quarterly reports was January 13, 2008. From this date, we know that the September 30, 2007 report was late by at least two months and we are unclear as to the actual completion date of the other reports.
4. Multiple payroll tax deposits were made on the same day.

We suggest that a schedule be maintained of the payroll tax deposits by categories to facilitate the accurate and timely completion of Employer's Quarterly Federal Tax Returns. Also, the information that is given to the bank should be sufficient to meet the Internal Revenue Service guidelines for making payroll tax deposits.

NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
MANAGEMENT LETTER FINDINGS AND RECOMMENDATIONS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008

IV. Conversion

Various changes in personnel and a lack of training resulted in a conversion from one computer software to a new computer system that did not proceed smoothly. This transition required a considerable amount of learning by default in order to process the books, and consequently, the District added a part-time employee to help with the work load. Although, some areas in the finance department have seen improvement, we suggest the hiring of someone who is trained in accounting to enhance the existing personnel. This employee would help with the production of the monthly financial statements, daily management of cash, and the internal audit of the District's finances.

V. Employee Descriptions

We recommend that all employees in the finance department have complete job descriptions. This will help with the transition of new employees. Also, this will pinpoint areas that need to be strengthened.

VI. Revenue Coding

During the year ended June 30, 2008, there was \$21,600 miscoded to federal revenue in the federal fund, which should have been appropriately recorded to revenue in the general fund. We suggest reconciling revenue accounts to their supporting documentation on a quarterly basis to ensure proper classification.

Management's response to these findings, with which we concur, is included on pages 67 - 68 of this report.



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May 26, 2009

Memo to: Mr. Mike Cobb, Cobb & Suskie LTD  
From: Greg Daniels, CFO/CIO  
Subject: Management Letter Response

We are eager to put into place the recommendations that have been noted by your firm. In strengthening our internal controls and operation efficiency, we are on the road to a healthy and stable school district.

All of the findings are based on the fact that the monthly reconciliations were not performed in a timely manner. The very significant conversion from the AS/400 CIMS III system to the APSCN Pentamation system demanded much from each employee in the finance department. The training from APSCN (Arkansas Public School Network) was brief at best, but, the APSCN personnel were always responsive to our questions. Once you are one year into a new software, you really know the "right" questions to ask. Some of the 06-07 balances were not transferred into the new system with the correct coding. Those balances have since been corrected. We had outstanding checks from two different systems, thus, not allowing us to use the APSCN reconciliation system.

One of the individual items on the job description for the Director of Finance, Purchasing and Audit is to make sure all accounts are reconciled each month. This will be a priority for the new Director of Finance. This will be done in conjunction with the new Secretary to the CFO/CIO. These two positions will work closely to make sure each account is reconciled by the 15<sup>th</sup> of the month after the period closing of the previous month.

Our software support with APSCN suggested that the Payroll Account, the Self-insured Account, and the Savings Account be classified with their own fund-source of funds designation. With this being done, some of the interest went to the General Fund cash account, instead of the cash account for the Payroll, Self-Insured or Savings Fund. These have been corrected in the 08-09 year.

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It is one of the job duties of the Secretary to the CFO/CIO to make the proper transfers from the General Account to the Payroll Account. During the time of July 2007 to January 2008, the secretary's position was vacant and those duties were done by several helping out. Those payroll transfers are currently being done as they should be. The Payroll Account is basically an "in and out" account.

Direct Deposits of the payroll checks not appearing on the bank reconciliation is a component of the Pentamation software system. Those items are assumed cleared when they are processed.

A procedure for voided checks is currently being adhered to. When a check is voided, that check is noted "void" and the print screens showing the associated transactions for the void are printed and placed in the period folder for the month.

Property reconciliation is currently being done on a quarterly basis. The APSCN System has made this component easier to deal with. Purchase orders tagged as a Fixed Asset are sent to a work file to be added to the fixed assets system. This is the responsibility of the secretary to the Director of Finance, Purchasing and Audit.

The Payroll transition was the most difficult of all the transitions. Although there was never a time when employees did not receive their proper checks, there were times that reports to the taxing entities were a few days late (example: 941's). This has been rectified. All payrolls are monitored by the secretary to the CFO/CIO which include the proper dates of payrolls and the proper amounts being wire transferred to the IRS and to the State Government.

Specific job descriptions have been created for each job in the Finance Department. Cross-training on those job descriptions is a goal for the 09-10 school year.

The miscoding of Federal Revenue \$21,600 which should have been General Revenue can be caught by Monthly Reconciliation of the Revenue to the District.

A combination of circumstances (personnel turnover, lack of personnel in a key position, and software change) has provided the audit findings. I take full responsibility for these findings, but, also take full responsibility in knowing that these findings are being rectified. Many of these findings were known prior to the audit and rectification had been put in place for the 08-09 year.

Sincerely,

Greg Daniels  
CFO/CIO

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# ATTACHMENT B

## NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1 SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN ACCORDANCE WITH OMB CIRCULAR A-133 FOR THE YEAR ENDED JUNE 30, 2009

### SECTION II: FINANCIAL STATEMENT FINDINGS

1. Significant Deficiencies

2009-1 Financial Reporting System

<i>Condition:</i>	Bank accounts had not been reconciled in a timely manner.
<i>Criteria:</i>	Internal control over monetary assets requires timely reconciliation of balances per books and balances per financial institutions.
<i>Effect:</i>	The reconciliation disclosed material transactions for which their effect had not been reported in the financial statements.
<i>Cause:</i>	Turnover in accounting staff delayed the timely preparation of bank reconciliations.

NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
FOR THE YEAR ENDED JUNE 30, 2009

1. Significant Deficiencies (Continued)

2009-1 Financial Reporting System (Continued)

*Auditors'*

*Recommendations:* Provide appropriate level of staffing and training necessary to ensure timely preparation of monthly bank reconciliations. Make entries to accounting system for unbooked transactions disclosed in the reconciliation. Ensure that the status of this project is reported to management and those charged with governance.

*Auditors' Response:* Management concurs with this finding and its response to this and other findings is included on page 69 of this report.

2. Significant Deficiencies – Prior Year

The financial statements for the year ended June 30, 2008, originally dated May 13, 2009, included the following reportable condition:

2008-1 Financial Reporting System

*Condition:* Bank accounts had not been reconciled in a timely manner.

*Criteria:* Internal control over monetary assets requires timely reconciliation of balances per books and balances per financial institutions.

*Effect:* The reconciliation disclosed material transactions for which their effect had not been reported in the financial statements.

*Cause:* Turnover in accounting staff and the conversion to a new accounting system delayed the timely preparation of bank reconciliations.

*Auditors'*

*Recommendations:* Provide appropriate level of staffing and training necessary to ensure timely preparation of monthly bank reconciliations. Make entries to accounting system for unbooked transactions disclosed in the reconciliation. Ensure that the status of this project is reported to management and those charged with governance.

During the year ended June 30, 2009, management became aware of this deficiency and discussed implementation of new procedures to address 2008 – 1.

NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
FOR THE YEAR ENDED JUNE 30, 2009

**SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

1. Significant Deficiencies

2009-1 Financial Reporting System

*Condition:* Bank accounts had not been reconciled in a time manner.

*Criteria:* Internal control over monetary assets require timely reconciliation of balances per books and balances per financial institutions.

*Effect:* The reconciliation disclosed material transactions for which their effect had not been reported in the financial statements.

*Cause:* Turnover in accounting staff delayed the time preparation of bank reconciliations.

*Auditors'*

*Recommendations:* Provide appropriate level of staffing and training necessary to ensure timely preparation of monthly bank reconciliations. Make entries to accounting system for unbooked transactions disclosed in the reconciliation. Ensure that the status of this project is reported to management and those charged with governance.

*Auditors' Response:* Management concurs with this finding and response to this and other findings is included on page 69 of this report.

2. Significant Deficiencies – Prior Year

The schedule of findings and questioned costs for the year ended June 30, 2008, originally dated May 13, 2009, included the following reportable condition:

2008-1 Financial Reporting System

*Condition:* Bank accounts had not been reconciled in a time manner.

*Criteria:* Internal control over monetary assets require timely reconciliation of balances per books and balances per financial institutions.

NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
FOR THE YEAR ENDED JUNE 30, 2009

2. Significant Deficiencies – Prior Year (Continued)

2008-1      Financial Reporting System (Continued)

Cause:                      Turnover in accounting staff and the conversion to a new accounting system delayed the timely preparation of bank reconciliations.

*Auditors'*

*Recommendations:*      Provide appropriate level of staffing and training necessary to ensure timely preparation of monthly bank reconciliations. Make entries to accounting system for unbooked transactions disclosed in the reconciliation. Ensure that the status of this project is reported to management and those charged with governance.

During the year ended June 30, 2009, management became aware of this deficiency and discussed implementation of new procedures to address 2008 – 1.

# COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

One Financial Centre • Suite 400 • P. O. Box 21875 • Little Rock, Arkansas 72221-1875  
(501) 226-2133 • Fax (501) 223-2839

Michael L. Cobb

Anne Suskie Pinyan

## Management Letter

The Board of Education  
North Little Rock School District No. 1  
North Little Rock, Arkansas

In planning and performing our audit of the financial statements of the North Little Rock School District No. 1 as of and for the year ended June 30, 2009, we considered the North Little Rock School District No. 1's internal control over the financial reporting as a basis for determining our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of North Little Rock School District No. 1's internal control.

However, during our audit, we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. We previously reported on the North Little Rock School District No. 1's internal control over financial reporting in our report dated May 26, 2010. This letter does not affect our report dated May 26, 2010, on the financial statements of the North Little Rock School District No.1.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with certain North Little Rock School District No. 1 personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

*Cobb and Suskie, Ltd*  
Certified Public Accountants  
May 26, 2010

NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
MANAGEMENT LETTER FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2009

I. Cash

The District initiated a change in its software program during the prior year and encountered a considerable learning curve in preparing bank reconciliations, resulting in the following findings:

- A. Bank reconciliations had not been prepared in a timely manner throughout the year ended June 30, 2009.
- B. Transfers to the payroll account from the general account for current payrolls did not agree to the net payrolls on some occasions.
- C. The bond payment of \$560,018 that was made on November 21, 2008 was not recorded into the District's cash account on the books during the year ended June 30, 2009.
- D. The following checks for federal funds in food services were located on a desk and there was a time lapse between the date the check was issued by the state and the date it was deposited by the District.

<u>Amount</u>	<u>Check Date Per State</u>	<u>Date District Deposited</u>
\$ 934.32	9/22/2008	5/26/2009
\$ 631.90	9/22/2008	5/26/2009
\$5,398.01	6/15/2008	5/26/2009

- E. The payroll cash account required adjustments to reconcile to the bank at June 30, 2009.

The District has a fiduciary responsibility to manage the funds. In meeting this obligation, bank reconciliations should be prepared in a timely manner and balanced with the financial statements. Also, any journal entries that are posted to cash accounts need to have follow-through procedures in order to check the accuracy of the adjustment. Reconciliations of revenue based on requests for funding should be reconciled monthly to insure timely depositing of funds.

II. Property

During the year, there were personnel changes that resulted in inconsistency in the recording of fixed assets. The financial statements reflected all additions, however the inventory schedules were not updated to reconcile to the District's financial information. We recommend that the property be reconciled quarterly to insure the accuracy of information.



NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
MANAGEMENT LETTER FINDINGS AND RECOMMENDATIONS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009

III. Payroll

Upon examining the District's payroll, taxes, and related benefits, we determined the following:

1. The Internal Revenue Service regularly submitted letters to the District asking for clarification on applying tax deposits that were made for the payroll. A letter subsequent to June 30, 2009 from the IRS shows net penalties and interest due of \$61,859.
2. The Form 941 for the quarter ended March 31, 2009 was signed on April 2, 2009 but the Internal Revenue Service did not receive it to process until May 25, 2009.

We suggest that a schedule be maintained of the payroll tax deposits by categories to facilitate the accurate and timely completion of Employer's Quarterly Federal Tax Returns. Also, the information that is given to the bank should be sufficient to meet the Internal Revenue Service guidelines for making payroll tax deposits.

IV. Employee Descriptions

We recommend that all employees in the finance department have complete job descriptions. This will help with the transition of new employees. Also, this will pinpoint areas that need to be strengthened.

Management's response to these findings, which we have not audited, is included on page 69 of this report.



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May 26, 2010

**Memo to:** Mr. Mike Cobb, Cobb & Suskie LTD

**From:** Greg Daniels, CFO/CIO

**Subject:** Management Letter Response

The North Little Rock School District is eager to put into place the recommendations that have been noted by your firm. As we grow as a stable team, the recommended items will be put in place.

As we continue to work through some of the issues with the Pentamotion software, reconciliations have been a stumbling block. While we have people in three important positions who are new on our team this year, many of the items listed have already been initiated in the item I. Cash.

Property reconciliation is currently being done on a quarterly basis. The APSCN System has made this component easier to deal with. Inventory schedules will be reconciled to the financial statements on a quarterly basis.

The Payroll finding has been dealt in this current year. Schedules are maintained by payroll run number with payroll tax deposits by category in order for the timely submission of the Quarterly Returns to be submitted.

Specific job descriptions are in place for each job in the Finance Department. Cross-training on those job descriptions is a continued goal for each new school year.

While we still have findings, the finance team is working diligently to place corrective action to where there are problems.

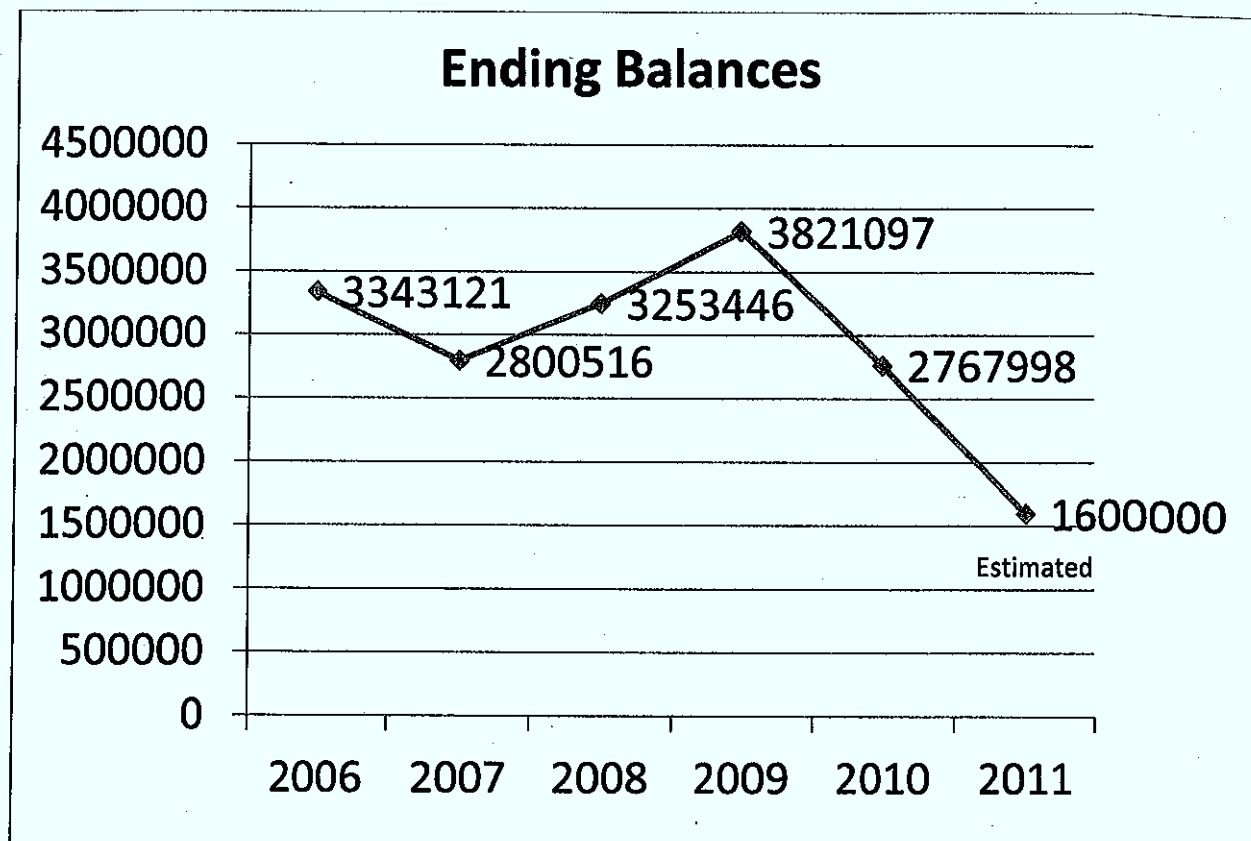
Sincerely,



Greg Daniels  
CFO/CIO

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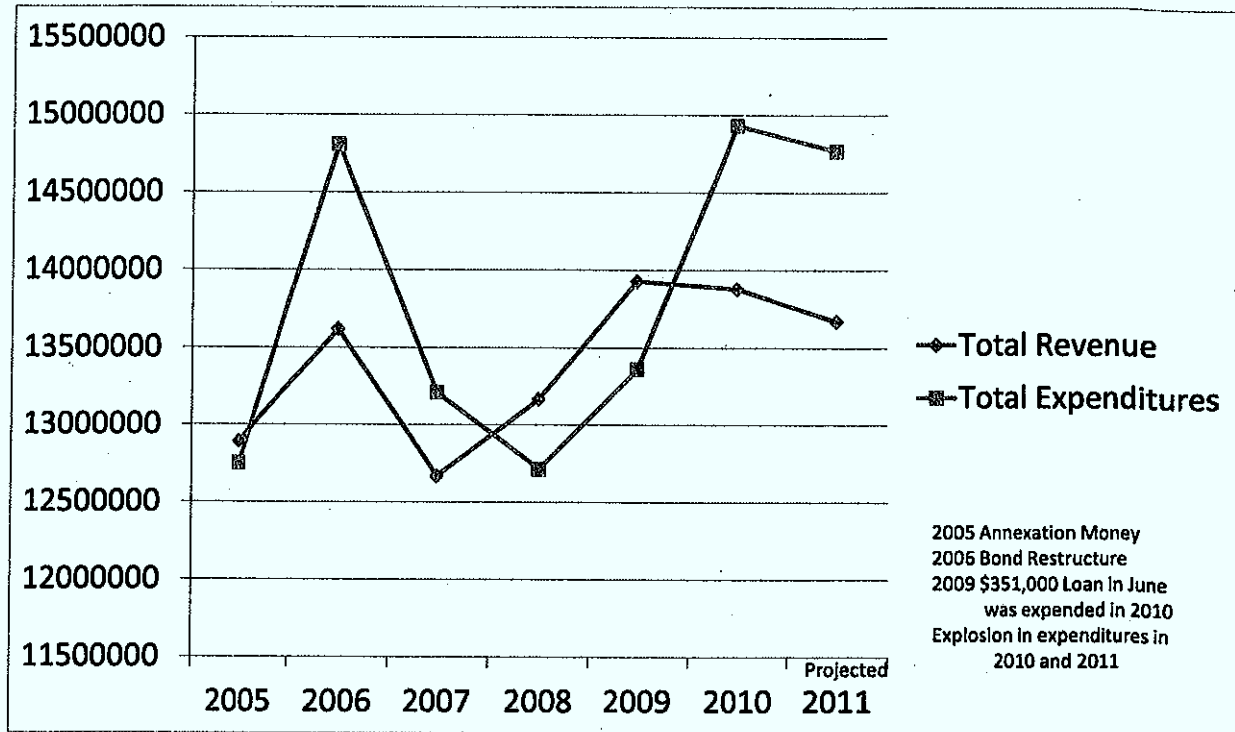
*An Equal Opportunity Employer*



The above chart is the reason for my concern for the district. One of the main areas the Department of Education looks at when determining fiscal distress is the legal ending balance. One rule of thumb used is that a district should never have less than half the balance it had 2 years ago on June 30. For the Ozark District the numbers of interest are the balance as of June 30, 2009 and the balance on June 30, 2011. As you can see the balance ending in 2009 was \$3,821,097; however, this balance included a loan proceed of \$351,000. I will be meeting with Department officials in the next few days to determine whether our legal ending balance for 2009 will be \$3,821,097 or \$3,470,097. This means we need to finish this year with either \$1,910,548 or \$1,735,049 depending on the final determination. As you can also see from the chart above our projected balance for June 30 of this year is about \$1,600,000. This estimate is from the budget submitted to the state last year. Unfortunately, the estimate is fairly correct and on target. The submitted budget has a negative 'revenue to expenditure' deficit of nearly \$1,100,000.

Our ending balance for March 2011 was \$1,580,149. Of course this is below our target already and we have April, May and June to go. I know it looks pretty bleak but I am in the process of meeting with Hazel Burnett and her staff at the Fiscal and Administrative Services Department of ADE. I have developed several proposals after discussions with her and a variety of other people as possible ways to overcome our declining balances. I will discuss those proposals on the following pages.

# Revenue vs. Expenditures



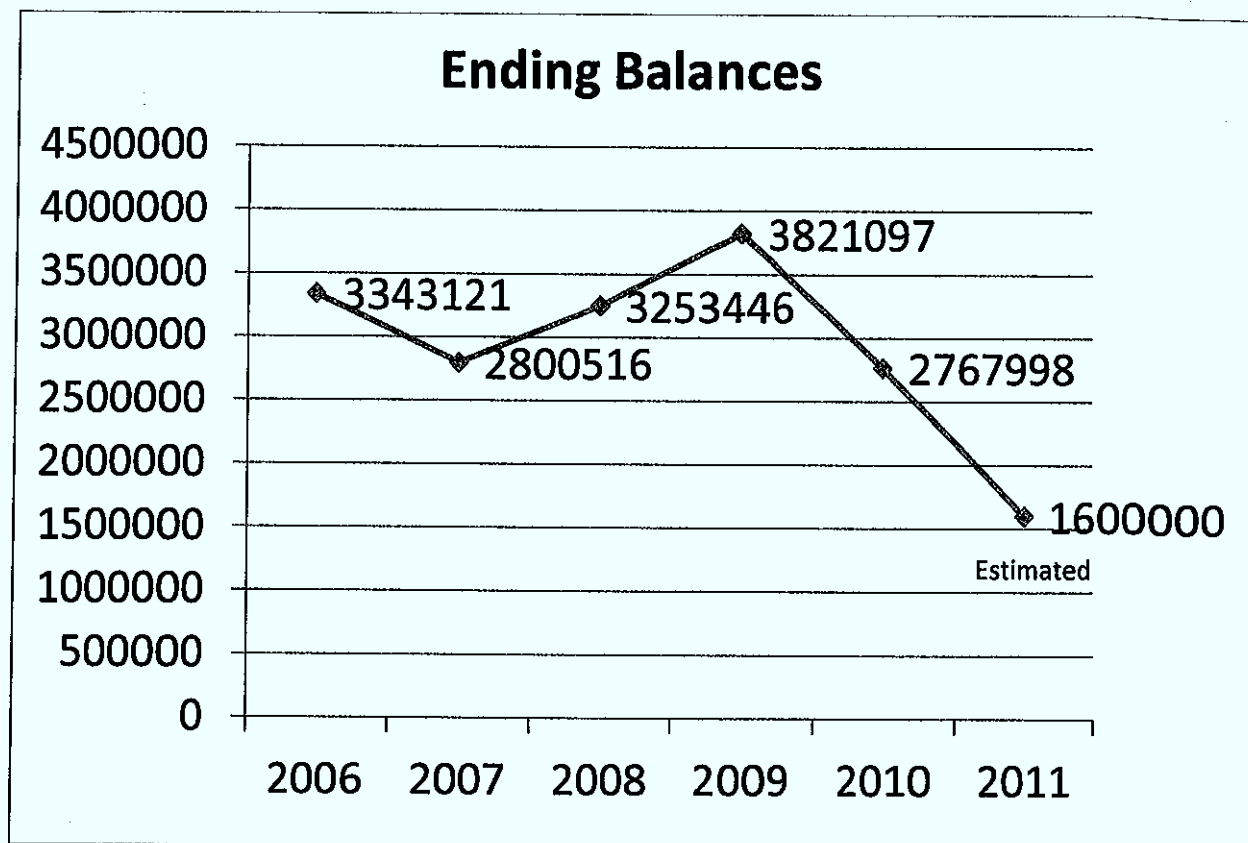
The above chart is a look at our expenditures and revenues over the past few years. I have provided some additional information to provide some insight into why the chart looks like it does. Clearly we see a huge jump in expenditures for last year and this year. Most of this expense is tied to new salary expenses. If my count is accurate, we have added between 8 and 10 new certified staff during the last 2 years while we have had slightly declining enrollment and slightly declining revenues. My guess is we have also added some classified positions but at this time I have not had the chance to verify. Nevertheless, what we do know is that about 80% of school budgets are salary and benefits and 5-6% are debt service payments. The rest of the budget pays for day-to-day operation of the school and cannot be the major source of savings with a deficit this great. Over time we will have to decrease our salary costs to more sustainable levels.

The question becomes, "What do we do now?" We do not have the time at this point to decrease staffing for 2010-2011. I have put together several possible ways to achieve a higher legal balance for us on June 30. I do not know if the state will approve all of my requests since we are nearly down to the end of the year. I do expect my meeting with them to occur this week and hopefully will have some answers before the end of the week.

## Possible Sources of Funding to Raise Year End Balances

1. **Use lost student funding for salaries:** Because of the districts declining enrollment we received supplemental funding of \$179,000 this year to offset lost revenues from fewer students. We will not get this money next year unless our enrollment declines again. This money almost certainly can be used and will be. +\$179,000
2. **NSLA funds:** These funds are tied to the amount of students we have on free and reduced lunches. This money can be used for 'class size reduction'. All grades K-5 have additional staff members above standards. We hope to shift some of this money to pay salaries. +\$50,000
3. **Title I Regular:** If the state will allow us to change our ACSIP plan, we hope to be able to move some of this money for 'class size reduction' as well. +\$67,000
4. **Title I ARRA:** Same thing as above but still requires state approval. +\$120,517
5. **Title IIA:** Same thing as above but requires state approval. +\$59,000
6. **Stabilization Funds of ARRA:** We have a total of \$149,000 left to spend in this fund. We will need to talk to Hazel and see what the possibilities are for using some of this money. ??????
7. **Special Education ARRA:** We have \$76,000 in this fund remaining. This is more complicated when combined with the Title VI-B we will look at next. There is a required maintenance of effort the district must do with these funds. I am going to have talk to Donald Watkins, head of special education finance at ADE, to get a determination if we can reduce our MOE since we have had a declining special education population. ????
8. **Title VI-B:** We have about \$200,000 in this fund that remains unspent. If we can get our MOE reduced we may be able to use some or all this to pay salaries currently paid from district funds.
9. **Food Service:** Our food service department has a balance of about \$200,000. The currently pay all their own salaries and still make a profit. I am investigating moving some of this money into the salaries. +\$200,000
10. **ARMAC and Medicaid Funds:** We currently generate funds of about \$17,000 per year from our billing the state for services rendered. This money may be used to pay salaries such as nurses or speech therapists. We also plan to start billing for additional services we perform so the \$17,000 figure could get larger. +\$17,000
11. **Jobs Funds ARRA:** The district still has an allotment of about \$218,000 from the Jobs Fund. A portion of this money was used last year to pay bonuses. This money can help us but we have a decision to make about it. I will talk to you about what our options are once I talk to Hazel.
12. **Voted Refunding of Bonds:** Dan Lovelady will discuss some of these options at the Board Training on April 11<sup>th</sup>.

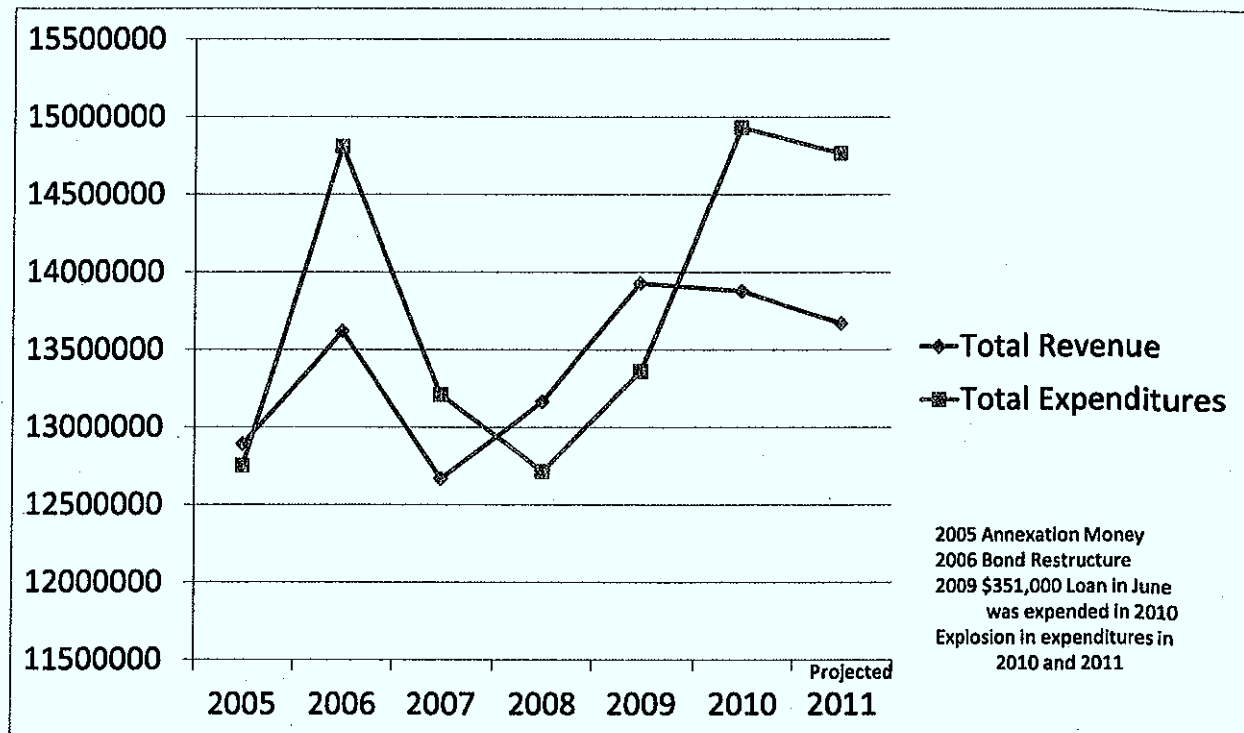
Currently these are the types of things I am considering to protect our balance. We are still faced with some difficult choices down the road of having a leaner payroll. I welcome your input into any of this.



The above chart is the reason for my concern for the district. One of the main areas the Department of Education looks at when determining fiscal distress is the legal ending balance. One rule of thumb used is that a district should never have less than half the balance it had 2 years ago on June 30. For the Ozark District the numbers of interest are the balance as of June 30, 2009 and the balance on June 30, 2011. As you can see the balance ending in 2009 was \$3,821,097; however, this balance included a loan proceed of \$351,000. I will be meeting with Department officials in the next few days to determine whether our legal ending balance for 2009 will be \$3,821,097 or \$3,470,097. This means we need to finish this year with either \$1,910,548 or \$1,735,049 depending on the final determination. As you can also see from the chart above our projected balance for June 30 of this year is about \$1,600,000. This estimate is from the budget submitted to the state last year. Unfortunately, the estimate is fairly correct and on target. The submitted budget has a negative 'revenue to expenditure' deficit of nearly \$1,100,000.

Our ending balance for March 2011 was \$1,580,149. Of course this is below our target already and we have April, May and June to go. I know it looks pretty bleak but I am in the process of meeting with Hazel Burnett and her staff at the Fiscal and Administrative Services Department of ADE. I have developed several proposals after discussions with her and a variety of other people as possible ways to overcome our declining balances. I will discuss those proposals on the following pages.

# Revenue vs. Expenditures



The above chart is a look at our expenditures and revenues over the past few years. I have provided some additional information to provide some insight into why the chart looks like it does. Clearly we see a huge jump in expenditures for last year and this year. Most of this expense is tied to new salary expenses. If my count is accurate, we have added between 8 and 10 new certified staff during the last 2 years while we have had slightly declining enrollment and slightly declining revenues. My guess is we have also added some classified positions but at this time I have not had the chance to verify. Nevertheless, what we do know is that about 80% of school budgets are salary and benefits and 5-6% are debt service payments. The rest of the budget pays for day-to-day operation of the school and cannot be the major source of savings with a deficit this great. Over time we will have to decrease our salary costs to more sustainable levels.

The question becomes, "What do we do now?" We do not have the time at this point to decrease staffing for 2010-2011. I have put together several possible ways to achieve a higher legal balance for us on June 30. I do not know if the state will approve all of my requests since we are nearly down to the end of the year. I do expect my meeting with them to occur this week and hopefully will have some answers before the end of the week.

# ATTACHMENT C

## NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1 SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN ACCORDANCE WITH OMB CIRCULAR A-133 FOR THE YEAR ENDED JUNE 30, 2010

### SECTION II: FINANCIAL STATEMENT FINDINGS

#### 1. Material Weaknesses

##### 2010-1 Financial Reporting System

*Criteria:* Internal control over monetary assets requires timely reconciliation of balances per books and balances per financial institutions.

*Condition:* Bank accounts had not been reconciled in a timely manner.

*Effect:* The reconciliation disclosed material transactions for which their effect had not been reported in the financial statements.

*Cause:* Turnover in accounting staff delayed the timely preparation of bank reconciliations.

*Auditors'*

*Recommendations:* Provide appropriate level of staffing and training necessary to ensure timely preparation of monthly bank reconciliations. Make entries to accounting system for unbooked transactions disclosed in the reconciliation. Ensure that the status of this project is reported to management and those charged with governance.

*Views of Responsible  
Officials and Planned*

*Corrective actions:* Management concurs with this finding and its response to this and other findings is included on pages 72-73 of this report.



NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
FOR THE YEAR ENDED JUNE 30, 2010

**SECTION II: FINANCIAL STATEMENT FINDINGS (CONTINUED)**

2. Significant Deficiencies – Prior Year

The financial statements for the year ended June 30, 2009, originally dated May 26, 2010, included the following material weakness:

2009-1      Financial Reporting System

*Criteria:*                      Internal control over monetary assets requires timely reconciliation of balances per books and balances per financial institutions.

*Condition:*                      Bank accounts had not been reconciled in a timely manner.

*Effect:*                              The reconciliation disclosed material transactions for which their effect had not been reported in the financial statements.

*Cause:*                              Turnover in accounting staff and the conversion to a new accounting system delayed the timely preparation of bank reconciliations.

*Auditors' Recommendations:*      Provide appropriate level of staffing and training necessary to ensure timely preparation of monthly bank reconciliations. Make entries to accounting system for unbooked transactions disclosed in the reconciliation. Ensure that the status of this project is reported to management and those charged with governance.

During the year ended June 30, 2010, management were aware of this deficiency and implemented new procedures to address 2009 – 1. This project was not completed as of June 30, 2010, however.



NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
FOR THE YEAR ENDED JUNE 30, 2010

**SECTION III:      FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

1. Material Weaknesses

2010-1      Financial Reporting System

*Criteria:*                      Internal control over monetary assets requires timely reconciliation of balances per books and balances per financial institutions.

*Condition:*                      Bank accounts had not been reconciled in a timely manner.

*Effect:*                              The reconciliation disclosed material transactions for which their effect had not been reported in the financial statements.

*Cause:*                              Turnover in accounting staff delayed the timely preparation of bank reconciliations.

*Auditors' Recommendations:*      Provide appropriate level of staffing and training necessary to ensure timely preparation of monthly bank reconciliations. Make entries to accounting system for unbooked transactions disclosed in the reconciliation. Ensure that the status of this project is reported to management and those charged with governance.

*Views of Responsible  
Officials and Planned*

*Corrective Actions:*      Management concurs with this finding and its response to this and other findings is included on pages 72-73 of this report.

NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
FOR THE YEAR ENDED JUNE 30, 2010

**SECTION III:      FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
(CONTINUED)**

2.      Significant Deficiencies – Prior Year

The schedule of findings and questioned costs for the year ended June 30, 2009, originally dated May 26, 2010, included the following material weakness:

2009-1      Financial Reporting System

*Criteria:*                      Internal control over monetary assets requires timely reconciliation of balances per books and balances per financial institutions.

*Condition:*                      Bank accounts had not been reconciled in a timely manner.

*Effect:*                              The reconciliation disclosed material transactions for which their effect had not been reported in the financial statements.

*Cause:*                              Turnover in accounting staff and the conversion to a new accounting system delayed the timely preparation of bank reconciliations.

*Auditors' Recommendations:*      Provide appropriate level of staffing and training necessary to ensure timely preparation of monthly bank reconciliations. Make entries to accounting system for unbooked transactions disclosed in the reconciliation. Ensure that the status of this project is reported to management and those charged with governance.

During the year ended June 30, 2010, management were aware of this deficiency and implemented new procedures to address 2009 – 1. This project was not completed as of June 30, 2010, however.

# COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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Michael L. Cobb

Anne Suskie Pinyan

## Management Letter

The Board of Education  
North Little Rock School District No. 1  
North Little Rock, Arkansas

In planning and performing our audit of the financial statements of the North Little Rock School District No. 1 as of and for the year ended June 30, 2010, we considered the North Little Rock School District No. 1's internal control over the financial reporting as a basis for determining our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of North Little Rock School District No. 1's internal control.

However, during our audit, we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. We previously reported on the North Little Rock School District No. 1's internal control over financial reporting in our report dated March 29, 2011. This letter does not affect our report dated March 29, 2011, on the financial statements of the North Little Rock School District No. 1.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with certain North Little Rock School District No. 1 personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

*Cobb and Suskie, Ltd.*

Certified Public Accountants  
March 29, 2011

NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
MANAGEMENT LETTER FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2010

I. Cash

Since initiating a change in its software program during the year ended June 30, 2008 the District has encountered considerable difficulties in preparing bank reconciliations, resulting in the following findings during the year ended June 30, 2010:

- A. Bank reconciliations had not been prepared in a timely manner throughout the year ended June 30, 2010.
- B. There are four separate bank accounts for general operations, payroll, meal pay, and activity. The books of the District reflect all this activity in one cash account within the various funds. The June 30, 2010 bank reconciliation did not include the following reconciling items:
  - (1) The Direct Deposit Amount of \$2,932,818 was not shown as outstanding on the reconciliation at June 30, 2010.
  - (2) The outstanding check listing for payroll did not agree to the individual payroll account reconciliation.
  - (3) Checks in the amount of \$2,585,026 were shown as outstanding checks on the general bank account reconciliation and were also shown as accounts payable at June 30, 2010.
  - (4) A wire transfer of \$26,342 for the QZAB payment on June 16, 2010 was not recorded into the records of the District.
- C. The District entered into a lease purchase agreement with First Security Leasing on December 9, 2009 for \$4,704,690. Proceeds of \$4,704,690 were deposited into an escrow account with Bank of Ozarks on that date. Also, First Security Leasing funded \$50,000 into this escrow account for capitalized interest. Since the inception of the loan approximately \$322 has been earned in the escrow account bringing the balance at June 30, 2010 to \$4,755,013. This activity was not reported on the books of the District.
- D. In reviewing the outstanding check listing for the general operating account, we found that a group of numerically sequenced checks was not listed.

The District has a fiduciary responsibility to account for all funds which have been entrusted to it. In meeting this obligation, bank reconciliations should be prepared in a timely manner and balanced with the financial statements. Also, any journal entries that are posted to cash accounts should have follow-through procedures in order to check the accuracy of the adjustment. Finally, we recommend that the District maintain the integrity of numerically sequenced check numbers and account for all numerically listed items.

NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
MANAGEMENT LETTER FINDINGS AND RECOMMENDATIONS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2010

II. Property

The financial statements recorded all additions; however the inventory schedules were not completely updated to reconcile to the District's financial information. We recommend that the property detail be reconciled quarterly to the financial statements to ensure the accuracy of its information.

III. Payroll

Upon examining the District's payroll, taxes, and related benefits, we determined the following:

- A. The Internal Revenue Service regularly submitted letters to the District asking for clarification on applying tax deposits that were made for the payroll. The District engaged a tax advocate to help clarify the tax deposit applications. These services resulted in a refund of interest, penalties, and taxes of \$834,203.06 subsequent to June 30, 2010.
- B. Manual checks are being written on a regular basis causing the following situations:
  - (1) Checks are reported lost so new checks are issued and then both checks are cashed.
  - (2) Payroll tax deposits are being made for the manual checks and often times payroll tax deposits are being duplicated when the manual checks are being entered into the District's set of financials.
  - (3) Checks are being voided that has resulted in a weakness for the payroll system.
- C. The form 941 Employer's Quarterly Federal Tax Returns were filed on a timely basis for the year ended June 30, 2010. However, revised Form 941's with revised Schedule B's were filed at a later date to help with applying payroll tax deposits to the appropriate time periods.
- D. The outstanding check list for the payroll cash account at June 30, 2010 contained many checks that had been outstanding for more than six months.

NORTH LITTLE ROCK SCHOOL DISTRICT NO. 1  
MANAGEMENT LETTER FINDINGS AND RECOMMENDATIONS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2010

III. Payroll (Continued)

We suggest that the District maintain a schedule of the payroll tax deposits by categories to facilitate the accurate completion of Employer's Quarterly Federal Tax Returns. Also, the information that is given to the bank should be sufficient to meet the Internal Revenue Service guidelines for making payroll tax deposits. Additionally, we recommend that management consider instituting a policy that limits the issuance of manual payroll checks to once a month. The payroll system is compromised when procedures are circumvented and it results in errors on various levels. We also recommend for payroll the utilization of direct deposit accounts for all employees, which would result in fewer voided and misplaced checks. If payroll checks are continued to be used, we suggest that checks have a definite life so the checks would state on the face "void after 90 days." This limited life would facilitate the preparation of the payroll bank reconciliation and would keep records current.

IV. Journal Entries

We examined journal entries on a test basis for the year ended June 30, 2010. From this examination we determined that many adjustments were recorded for various reasons, some of which included corrections to previously made adjustments. Prior year audit adjustments were not posted to the appropriate accounts, resulting in additional adjustments to reconcile the District's books to the audited balances. We suggest that personnel be adequately trained in order to initially record information into the appropriate accounts and keep journal entries to a minimum.

V. Personnel

The District's financial affairs involve a great amount of complexity as well as volume of transactions. Preparing financial statements in accordance with the requirements of the Arkansas Department of Education; reconciling cash and property to their related detail; maintaining records that adhere to the compliance standards of state and federal laws; and monitoring construction projects and their related financing agreements require the skills and expertise of a degreed accountant with experience in governmental accounting. The District does not currently have such an individual on its staff. We believe that the various findings and recommendations noted in this report will inevitably repeat themselves without the efforts of a qualified accounting professional, and we recommend that the District consider employing such a person



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North Little Rock School District

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March 30, 2011

Memo to: Mr. Mike Cobb, Cobb & Suskie LTD

From: Greg Daniels, CFO/CIO

Subject: Management Letter Response

While the management letter is not a surprise, the North Little Rock School District is eager to put into place the recommendations that have been noted by your firm. Our team has worked tirelessly during the year 10-11 to put into place many of the recommendations of this particular audit. While being brought before a committee of the legislature during the summer of 2010, our team has worked hand-in-hand with the APSCN support staff to remedy the bank reconciliation situation that has plagued our District ever since we converted to the Pentamotion system. Kathleen Crain, head of the Financial System for APSCN, has worked directly with our staff in dealing with several of the issues that have kept us from being totally on-track.

Item B regarding the specific bank accounts. At APSCN's suggestion, we are looking at the General Account, Payroll Account, Meal Pay Account and Activity Deposit Account as "one" large account. We have been shown by APSCN how to deal with the "Direct Deposits" that are processed at the end of the fiscal year, but, are not deposited into staff accounts until July and August during the summer months and how to deal with them on the reconciliation. We generally do a wire transfer for the QZAB payment and then a journal entry which was not done in June, 2010. To remedy this situation, before a wire transfer is done, a PO and check will be cut for the proper expensing and forego the journal entry. This will be the procedure for all wire transfers (which are already done for taxes and reimbursed medical deductions).

Item C regarding the lease/purchase agreement with First Security Leasing was not placed on the system books as of 06/30/2010. This activity has since been entered into the system in FY11.

Item D regarding the outstanding check listing and missing check numbers. Check numbers 143063 through 143103 are check numbers in the beginning of period 01 FY11 while check numbers 143108 through 143122 are period 13 FY10 checks. Also, check numbers 143308 through 143449 are FY 11 period 01 and 143451 through 143585 are also FY 11 period 01. A master check number listing is maintained with Fiscal Year and Period. In the future, no accounts payable checks will be written in period 13.

Property reconciliation is currently being done on a quarterly basis. The APSCN System has made this component easier to deal with. Inventory schedules will be reconciled to the financial statements on a quarterly basis. Most capital assets are currently being requested through requisition and one office is cutting the purchase orders in order for the "asset" flag to be properly checked and the item goes to the fixed asset module.

The Payroll finding is currently being dealt with. The issue of manual checks has stopped. We have a procedure in place to utilize the next payrun for any issue with an employee's check instead of voiding and creating a manual check. The goal is "NO" manual checks for the payroll system. I have reported to our Board updates on the 941 situation. This is being dealt with via spreadsheet on a payrun-to-payrun schedule. The finding of outstanding

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payroll checks over six months old should not have been a "finding". Currently our payroll checks do not have a "Void after XXX days" printed on them like our accounts payable checks. We cannot force people to cash payroll checks. But, as I have spoken with our Board recently, we are looking at a mandatory direct deposit where this problem would be alleviated. We will also have listed on the payroll checks "Void after 90 days" as soon as the check software can be changed for payroll.

Item IV Journal Entries was noted as an issue. Our current response is before any unusual journal entry is made, we contact our APSCN support representative and talk through the situation before the JE is accomplished.

Item V personnel. It is apparent that our division is needing someone to assist in the detail of the double-entry accounting. We will take this recommendation under advisement and see how we need to progress in this situation.

While accounting systems are basically the same universally, the philosophies behind these systems can sometimes be drastically different. It is our goal to follow the guidelines of the Arkansas Department of Education first and foremost. As of March 2011, we have been assigned a new financial field support person who has actually been a person who has worked for a school district and knows the Pentamotion software well. We are pleased with this new representative.

Sincerely,



Greg Daniels  
CFO/CIO

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**Financial and Operational Forensic  
Analysis of North Little Rock School  
District's Budget and Expenditure  
Patterns**

**Provided to:**

**Office of the Attorney General for the  
State of Arkansas**

**April 20, 2011**



**Navigant**  
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## Appendices

- A. Summary of Desegregation Funding and Expenditures by Fiscal Year
- B. Matrix of Potential Issues Identified During Desegregation Funding Review
- C. Responses to Navigant's follow-up questions from its preliminary analysis of the NLRSD's recorded transactions in APSCN
- D. The NLRSD Accounting department organization chart, updated August 19, 2010
- E. Policy and procedure excerpts from the NLRSD Board Policy Book

## **I. Introduction**

Navigant was engaged by the Office of Attorney General for the State of Arkansas (“AG”) to provide forensic accounting and other related services in connection with desegregation funding (“Desegregation Funding” or the “Funding”) provided by the Arkansas Department of Education (“ADE”) to the three Pulaski County school districts (collectively referred to as the “School Districts”)—Pulaski County Special School District (the “PCSSD”), North Little Rock School District (the “NLRSD”) and Little Rock School District (the “LRSD”).<sup>1</sup>

Specifically, Navigant was engaged to perform a financial and operational forensic analysis of the budget and expenditure patterns of the School Districts to determine how the Funding has been historically expended and identify areas where cost savings could be achieved. Navigant was also requested to identify any areas or incidents of weakness in internal controls and policies and procedures that may have allowed fraud, waste, mismanagement and abuse of the Funding to have occurred. Additionally, Navigant was engaged to perform an impact analysis to serve as the underlying rationale for any proposed wind down of the Desegregation Funding to ensure that the reduction in Funding would not have an adverse impact on the academic and fiscal integrity and standards of the School Districts.

This report serves as a preliminary report of the analyses and interviews Navigant has performed to date in connection with the NLRSD.<sup>2</sup>

## **II. Executive Summary**

### **A. Overview**

In accordance with the AG’s request, Navigant focused its forensic analysis on the NLRSD’s financial records related to the Funding for fiscal years 2006-2010 and fiscal year (“FY”) 2011 to date.<sup>3</sup> The objective was to assess the accuracy and completeness of the NLRSD’s accounting of the Funding and the extent to which expenditures incurred for desegregation purposes can be identified and vouched to supporting documentation.

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<sup>1</sup> In 1989, the State of Arkansas entered into the Pulaski County School Desegregation Case Settlement Agreement (“Settlement Agreement”) with the School Districts in which the State was required to provide additional funding currently totaling approximately \$60-70 million annually to the School Districts to implement and fund student desegregation programs. There were subsequent modifications and updates to the Settlement Agreement issued by the court including Plan 2000 and an agreement between LRSD and the ADE executed on March 19, 2001.

<sup>2</sup> Navigant previously performed a preliminary analysis of PCSSD’s budget and expenditure patterns and interviewed PCSSD representatives. Navigant will also analyze the budget and expenditure patterns of the LRSD.

<sup>3</sup> The ADE’s and the School Districts’ FY begins on July 1. For FY 2011, Navigant reviewed transactions recorded in the Arkansas Public School Computer Network (“APSCN”) through December 9, 2010.

Mr. Scott Richardson, Assistant Attorney General, was the primary point of contact assisting Navigant—providing appropriate documentation, access to representatives from the NLRSD and other information Navigant required performing its analysis.

Navigant conducted eight interviews of representatives from the NLRSD.<sup>4</sup> Navigant obtained Funding documentation from the ADE and obtained access to APSCN, the online accounting and reporting application used by most school districts in Arkansas.<sup>5</sup>

The ADE created specific codes for the School Districts to utilize and properly record the Funding in the Arkansas Public School Computer Network (“APSCN”) for tracking purposes. These include a combination of Source of Fund and associated Revenue Account codes as follows:<sup>6</sup>

Source of Fund Code and Description	Related Revenue Account(s)
386 Pulaski County Magnet School Revenue	32800 and 32808 - 32811
387 Majority to Minority ("M-to-M") Revenue	32812
387 Teacher Retirement & Insurance Court Settlement	32814
388 Magnet & M-to-M Transportation	32813

The ADE informed Navigant that the Revenue Account codes related to the Funding begins with “328.”

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<sup>4</sup> Navigant also spoke with attorney Stephen W. Jones, a founding partner of law firm Jack Nelson Jones Jiles & Gregory, P.A. (“Jones”), the firm representing NLRSD in the litigation matter that is the subject of the Settlement Agreement. He made an unannounced visit to NLRSD when Navigant was conducting its interview of NLRSD’s Assistant Superintendent for Desegregation and Student Services, and he provided Navigant with his views on the Desegregation Funding in connection with the Settlement Agreement. A summary of Jones’ discussion with Navigant is summarized in section III.B.4 of this report.

Ms. Debby A. Linton, an associate attorney at Jones’ firm, was present during all of Navigant’s interviews of NLRSD representatives.

<sup>5</sup> Navigant was informed by the ADE that LRSD does not utilize APSCN for accounting and reporting. For further details on the procedures performed by Navigant to date, see section V of this report.

<sup>6</sup> As referenced in the “Arkansas Financial Accounting Handbook for Arkansas Public Schools, Arkansas Educational Services Cooperatives, Open Enrollment Public Charter Schools, July 1, 2010.”

## B. Summary of Preliminary Findings

### 1. Recording of the Funding and Related Expenditures

The following chart summarizes the Desegregation Funding provided by the ADE to the NLRSD and related expenditures recorded by the NLRSD:

	(in millions) <b>FY 2006 - FY 2011</b>
ADE Desegregation Funding	\$45.1
Specific expenditures recorded in APSCN with Desegregation Source Funds	(26.8)
<b>Balance – Unaccounted Use of Desegregation Funding</b>	<b>\$18.3</b>

#### a. Funding from the ADE

Of the \$45.1 million Funding provided by ADE to NLRSD, Navigant was able to trace \$36.9 million in APSCN. The difference is \$8.2 million, which is attributed to FY 2006 (\$7 million) and FY 2007 (\$1.2 million). NLRSD began to report live in APSCN beginning in FY 2008, but performed a migration of accounting records related to FY 2007 from its previous accounting software AS/400 CIMS III (“AS/400”) to APSCN. The NLRSD Chief Financial Officer (the “CFO”) stated that the \$7 million Desegregation Funding for FY 2006 is recorded in AS/400.<sup>7</sup> With regards to FY 2007, the CFO stated that he will review APSCN to determine if and where the \$1.2 million of the Funding was recorded.<sup>8</sup>

#### b. Expenditures and Other Outflows Recorded in APSCN

##### i. Expenditure Amounts

There were specific expenditures reflected in APSCN that were recorded to Desegregation Source of Fund codes beginning in FY 2008, as summarized in the chart on the following page:<sup>9</sup>

<sup>7</sup> Navigant did not have access to the NLRSD’s AS/400 accounting records and therefore is unable to independently analyze and confirm how the Desegregation Funding for FY 2006 was accounted for.

<sup>8</sup> Navigant prepared a list of follow-up questions as a result of its analysis of the NLRSD’s recorded transactions in APSCN. This list was forwarded by the AG to the CFO and is annexed hereto in Appendix C. The CFO’s responses to the follow-up questions are noted in red font in Appendix C. Navigant summarized its analysis of the CFO’s responses regarding the \$8.2 million difference and to Navigant’s other follow-up questions in section VII of this report.

<sup>9</sup> A summary of the expenditures recorded by the NLRSD in APSCN by type and fiscal year is annexed hereto in Appendix A.

**Expenditures Recorded to  
Desegregation Source of Fund  
Accounts**

<b>Amount (in millions)</b>	
FY 2006	\$ -
FY 2007	-
FY 2008	0.9
FY 2009	15.7
FY 2010	9.9
FY 2011	0.3
<b>\$26.8</b>	

The CFO stated that for the past two fiscal years he began to make more efforts to properly match the Desegregation Funding with related expenditures. As the chart above reflects, there are significantly more expenditures recorded to Desegregation Source of Fund accounts for FY 2009 than in FY 2008.<sup>10</sup> The CFO stated that although these expenditures were recorded to Desegregation Source of Fund codes, they do not represent actual expenditures incurred for desegregation purposes. The end result is that it is largely impossible to determine what portion of the Desegregation Funding, if any, was actually used for desegregation-related purposes. As described in further detail in the next section of this report, the CFO stated that the Desegregation Funding is used to pay for general fund expenditures that exceed their respective budgets. Therefore, this information contradicts Daniel's statement that the Desegregation Funding is matched to expenditures incurred for desegregation programs and related purposes. Furthermore, the CFO cannot readily quantify the expenditures incurred for Desegregation purposes because such expenditures were not accounted for separately.

ii. Utilization of Desegregation Funding

The CFO stated that the source of Desegregation Funding has been utilized by NLRSD as a source of standard operating funds since inception of the settlement agreement. Typically, expenditures are recorded to general unrestricted source of fund accounts (i.e. 2000) during the year. If these fund accounts have recorded expenditures that exceeded their respective budget amounts, NLRSD is prevented from

<sup>10</sup> Navigant prepared a summary of the ADE Desegregation Funding and related expenditures by FY recorded by the NLRSD in APSCN, which is annexed hereto in Appendix A. Navigant has not reviewed the underlying supporting documentation related to the recorded expenditures to determine whether the expenditures were recorded accurately and properly classified.

closing its books and records in APSCN at year end.<sup>11</sup> Therefore, during the year end accounting close process, the CFO records journal entries to transfer Desegregation Funding amounts to the general unrestricted fund accounts with deficit balances. The amounts transferred equal the deficit amounts and “zero out” these fund accounts so that the fiscal year end close in APSCN can be performed.

Furthermore, Jones, outside legal counsel, stated that the funds NLRSD receives from ADE should not be characterized as “Desegregation Funding,” but rather “incentive money (for NLRSD) to encourage kids in voluntary transfers.” He added that historically this money was “intended to incentivize the school district to push for M-to-M” and was not stipulated by the State to be used for specific purposes.

2. There is a lack of documented policies and procedures provided to new and existing employees for guidance, proper segregation of duties and accountability.<sup>12</sup> Specifically with respect to Desegregation Funding, there are no policies and procedures and controls to address the appropriate tracking of the receipt and expenditure related to the Desegregation Funding. Additionally, there is no formal due diligence process for vetting new vendors before they are added to the NLRSD’s vendor master list, thus creating potential opportunities to misuse the vendor master list for fraudulent purposes.
3. Accounts payable personnel that are responsible for the processing of vendor payables also have the ability to add or modify records in the vendor master list, a material internal control weakness that could possibly result in misappropriation of funds involving the use of fictitious vendors.
4. Some of the plant services department’s blanket purchase orders are not advertised for competitive bidding. Additionally, the plant services department’s blanket purchase order dollar amounts subject to approval by department supervisors, accounting department personnel and/or the NLRSD Board are higher than the dollar threshold established by the NLRSD Board.
5. The role of the accounting department in the auction of NLRSD fleet vehicles could not be assessed because there were no auctions conducted

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<sup>11</sup> The CFO stated that APSCN, by design, does not allow the year end accounting close to be completed if the expenditures are more than the budgeted amount for the account. It is unclear to Navigant whether state laws or regulation also prohibit year end accounting to close in a deficit situation.

<sup>12</sup> The CFO stated that the accounting department utilizes policies and procedures called Business Practices which are issued by the NLRSD Board and is part of the Board Policy Book. The CFO stated that he will provide a copy to Navigant. Based on the CFO’s description, it appears that the Board Policy Book provides high level policies and procedures that are not necessarily relevant for the Accounting and Finance personnel to utilize in their daily responsibilities.

during the 18 months the Director of Purchasing/Finance & Auditing (“Director of Purchasing”), who is responsible to coordinate the auctions, joined NLRSD.

### **III. Details of Preliminary Analyses Performed by Navigant**

#### **A. Analysis of Desegregation Funding**

##### **1. The ADE**

Navigant obtained and analyzed a schedule of the Funding payments made by the ADE to the NLRSD. Navigant traced these payments to verify the receipt of the Funding recorded by the NLRSD.

ADE personnel stated that they do not track the use of the Funding remitted to the School Districts or perform any oversight function in connection with the Funding, to verify and ensure that the School Districts are accounting for the Funding in the correct desegregation Source of Fund codes and that the Funding is used for its intended purpose. Furthermore, the ADE stated that they do not independently verify the accuracy and justification of the desegregation transportation expense reimbursement requests submitted by the School Districts. The ADE also does not verify that the Funding is recorded by the School Districts in APSCN in its designated desegregation Source of Fund or Revenue Account codes.

##### **2. The NLRSD**

The NLRSD utilized the accounting software AS/400 to maintain its books and records through June 30, 2007 (FY 2007). NLRSD began to report live on APSCN beginning on July 1, 2007 for FY 2008. NLRSD representatives stated that they migrated FY 2007 fund account totals from AS/400 to APSCN.<sup>13</sup>

Navigant’s review of Funding records provided by the ADE and in APSCN<sup>14</sup> noted that the ADE allocated approximately \$54.7 million to the NLRSD, of

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<sup>13</sup> There are no transactions recorded in APSCN for FY 2006 with Desegregation Source of Fund codes. FY 2006 is the first fiscal year of Navigant’s scope of analysis. NLRSD stated that the FY 2007 ending trial balance from AS/400 was input by hand into APSCN by his staff and different NLRSD staff members reviewed the input for accuracy. Navigant did not perform a forensic analysis to confirm that the data was migrated properly, accurately and completely.

<sup>14</sup> Funding records received from the ADE were for payments recorded as of October 25, 2010. Navigant analyzed Funding transactions recorded in APSCN for FY 2006 through current FY 2011 (December 9, 2010).



which approximately \$45.1 million was paid directly to the NLRSD, as summarized in the following chart:<sup>15</sup>

**ADE Desegregation Funding to the NLRSD**  
**FY 2006 to FY 2011** (in millions)

<b>Funding Category</b>	<b>Amount</b>
Magnet School Funding	\$9.6
Health Insurance & Teacher Retirement	10.4
M-to-M Revenue	27.8
Magnet & M-to-M Transportation	6.9
<b>Total Desegregation Funding, FY 2006 to FY 2011</b>	<b>\$54.7</b>

The Magnet School Funding for the School Districts is calculated by the ADE and the portions allocated to the NLRSD and the PCSSD are sent directly to the LRSD because the six Stipulation Magnet Schools are in the LRSD.<sup>16</sup> Accordingly, the Magnet School Funding allocated to the NLRSD totaling approximately \$9.6 million is not recorded in the NLRSD's APSCN accounting records.<sup>17</sup> Therefore, excluding this \$9.6 million from the total Funding allocated to NLRSD of approximately \$54.7 million, Navigant attempted to trace and analyze \$45.1 million of ADE Funding in the NLRSD's APSCN accounting records, and the results are summarized in the chart on the following page:

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<sup>15</sup> A summary of the ADE Desegregation Funding and related expenditures by FY recorded by the NLRSD in APSCN is annexed hereto in Appendix A. NLRSD representatives stated that the NLRSD does not receive any funding in connection with desegregation programs from Federal sources.

<sup>16</sup> The six Stipulation Magnet Schools in LRSD are Parkview High, Mann Middle, Williams Elementary, Carver Elementary, Gibbs Elementary and Booker Elementary.

<sup>17</sup> Navigant will review the total Magnet School Funding during its analysis of the LRSD.

in millions

	Fiscal Year						Total
	2006	2007	2008	2009	2010	2011	
ADE Funding	\$ 7.0	\$ 7.3	\$ 6.9	\$ 10.3 <sup>18</sup>	\$ 9.6	\$ 4.0	<b>\$ 45.1</b>
Recorded in APSCN	\$ -	\$ 6.1	\$ 6.9	\$ 10.3	\$ 9.6	\$ 4.0	<b>\$ 36.9</b>
Not recorded in APSCN	7.0	1.2	-	-	-	-	<b>8.2</b>
	<b>\$ 7.0</b>	<b>\$ 7.3</b>	<b>\$ 6.9</b>	<b>\$ 10.3</b>	<b>\$ 9.6</b>	<b>\$ 4.0</b>	<b>\$ 45.1</b>
Additional Transactions							
Recorded in APSCN	\$ -	\$ (0.4)	\$ -	\$ 0.5	\$ (0.1)	-	<b>\$ 0.0</b>

As noted in the chart above, of the \$45.1 million Desegregation Funding provided by the ADE to the NLRSD, only \$36.9 million was recorded by the NLRSD in APSCN. NLRSD representatives stated that the accounting records for FY 2006 are maintained in AS/400. The \$7 million Desegregation Funding is not reflected in APSCN because only financial information pertaining to FY 2007 was migrated from AS/400 to APSCN.<sup>19</sup>

With regards to FY 2007, the CFO will review APSCN to determine whether \$1.2 million of the Funding was recorded. Navigant will update this report to provide the AG with any additional information relating to this issue.

Furthermore, Navigant noted additional transactions recorded in APSCN as reflected in the chart above for FY 2007, FY 2009 and FY 2010 though the reasons for such transactions were not apparent. Accordingly, the CFO will also review these transactions in APSCN and the underlying accounting records to provide Navigant with an explanation for their purpose. Navigant will update this report to provide the AG with any additional information relating to this issue.

Of the \$36.9 million of the Funding that was recorded in APSCN related to FY 2007 to FY 2011, Navigant noted that \$993,224 was not recorded properly with the ADE designated desegregation Source of Fund codes in APSCN, as summarized in the chart on the following page:

<sup>18</sup> Navigant noted a significant increase of \$3.4 million in the Funding for FY 2009 compared to FY 2008, which was primarily due to an increase of \$3.0 million in Funding for 387 – Majority to Minority Incentive. The CFO explained that PCSSD closed Oak Grove High School and approximately 200-300 students were transferred to NLRSD as M-to-M students. Therefore, the increase in the Funding was related to the influx of these students to the NLRSD.

<sup>19</sup> Navigant did not have access to NLRSD's AS/400 accounting records to analyze how the Desegregation Funding for FY 2006 was accounted for.

<b>Fiscal Year</b>	<b>Amount</b>	<b>ADE- Designated Source of Fund</b>	<b>Recorded Source of Fund</b>
FY 2008	\$ 549,416 <sup>20</sup>	2387	2000
FY 2010	443,808 <sup>21</sup>	2388	2387
	<b>\$ 993,224</b>		

The CFO stated that he will review APSCN to determine why these amounts were not recorded in the ADE-designated Source of Fund codes.<sup>22</sup> Navigant will update this report to provide the AG with any additional information provided by the NLRSD regarding these recorded transactions.

## B. Analysis of Expenditures Related to Desegregation Funding

### 1. Desegregation Funding Utilized as General Unrestricted Funds

The CFO stated that the Desegregation Funding has been utilized as unrestricted operating funds since inception of the Settlement Agreement. He added that the specific coding for the categories of the Desegregation Funds was not established until a few years ago by the ADE (i.e. 386, 387 and 388). Therefore, he accounted for the Funding as standard operating funds as did his predecessors in the NLRSD's accounting department. Accordingly, he stated that the Desegregation Funding is not treated differently from general unrestricted funds, although the CFO stated that NLRSD's receipt of Categorical Funding<sup>23</sup> from the State for specific programs such as ALE (Alternative Learning Environment), NSLA (National School Lunch Act) and ELL (English Language Learners) are accounted for separately.

He added that the Categorical Funding that NLRSD receives from the State is inadequate and "is woefully small compared to the number of students." Therefore the Desegregation Funding is used to pay for any Categorical program expenditures that are not fully funded by the State. Where expenditures related to Categorical-Funded programs exceeded the budget amounts for those programs a transfer journal entry is made to transfer Desegregation Funding to specific Categorical expenditure accounts with

<sup>20</sup> The \$549,416 represents part of the Funding provided by the ADE for 387 – Health Insurance & Teacher Retirement.

<sup>21</sup> The \$443,808 represents part of the Funding provided by the ADE for 388 – Magnet and M-to-M Transportation.

<sup>22</sup> These transactions are included in the list of Navigant's follow-up questions that was forwarded by the AG to the CFO, which is annexed hereto in Appendix C.

<sup>23</sup> Categorical Funding is targeted financial support to pay for specific student services and programs.

deficit balances with the amount transferred always equaling the exact deficit amount, thus “zeroing out” the expenditure account and allowing the fiscal year end to close in APSCN.

## 2. Specific Expenditures Recorded in Desegregation Source of Fund Codes

The following chart summarizes the Desegregation Funding and the related expenditures recorded in APSCN that represents the use of the Funding that Navigant identified:

<b>FY 2007 to FY 2011</b>	<b>Amount</b>	<b>Percent</b>
ADE Desegregation Funding	\$ 36.9	100%
Less: Specific Expenditures Recorded in Desegregation Source of Fund codes	(26.8)	73%
<b>Unaccounted Use of Desegregation Funding</b>	<b>\$10.1</b>	<b>27%</b>

As noted in the chart above, \$26.8 million, or 73% of the Funding, was recorded to Desegregation Source of Funds codes in APSCN by the NLRSD. Although this amount may have been properly recorded to the appropriate source of fund codes, it may not have actually been spent for desegregation-related programs. In fact, as noted earlier in this report, the NLRSD treats the Desegregation Funding as unrestricted operating funds to pay for any shortfalls in the budgets of their operating fund accounts.

The remaining Desegregation Funding of \$10.1 million was not even accounted for as expenditures with the Desegregation Source of Fund codes. Furthermore, the NLRSD did not properly match the Desegregation Funding to the actual desegregation-related expenditures because the Desegregation Funding was used to offset deficit balances in the general unrestricted accounts.<sup>24</sup> The end result is that it is largely impossible to determine what portion of the Desegregation Funding, if any, was actually used for Desegregation-related purposes.

## 3. Funding Used for Desegregation Purposes

The Director of Assessment & Federal Programs (the “Director of Assessment”) stated that pursuant to the Settlement Agreement, NLRSD developed a comprehensive desegregation plan (the “Plan”) to satisfy the Federal District Court of the NLRSD’s efforts to achieve unitary status, which would dismiss NLRSD from the litigation that led to the Settlement

<sup>24</sup> See the summary of the ADE Desegregation Funding and related expenditures by fiscal year recorded by the NLRSD in APSCN annexed hereto in Appendix A.

Agreement.<sup>25</sup> She administers and oversees compliance with Sections 4 – Compensatory Education and Section 5 – Compensatory Programs Aimed At Dropout Prevention.

She stated that at the onset of the Settlement Agreement in early 1990, NLRSD decided to use approximately \$1.6 million of the Desegregation Funding to expand the number of student computer labs to 28 schools.<sup>26</sup> The student computer lab expansion was undertaken in connection with Section 4 of the Plan. She stated that this expansion was her only involvement with using Desegregation Funding. She added that the last instance the Desegregation Funding was used to expand the number of student computer labs took place in 1992 or 1993. The establishment of additional student computer labs in schools was taken to target at-risk students in grades K-6, particularly students enrolled in schools near Federal housing projects, whose residents were predominantly of African-American descent.

The Director of Assessment also stated that her role is to identify ways to further the Plan with funding from other sources other than from the Desegregation Funding. She added that Section 4 of the Plan is partially funded by Federal Title 1<sup>27</sup> and State Categorical funding.

#### 4. NLRSD's Outside Legal Counsel's Views on the Funding

During Navigant's interview of NLRSD's Assistant Superintendent for Desegregation and Student Services, Jones arrived unannounced, and provided Navigant his views and opinions regarding the Desegregation Funding.

Jones informed Navigant that he has represented NLRSD for 27 years in connection with the Settlement Agreement and noted that he wrote the NLRSD's Desegregation Plan. He stated that because NLRSD is a single school system for all students, there is "not much of a dividing line" between funding for "desegregation" or "education" purposes. Accordingly, he stated that NLRSD does not receive "Desegregation Funding" from the State, but rather "incentive money (for NLRSD) to encourage kids in voluntary transfers." He added that historically this money was "intended to incentivize the school district to push for M-to-M," and was not stipulated by the State to be used for specific purposes.

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<sup>25</sup> The Plan, dated April 29, 1992, was created by the NLRSD to address and remediate violations of racial disparities in programs and activities in any schools in the NLRSD.

<sup>26</sup> Initially, the NLRSD used Federal Title I funding to establish the first eight student computer labs.

<sup>27</sup> Title I refers to specific program funding provided by the Federal government pursuant to the Elementary/Secondary Education Act (ESEA).

Jones further stated that the desegregation matter is a political matter in the State legislature but noted that he is “not opposed to doing away” (with the related Desegregation Funding). He also stated that NLRSD receives funding from the Federal government (i.e. Title I) to pay for compensatory education programs. He stated that if NLRSD qualifies for Title I funding to pay for its compensatory education programs, then this will “save State dollars” that can be used for something else.

Jones also stated that Desegregation Funding was not treated “as separate programs for white and blacks”, although he conceded that approximately 80-90% of the at-risk kids are of African-American descent. As an example, he stated that the State is not required to provide transportation to at-risk students to participate in extra-curricular activities.<sup>28</sup> Therefore NLRSD uses some of the incentive funding from the ADE to pay for such transportation expenses. Jones added that discontinuing the incentive funding will eliminate, or “de-fund some discretionary programs” for at-risk students.

Jones stated that if NLRSD is declared unitary, the State’s position is that the incentive funding will cease. Jones’ position, however, is that the incentive funding was pursuant to a “settlement contract (a race-based contract related to distribution of students) with the State to promote, through incentive money, the Magnet and M-to-M students. The remedy is movement of kids.” Accordingly, the incentive funding is “needed to maintain the composition,” and the “discretionary spending is heavily towards programs for at-risk kids.”

### C. Other Preliminary Findings and Observations

During interviews of NLRSD representatives, Navigant observed numerous issues and concerns related to internal control weaknesses in NLRSD’s operations. In response to these issues and Navigant’s preliminary assessment of the NLRSD’s financial and operational internal control environment, Navigant prepared a preliminary list of recommendations in section VI of this report.<sup>29</sup>

#### 1. Lack of Operating Policies and Procedures

NLRSD accounting department personnel conceded that there are no written operating policies and procedures related to the accounting, utilization and recording of the Desegregation Funding. The CFO has the sole discretion on the use of the Funding and classifies which expenditures are paid with the

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<sup>28</sup> NLRSD’s Assistant Superintendent for Desegregation and Student Services and Jones believe that extra-curricular programs help at-risk students to become more involved with their school, reinforce positive behaviors and improve academic performance. At this point however, NLRSD has not provided any documentation showing the specific programs that were funded with the Desegregation Funding. In addition, the statement by NLRSD’s Assistant Superintendent for Desegregation and Student Services appears to be somewhat inconsistent with the CFO’s statement that the Desegregation Funding is first used to fund the budget deficits discussed above.

<sup>29</sup> See summary matrix of potential issues and observations prepared by Navigant annexed hereto in Appendix B.

Funding and assigns the Desegregation Source of Fund codes to the expenditures.

The following section describes the lack of policy and procedures in connection with accounting for the Funding and other functions based on the interviews conducted by Navigant to date:

a. Accounting for Desegregation Funding and Related Expenditures

The NLRSD receives the Desegregation Funding from the State via wire. Typically, the NLRSD receives documentation from the State related to the Funding (i.e. statement and/or calculation summary), which the CFO reviews for mathematical accuracy. This documentation is then forwarded to the CFO's secretary, who verifies receipt of the Funding by reviewing NLRSD's bank statements. Only the CFO can input journal entries in APSCN including recording the receipt of the Funding. The Director of Purchasing prepares the journal entries on a form for the CFO to review and then inputs the entries in APSCN.

b. Use of Funding for Desegregation Programs

Because the CFO treats the Funding as general unrestricted funds, it appears there is no proper accounting of the Funding used for specific Desegregation Programs. The CFO stated that typically general unrestricted funds (i.e. Source of Fund 2000) are used to record expenditures during the year, even if the expenditures are related to a Desegregation Program. The Funding is transferred, as needed, to the general unrestricted funds during the fiscal year end accounting close process to fund, or "zero out", accounts whose expenditures exceeded the budgeted amounts. Accordingly, the Funding is utilized by the NLRSD simply as additional monies to pay for its operating expenses. As noted earlier in this report, although only \$26.8 million of expenditures were recorded with Desegregation Source of Fund codes for FY 2007 to FY 2011, such expenditures are not related to specific Desegregation purposes. The NLRSD did not separately account for expenditures incurred for Desegregation purposes and therefore Desegregation Funding cannot be accurately matched with the related expenditures.

Furthermore, the CFO is the only NLRSD employee with the discretionary authority to determine the use of the Funding. Because he is the only approver in connection with payment of expenditures with the Funding, he can unilaterally decide how the Funding is used. The lack of other accounting, budgeting or finance personnel or anyone from other departments, results in ineffective oversight and checks and balances in connection with how the Funding is utilized. Additionally, no one else



can independently assess and track whether the Funding was expended properly and for its intended desegregation purpose.

c. Desegregation Transportation Operating Expenditure Reimbursement

The School Districts receive desegregation Funding from the ADE related to operating expenditures incurred in connection with the NLRSD's transportation of its Magnet and M-to-M students.<sup>30</sup> The School Districts are required to calculate and prepare a transportation expenditure reimbursement request to the ADE.<sup>31</sup> The CFO stated that he prepares the reimbursement calculation using the same template that was utilized when he assumed the responsibilities as the NLRSD's CFO six years ago. The CFO stated that he receives transportation expense information from the NLRSD's Director of Transportation, to prepare the calculation.

The calculation involves allocating a percentage of transportation expenses that are recorded in the general operating fund on the basis of the number of bus routes that transport Magnet and M-to-M students.<sup>32</sup> The CFO agreed with Navigant that the calculation is not prepared in a consistent and transparent manner. For example, some of the expense categories were allocated based on the ratio of bus routes that were assigned to Magnet and M-to-M buses and some of the expense categories were allocated 100%. Daniel's reply confirmed Navigant's understanding that some of the expense amounts (i.e. gasoline) that were allocated 100% in calculation were in fact derived from the larger, total expense amount. As a simple hypothetical example, the transportation reimbursement calculation included the following expenses and

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<sup>30</sup> The desegregation transportation expense reimbursement that is paid by the ADE is referred to as desegregation Source of Fund code 388.

<sup>31</sup> Operating expenses include bus driver salaries, maintenance of buses and overhead. Navigant performed a preliminary review of a sample of transportation expense reimbursement requests from the School Districts and noted that it appears each School District utilized a different methodology to calculate their respective reimbursement amounts and there was no consistency in the supporting documentation submitted.

<sup>32</sup> Navigant learned that there is a degree of subjectivity involved in preparing the reimbursement amount as it involves estimates and assumptions. Because some transportation expenditure categories cannot be directly attributed to transportation of only Magnet and M-to-M students, the calculation involves applying a percentage, which is derived from the pro-rata number of school bus routes designated to transport Magnet and M-to-M students, to certain transportation expenditure categories.

The Director of Transportation stated that approximately 15 years ago, the Arkansas Legislative Audit reviewed the calculation of the transportation expense reimbursement process and agreed that using the ratio of Magnet and M-to-M routes as the basis to pro-rate the transportation expenses was appropriate. Navigant could not confirm that this methodology was approved by the Arkansas Legislative Audit because there was no corresponding supporting documentation provided.



percentage allocations (assuming that the ratio of Magnet and M-to-M bus routes to regular bus routes is 25%):

<b>Expense Category</b>	<b>Expense Amount</b>	<b>Allocation %</b>	<b>Reimbursement Amount</b>
Supervisor Salaries	\$100,000	25%	\$ 25,000
Gasoline	\$100,000	100%	\$100,000

In this example, the total gasoline expense was \$400,000 (\$100,000/.25), but the expense amount was reflected on the reimbursement calculation as the net amount derived from applying the 25% Magnet and M-to-M bus route ratio to the total gasoline expense of \$400,000.

Navigant also noted that the reimbursement calculation includes an expense category called Indirect Cost. The CFO stated that 3.25% was historically allocated to Indirect Costs category but he is not sure what expenses this category is comprised of. He also stated that if the Indirect Costs category included expenses for bus parts, then this would be double counting of certain expenses.

## 2. Accounts Payable Department

The accounts payable department consists of five Accounts Payable clerks/bookkeepers (“Accounts Payable clerks”).<sup>33</sup> All payments (i.e. vendor invoices and employee expense reimbursement) processed by Accounts Payable are associated with a purchase order.

### a. Purchases from Vendors

Typically, a school teacher initiates the need to make a purchase (i.e. classroom supplies). The school secretary would prepare an online purchase order that includes the pertinent details of the purchase (i.e. vendor, item quantity, description and price) and the 16-digit budget unit account number to which the purchase will be charged.<sup>34</sup> A sequential purchase order number is generated and assigned by the purchase order application in APSCN. This purchase order is then printed on a 4-part NCR paper form and then forwarded to the school’s principal or department supervisor for the initial review and approval. Approvals are

<sup>33</sup> Two clerks/bookkeepers are responsible for processing payments for vendors and employees (i.e. expense reimbursements). Three clerks/bookkeepers (one clerk is a part-time employee) are responsible for processing employee payroll.

<sup>34</sup> The Director of Purchasing stated that APSCN does not allow a purchase order to be generated if the budget string assigned to the purchase order has insufficient funds to pay for the purchase. The CFO stated that if there are insufficient or no funds in a budget unit, the requestor would need to first initiate a fund transfer request with the Director of Purchasing to create the purchase order. This is a simple process as long as the funds being transferred are not restricted to be used for a specific purpose.

not submitted online. The principal or department supervisor signs the purchase order to designate his approval and forwards the purchase order document (but retains the pink copy for the school's records) to the Director of Purchasing for NLRSD, who reviews and approves all purchase orders. The Director of Purchasing or his Accounts Payable clerks would verify that the budget unit account referenced in the purchase order is appropriate for the items to be purchased. If the budget unit account is incorrect, the Director of Purchasing would email the school secretary to inquire and make the necessary correction on his copy of the purchase order documentation. After the purchase order is reviewed and approved, the Director of Purchasing places the order to purchase the items from the vendor.

The Director of Purchasing stated that the Board Policy Book outlines the dollar thresholds and the required approvals for purchases:

- Phone quotes for purchases up to \$1,000
- Three written quotes for purchases exceeding \$5,000-\$6,000
- Board approval for purchases over \$10,000

Vendor invoices are typically sent to the NLRSD. If a school receives the invoice directly from the vendor, the school would match their pink copy of the purchase order to the invoice and then forward to the NLRSD's accounting department with any additional documentation (i.e. receiving report) for payment. The Director of Finance reviews the invoice, the related purchase order on file and other relevant documentation and denotes approval with his signature and date signed on the invoice. Then he forwards this documentation to the Accounts Payable clerks to process the check payment.

Vendor invoices are all paid by paper checks.<sup>35</sup> The hardcopy vendor files are maintained by check number. Therefore there are no individual files created for each vendor. The CFO stated that checks to vendors are generally mailed by the Accounts Payable clerks and are never held at the NLRSD offices for vendors to pick up, however, Navigant's interview of one of the Accounts Payable clerks ("A/P Clerk") revealed that she has held checks for pick up by "well known" vendors. The A/P Clerk also stated that she knows certain vendors need the check payments sooner and would call them to determine whether she should mail the checks or hold them for pick up.

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<sup>35</sup> Vendor invoices are not paid by wire. Employee payroll are paid by direct deposit and certain payroll taxes are paid by wire.

b. Employee Expense Reimbursement

Employee expense reimbursement requests (i.e. for travel expenses) are also initiated by purchase orders. These requests are processed and administered by two Accounts Payable clerks. The employee returns any unspent amounts by issuing a personal check to the NLRSD. Travel expense reimbursements made to employees can be held for pickup by the employee who must sign a log upon picking up the check.

c. Vendor Master List

CFO stated that only limited Accounting department personnel can access the vendor master file both in AS/400 and APSCN: the CFO, the Director of Finance and the two Accounts Payable clerks. The CFO also stated that there are no written policy and procedures in connection with adding a new vendor, although very few new vendors added. The CFO explained the following process of adding a new vendor to the vendor master list in APSCN:

- New vendor request is submitted via email to the Accounting department with the pertinent information (i.e. vendor name, address, telephone number).<sup>36</sup>
- Accounting department personnel (typically Director of Purchasing) would call the vendor or view its website to verify its existence and the products. The vendor company's President or Vice President would be identified during this inquiry to determine any related party relationship(s).

Navigant's interview of the Director of Purchasing (the Director of Finance) and the A/P Clerk regarding the process to add new vendors contradicted the information provided by the CFO. The Director of Purchasing and the A/P Clerk stated that there is no formal process to approve and add a new vendor to the vendor master list. The Director of Purchasing conceded that the lack of a form W-9 for a prospective vendor will not preclude the vendor from being added to the vendor master list. The A/P Clerk stated that she does not perform any due diligence on new vendors and that she has added new vendors solely based on the information on the vendor's invoice.

Navigant also noted that the Director of Purchasing has conflicting responsibilities in his three roles: Director of Purchasing, Director of Audit and Director of Finance. The Director of Purchasing should be responsible for adding or modifying vendor records and maintaining the

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<sup>36</sup> The CFO stated that there may be a form available to request approval for a new vendor but it is not used consistently.

vendor master files. Furthermore, the Director of Purchasing role should not have any responsibilities that involve finance or audit functions.

The CFO also stated that he requested APSCN personnel to delete duplicate or inactive vendors in their vendor master list but this request was denied.<sup>37</sup>

Currently, Accounts Payable personnel can add new vendors. Accounts Payable and Purchasing personnel conceded that there is no segregation of duties nor written policies and procedures in connection with adding a new vendor.

### 3. Blanket Purchase Orders

Navigant's interviews reveal that the transportation and plant services departments have blanket purchase orders to procure goods and services.

#### a. Transportation Department

The Director of Transportation stated that his department has about 10-15 blanket purchase orders. There are blanket purchase orders for tires with 2-3 vendors because of different tire sizes. Mitch's Tire Service is one of the vendors that assesses the condition of the NLRSD fleet vehicles' tires and replaces them as necessary. The Director of Transportation stated that these purchase orders were awarded to these vendors as a result of the competitive bidding process.

There are also blanket purchase orders with vendors such NAPA Auto Parts and Diamond International to purchase basic bus parts and accessories such as vehicle air filters. The amount of the blanket purchase order with NAPA is \$20,000. The shop foreman typically calls in the order to the vendor or goes to the vendor's store to make the purchase. The vendor normally issues a ticket or receipt that the foreman would write what bus is purchase is for. Every two weeks, these tickets and receipts are collected by the Director of Transportation's secretary who matches them to the specific blanket purchase orders. This documentation package is prepared and forwarded to the Director of Transportation and the Assistant Superintendent for Desegregation and Student Services for review and approval. Afterwards, the approved documentation package is forwarded to the NLRSD's Accounting department for approval and payment processing.

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<sup>37</sup> APSCN, by design default, does not permit the deletion, deactivation or suspension of vendors that are no longer used to purchase goods or services.

The Director of Transportation stated that he is not aware of any purchases using these blanket purchase orders that were not for the school district's purposes.

b. Plant Services Department

The Administrative Director of Plant Services (the "Director of Plant Services") stated that his department has about 40 blanket purchase orders and not all of them were advertised for competitive bidding because some are under the \$10,000 threshold limit that his department follows. This contradicts the NLRSD Board policy on the blanket purchase order dollar thresholds that are subject to competitive bidding procedures. He conceded that the NLRSD Board's policy is more strict because purchases more than \$1,000 and \$5,000 require phone and written quotes,<sup>38</sup> respectively. Purchases for more than \$10,000 require the approval of the NLRSD's Board.

If an employee in his department needs to purchase supplies, he would take a copy of the blanket purchase order or purchase order card<sup>39</sup> to the store to make the purchase. The employee will forward the receipt to the Maintenance department secretary to match to the purchase order documentation and prepare a payment request that is submitted to the NLRSD's Accounting department for review and approval.

The Director of Plant Services stated that he accesses APSCN to monitor how much funds are remaining in the blanket purchase orders. He stated that he is not aware that any items purchased using the blanket purchase orders were misappropriated by his employees.

#### IV. Limitations

The preliminary observations and assessments detailed in this report are based on Navigant's methodology, data collection, interviews, analyses and the procedures performed to date. Navigant relied on the quality, availability and veracity of the information and data provided by the ADE, the NLRSD and third parties during the course of its work.

Navigant's preliminary observations and analyses do not constitute legal advice or a legal opinion.

Navigant based its preliminary observations and analyses solely on the information and documents provided and has not verified the information and documents or

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<sup>38</sup> The Director of Plant Services stated that he performs a majority of the phone quotes.

<sup>39</sup> The Director of Plant Services stated that, for example, he has blanket purchase orders at large retail stores such as Home Depot and Lowe's. For these stores, he has cards imprinted with the respective purchase order numbers.

otherwise sought independent confirmation thereof. In making observations and analyses, Navigant has, in part, relied on assertions made by the representatives of the NLRSD and the ADE.

Given the limitations discussed above, the procedures performed by Navigant, and the extent of the information collected, Navigant cannot be certain at this time that all of the information collected is accurate or complete. Had Navigant performed additional procedures beyond those described, it is possible that additional information may have come to Navigant's attention that would have been relevant to its efforts.

The preliminary findings and observations set forth herein are based solely on the work performed through the date of this report. As work progresses, it is possible that the analyses and findings may change as additional information is obtained and additional procedures are performed.

Navigant did not conduct an audit, compilation or review of NLRSD's financial statements or financial information as those terms are understood in the United States and defined by professional guidance promulgated by the American Institute of Certified Public Accountants. Accordingly, Navigant does not express an opinion or other form of assurance on any financial statements or financial information. Navigant's findings are limited to the information reviewed and the procedures performed.

## **V. Procedures Performed to Date**

Navigant performed the following procedures to date:

### **A. Interviews Conducted**

Navigant conducted the interviews of the following NLRSD representatives:

1. Assistant Superintendent for Desegregation and Student Services
2. Chief Financial Officer and Chief Information Services Officer
3. Director of Purchasing/Finance & Audit
4. Accounts Payable Clerk/Bookkeeper
5. Director of Assessment & Federal Programs
6. Director of Transportation
7. Administrative Director of Plant Services
8. Director of Human Resources

**B. Documents and Information Reviewed**

1. NLRSD journal entries recorded in APSCN for FY 2007 to FY 2011 (as of December 9, 2010) to known Desegregation codes.
2. NLRSD organization chart.
3. NLRSD Desegregation Plan, April 29, 1992.

**VI. Recommendations**

To assist the NLRSD in mitigating potential fraud, waste and abuse risk going forward, Navigant has compiled the following preliminary list of recommendations based on the interviews conducted and the review of relevant documentation and information to date:

**A. Separate Reporting of Desegregation Funding**

Navigant recommends that the NLRSD record and maintain its financial information and the related transactions in connection with the Funding in accordance with the appropriate desegregation codes established by the ADE. The Funding and related expenditures should not be commingled with general unrestricted fund accounts and should be transparent.

**B. Establish Separate Roles in Connection with the Desegregation Funding**

Separate roles should be established in connection with the use of the Funding including initiation, review and approval. Currently the CFO has all of these responsibilities.

**C. Train Employees on the Proper Use of Desegregation Funding**

NLRSD personnel involved with the finance, accounting and budgeting functions should be familiar with the purpose of the desegregation Funding and how the Funding should be properly utilized for desegregation programs.

**D. Review the Methodology to Calculate the Transportation Reimbursement**

The NLRSD accounting department and transportation department personnel should review their methodology to calculate the transportation reimbursement. They should understand and be able to justify the various expense categories, variables and basis used that are included in the methodology. The calculation should be transparent so that a third party can understand and corroborate the information.



#### E. Retain an Independent Monitor

The AG may want to consider requiring the NLRSD to retain an independent monitor to implement anti-fraud programs for the purpose of deterring, preventing, uncovering and reporting unethical and illegal conduct, particularly over NLRSD's processes related to financial reporting and operations.<sup>40</sup>

#### F. Conduct Annual Audits on the Use of Desegregation Funding

Separate annual audits should be conducted related to Desegregation Funding by NLRSD accounting personnel, the Arkansas Legislative Audit, the independent monitor or another independent third party.

#### G. Limit the Use of Blanket Purchase Orders

The NLRSD should limit the use of blanket purchase orders to minimize the risk of misappropriation. Blanket purchase orders that are subject to additional approvals by department supervisors, Accounting personnel and/or the NLRSD Board should abide by the dollar thresholds established by the Board. Individual departments should not be able to override or increase the dollar amount thresholds subject to additional approval requirements. Furthermore, all blanket purchase orders that exceed certain dollar thresholds established by the NLRSD Board should be advertised for competitive bidding.

#### H. Establish, Implement and Communicate Policies and Procedures

Navigant recommends that formal internal control structure policies and procedures be implemented in connection with the following:

##### 1. Establish and communicate written policy and procedures

Written accounting policies and procedures should be created to document the proper procedures to record financial transactions, process and approve expenditures, and review and audit of the books and records. These policies and procedures should be communicated to all employees who are involved with the accounting function and they should receive formal training and updates at least annually. Furthermore, these policies and procedures should be communicated to new employees during the on-boarding process.

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<sup>40</sup> For example, an independent private sector inspector general ("IPSIG") is a mechanism often used by government entities involved with large contracts to monitor an organization's compliance with relevant laws and regulations and to prevent, uncover and report illegal acts. IPSIG services involve the design and execution of fraud prevention and detection programs customized to respond to particular fraud, abuse, waste, corruption or other illegal conduct. See the International Association of Independent Private Sector Inspectors General's website at <http://www.iaipsig.org>.



Relevant, documented and practical operating policies and procedures that are communicated to NLRSD personnel can minimize ambiguity, promote consistency in carrying out one's functions and establish accountability.

## 2. Vendor master list

### a. Restrict write-access and implement segregation of duties

Accounts Payable personnel should only have read-only access to the vendor master list because they process vendor payments. Accordingly, Accounts Payable personnel should not have the ability to add vendors or modify vendor information. The Director of Purchasing should be responsible for adding or modifying vendor records and maintaining the vendor master files. Therefore, the Director of Purchasing role should not have any responsibilities that involve finance or audit functions.

### b. Establish and implement a formal due diligence process for new vendors

Before a new vendor is added to the vendor master list, an employee should prepare a documentation folder to include the vendor's Form W-9 and other due diligence documentation that verifies the identity and existence of the vendor, and to identify any potential affiliations with NLRSD employees or Board Members.

A formal questionnaire should be formulated to require detailed information related to the prospective vendor including names of principals, address, EIN and Tax ID #s, contact person(s), industry code and other pertinent information. This questionnaire should be required to be completed by the employee who request approval of a new vendor. The completed questionnaire should be submitted to the Director of Purchasing who should review and perform due diligence vetting procedures to corroborate the information provided. If approved, a different accounting department employee should add the new vendor to the master vendor list. No employee with the capacity to process checks or make payments should be allowed to modify vendor information.

## **VII. Additional Information Provided by the NLRSD**

On February 28, 2011, Ms. Debby Linton, outside legal counsel for the NLRSD, forwarded on behalf of NLRSD, its responses to Navigant's document and information requests. Accordingly, this section summarizes Navigant's analysis of the additional documents and information provided by the NLRSD:

### A. Documents provided by the NLRSD

The following documentation was provided to Navigant:

- The NLRSD Accounting department organization chart, updated August 19, 2010.<sup>41</sup>
- Policy and procedure excerpts from the NLRSD Board Policy Book.<sup>42</sup>
- Responses to Navigant’s follow-up questions from its preliminary analysis of the NLRSD’s recorded transactions in APSCN.<sup>43</sup>

#### B. The NLRSD’s View on the Purpose of the Desegregation Funding

The NLRSD’s response reiterated its position that the Desegregation Funding it receives from the ADE is incentive funding that is not restricted in use for Desegregation Programs. Furthermore, the NLRSD stated that the Desegregation Funding was historically, and continues to be, treated as incentive funding from the ADE, “which is intended to encourage NLRSD’s participation in the M-to-M and Magnet School transfers.” The NLRSD also stated that the Desegregation Funding is the primary source of funds to support their student programs as outlined in their Desegregation Plan.<sup>44</sup>

#### C. Recording of the Receipts and Expenditures of the Desegregation Funding

The NLRSD provided additional information related to its recording of the receipts and expenditures of the Desegregation Funding. The NLRSD stated that its APSCN records reflect those amounts received from the ADE. Furthermore, the NLRSD stated that the expenditures related to the Desegregation Funding were not recorded separately to distinguish from the general unrestricted operating fund (Source of Fund 2000).

As summarized in the chart on page 8 of this report, Navigant’s preliminary review of the NLRSD’s transactions recorded in APSCN revealed \$8.2 million of the Desegregation Funding paid by the ADE during FY 2006 and FY 2007 was not recorded in APSCN and additional transactions were recorded in APSCN that required the NLRSD to provide an explanation. This chart from page 8 is as follows:

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<sup>41</sup> Annexed hereto in Appendix D. The excerpts were Section 7 of the NLRSD Board Policy Book and were noted as adopted on June 26, 1986 and last revised on July 17, 2008.

<sup>42</sup> Annexed hereto in Appendix E.

<sup>43</sup> Annexed hereto in Appendix C. The NLRSD’s responses are noted in red font.

<sup>44</sup> The NLRSD developed a comprehensive desegregation plan (the “Plan”) to satisfy the Federal District Court of the NLRSD’s efforts to achieve unitary status, which would dismiss NLRSD from the litigation that led to the Settlement Agreement. The Plan, dated April 29, 1992, was created by the NLRSD to address and remediate violations of racial disparities in programs and activities in any schools in the NLRSD.

in millions

	Fiscal Year						Total
	2006	2007	2008	2009	2010	2011	
ADE Funding	\$ 7.0	\$ 7.3	\$ 6.9	\$ 10.3	\$ 9.6	\$ 4.0	\$ 45.1
Recorded in APSCN	\$ -	\$ 6.1	\$ 6.9	\$ 10.3	\$ 9.6	\$ 4.0	\$ 36.9
Not recorded in APSCN	7.0	1.2	-	-	-	-	8.2
	<b>\$ 7.0</b>	<b>\$ 7.3</b>	<b>\$ 6.9</b>	<b>\$ 10.3</b>	<b>\$ 9.6</b>	<b>\$ 4.0</b>	<b>\$ 45.1</b>
Additional Transactions							
Recorded in APSCN	\$ -	\$ (0.4)	\$ -	\$ 0.5	\$ (0.1)	-	\$ 0.0

For FY 2007, Navigant's preliminary review of the NLRSD's transactions recorded in APSCN revealed that approximately \$1.2 million of the Desegregation Funding paid by the ADE during FY 2007 was not recorded.<sup>45</sup> Additionally, Navigant noted that an adjustment to decrease revenue of \$406,459 was recorded by the NLRSD. The following charts summarize the discrepancies noted by Navigant for FY 2007:<sup>46</sup>

#### **FY 2007 Funding Not Recorded in APSCN**

387 - Health Insurance & Teacher Retirement	\$ 835,501
388 - Magnet & M-to-M Transportation	406,459
	<b>\$ 1,241,960</b>

#### **FY 2007 Revenue Decrease Adjustment Recorded in APSCN**

387 - M-to-M Revenue	<b>\$ 406,459</b>
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#### 1. 387 - Health Insurance & Teacher Retirement

For FY 2007, Navigant's preliminary analysis of the NLRSD's transactions recorded in APSCN revealed that approximately \$835,501 of the Desegregation Funding related to 387 - Health Insurance & Teacher Retirement paid by the ADE during FY 2007 was not recorded. The chart on the following page summarizes the payments made by the ADE to the NLRSD related to 387 - Health Insurance & Teacher Retirement during FY 2007 and the amounts reflected and not reflected in APSCN:

<sup>45</sup> As noted earlier in this report, NLRSD representatives stated that the accounting records for FY 2006 are maintained in AS/400. Therefore, the \$7 Desegregation Funding is not reflected in APSCN. Navigant did not have access to the NLRSD's AS/400 accounting records to analyze how the Desegregation Funding for FY 2006 was accounted for.

<sup>46</sup> The \$1.2 million not recorded in APSCN for FY 2007 was summarized in the chart on page 8 of this report.

**FY 2007 ADE Funding for  
387 - Health Insurance & Teacher Retirement**

FY 2006 Final Settlement	\$ 417,751
FY 2007 payments:	
September	151,911
October	151,911
November	151,911
December	151,911
January	151,911
February	151,911
March	151,911
April	151,911
May	151,911
June	151,911
<b>Total ADE Funding for FY 2007</b>	<b><u>\$ 1,936,864</u></b>
Recorded in the NLRSD's APSCN	\$ 1,101,363
Not Recorded in the NLRSD's APSCN	<u>835,501</u>
	<b><u>\$ 1,936,864</u></b>

It appears that the \$835,501 not recorded in the NLRSD's APSCN for FY 2007 is equal to twice the ADE payment related to FY 2006 Final Settlement amount of \$417,751 that was paid by the ADE during FY 2007. Accordingly, it appears that the NLRSD may have erroneously made a duplicate adjustment to its FY 2007 records to reclassify the ADE payment attributed to FY 2006. Therefore, the Desegregation Funding for 387 - Health Insurance & Teacher Retirement related to FY 2007 is understated by \$417,751.<sup>47</sup>

2. 388 - Magnet & M-to-M Transportation

For FY 2007, Navigant's preliminary analysis of the NLRSD's transactions recorded in APSCN revealed that approximately \$406,459 of the Desegregation Funding related to 388 - Magnet & M-to-M Transportation paid by the ADE during FY 2007 was not recorded. The chart on the following page summarizes the payments made by the ADE to the NLRSD related to 388 - Magnet & M-to-M Transportation during FY 2007 and the amounts reflected and not reflected in APSCN:

<sup>47</sup> Because the NLRSD recorded its accounting transactions in AS/400 for FY 2006, Navigant was not able to independently analyze and confirm whether any corresponding adjustments and reclass journal entries made by the NLRSD pertaining to FY 2006 were properly recorded.

**FY 2007 ADE Funding for  
388 - Magnet & M-to-M Transportation**

FY 2006 Final Payment (October 2006)	\$ 406,459
FY 2007 payments:	
First payment (October 2006)	333,218
Second payment (March 2007)	333,218
<b>Total ADE Funding for FY 2007</b>	<b>\$ 1,072,894</b>
Recorded in the NLRSD's APSCN	\$ 666,435
Not Recorded in the NLRSD's APSCN	406,459
	<b>\$ 1,072,894</b>

It appears that the \$406,459 not recorded in the NLRSD's APSCN records for FY 2007 is equal to the ADE's final payment pertaining to FY 2006 that was paid during FY 2007.<sup>48</sup> Accordingly, it appears that the NLRSD properly excluded the \$406,459 ADE payment that was related to FY 2006 from its FY 2007 APSCN records, however, Navigant was not able to confirm that the \$406,459 was recorded properly in AS/400 for FY 2006 because Navigant does not have access to the NLRSD's AS/400 accounting records.

Additionally, Navigant's analysis noted that in the subsequent fiscal years the payments of the 388 - Magnet & M-to-M Transportation funding from the ADE accounted for by NLRSD in APSCN for FY 2008 to FY 2011 were recorded in the respective fiscal years that they were received (i.e. the third and final payment related to FY 2007 is received in September 2007, which is in FY 2008, but is recorded in FY 2008 accounting records).<sup>49</sup> Accordingly, for FY 2008 to FY 2011 the NLRSD APSCN did not reflect any adjustments to reclassify final payments from the ADE that are received in the subsequent fiscal years to which they are related.

Navigant also noted that for FY 2009, although the NLRSD's APSCN reflected the 3 payments made by the ADE during FY 2009, the following two additional revenue journal entries were reflected in the NLRSD's APSCN Revenue Audit Trail for FY 2009 which nets to \$461,908:

"Book MM Transp cost"	\$ 1,300,628
"Adj Mag Transp"	(838,720)

<sup>48</sup> ADE representatives informed Navigant that ADE makes three payments for 388 - Magnet & M-to-M Transportation each fiscal year, however, the third payment is typically made at the beginning of the following fiscal year.

<sup>49</sup> ADE representatives informed Navigant that two months after the fiscal year end (August 31), the APSCN books and records are closed and the School Districts cannot make any adjustments.

Because the NLRSD's APSCN already recorded the 3 payments made by the ADE during FY 2009, these additional journal entries, which nets to \$461,908, appears to overstate the Desegregation Funding related to 388 - Magnet & M-to-M Transportation for FY 2009.

### 3. 387 - M-to-M Revenue

Navigant also noted that the NLRSD APSCN records reflected an adjustment of (\$406,459) to 387-M-to-M Revenue. The dollar amount is equal to ADE's final payment for FY 2006 pertaining to 388 - Magnet & M-to-M Transportation, which is noted in the previous chart above. Accordingly, it appears the NLRSD not only recorded a duplicate adjustment, but also to the wrong Source of Fund code. Therefore, the Desegregation Funding for 387 - M-to-M Revenue related to FY 2007 is understated by \$406,459.

Navigant also noted that for FY 2010, the NLRSD's APSCN reflected a decrease of \$58,059 to Source of Fund 387 - M-to-M Revenue. The NLRSD stated that this amount represents a repayment to the ADE for an overpayment that the ADE made to the NLRSD.

Based on the analysis described above, it appears that the net Desegregation Funding recorded for FY 2006 to FY 2011 in the NLRSD's APSCN were understated by \$7,362,302, as summarized in the following chart:

#### Summary of Net Understated Desegregation Funding in APSCN for FY 2006 to FY 2011

	<b>Over/(Understated)</b>
<b>FY 2006 Desegregation Funding</b> <sup>50</sup>	\$ (7,000,000)
<b>387 - Health Insurance &amp; Teacher Retirement</b>	
Duplicate adjustment related to FY 2006 Final Settlement recorded in FY 2007	\$ (417,751)
<b>387 - M-to-M Revenue</b>	
Duplicate adjustment related to 388 - Magnet & M-to-M Transportation recorded in FY 2007	(406,459)
<b>388 - Magnet &amp; M-to-M Transportation</b>	
Additional journal entries recorded in FY 2009	461,908
<b>Total Net Understated Desegregation Funding</b>	<b>\$ (7,362,302)</b>

<sup>50</sup> The CFO stated that the \$7 million Desegregation Funding for FY 2006 is recorded in AS/400. Navigant did not have access to the NLRSD's AS/400 accounting records and therefore is unable to independently analyze and confirm how the Desegregation Funding for FY 2006 was accounted for.

#### 4. Incorrect Source of Funds

As noted on pages 8 and 9 of this report, Navigant's analysis revealed that \$993,224 was not recorded properly with the ADE designated desegregation Source of Fund codes in APSCN, as summarized in the following chart:

<b>Fiscal Year</b>	<b>Amount</b>	<b>ADE- Designated Source of Fund</b>	<b>Recorded Source of Fund</b>
FY 2008	\$ 549,416 <sup>51</sup>	2387	2000
FY 2010	443,808 <sup>52</sup>	2388	2387
	<b>\$ 993,224</b>		

The NLRSD conceded that the \$993,224 was recorded erroneously and was not corrected.

#### 5. Expenditures related to the Desegregation Funding

The NLRSD stated that the expenditures related to the Desegregation Funding were not recorded separately to distinguish from the general unrestricted operating fund (Source of Fund 2000).

#### D. Results of Navigant's Updated Preliminary Analysis

Navigant's updated preliminary analysis on the additional information provided by the NLRSD confirms the lack of adequate controls and procedures relating to the NLRSD's accounting of the Desegregation Funding.

Although Navigant was informed by the Director of Purchasing that there are separate accounting roles in the preparation, approval and input of transactions to APSCN,<sup>53</sup> it does not appear that these existing roles ensure that the nature, timing and extent of the Desegregation Funding is recorded properly in APSCN.

Additionally, the NLRSD cannot readily quantify the expenditures incurred for Desegregation-related purposes because such expenditures were not accounted for separately. Accordingly, Navigant continues to recommend that there should be separate reporting of the Desegregation Funding in accordance with the appropriate desegregation codes established by the ADE. The Funding and

<sup>51</sup> The \$549,416 represents Funding provided by the ADE for 387 – Health Insurance & Teacher Retirement.

<sup>52</sup> The \$443,808 represents Funding provided by the ADE for 388 – Magnet and M-to-M Transportation.

<sup>53</sup> The Director of Purchasing stated that he prepares the journal entries on paper, which are then reviewed, approved and input to APSCN by the CFO.

related expenditures should not be commingled with general unrestricted fund accounts and should be transparent.



# Appendix A



Arkansas Department of Education - Desegregation Funding Analysis  
North Little Rock School District ("NLRSD")  
Appendix A: Summary of Desegregation Funding and Expenditures by Fiscal Year

	FY 2006 <sup>1</sup>	FY 2007 <sup>2</sup>	FY 2008 <sup>3</sup>	FY 2009 <sup>3</sup>	FY 2010 <sup>3</sup>	FY 2011 <sup>5</sup>	Grand Total	%
<b>ADE Desegregation Funding:</b>								
387 - Health Insurance & Teacher Retirement	\$ 1,475,605	\$ 1,936,864	\$ 1,586,718	\$ 2,104,371	\$ 2,179,474	\$ 1,131,552	\$ 10,414,583	23.1%
387 - Majority to Minority Incentive	4,691,996	4,329,372	3,992,864	6,904,506	6,046,974	1,796,673	27,762,385	61.6%
388 - Magnet & M-to-M Transportation	853,733	1,072,894	1,304,508	1,251,199	1,349,523	1,093,859	6,925,715	15.4%
<b>Total ADE Desegregation Funding</b>	<b>\$ 7,021,333</b>	<b>\$ 7,339,130</b>	<b>\$ 6,884,089</b>	<b>\$ 10,260,076</b>	<b>\$ 9,575,971</b>	<b>\$ 4,022,083</b>	<b>\$ 45,102,683</b>	

**Additional Transactions Recorded in APSCN by NLRSD:**

387 - Majority to Minority Incentive	\$ (406,459)	\$ (58,059)	\$ (464,518)
388 - Magnet & M-to-M Transportation		\$ 461,908 <sup>4</sup>	461,908

**Less Expenditures Recorded in Desegregation Funds:**

Salaries	\$ -	\$ -	\$ 693,921	\$ 7,116,866	\$ 730,674	\$ 196,270	\$ 8,737,731	32.6%
Employee Benefits	-	-	182,562	4,394,584	294,854	60,142	4,932,142	18.4%
Purchased Services:	-	-	-	-	-	-	-	
Advertising	-	-	-	94,003	-	8,751	102,754	0.4%
Fleet Insurance	-	-	-	-	94,995	-	94,995	0.4%
Property Insurance	-	-	-	-	454,346	-	454,346	1.7%
Other Insurance	-	-	-	61,897	-	-	61,897	0.2%
Legal Fees	-	-	-	138,893	359,210	-	498,103	1.9%
Maintenance And Repairs	-	-	-	161,704	909,544	7,201	1,078,449	4.0%
Other Professional Services	-	-	-	643,252	1,207,232	24,994	1,875,478	7.0%
Rent	-	-	-	40,800	18,750	-	59,550	0.2%
Services Purchased from Other LEAs in State	-	-	-	-	-	-	-	0.0%
Travel	-	-	-	22,523	4,164	-	26,687	0.1%
Tuition to Other LEAs in State	-	-	-	1,770,077	1,761,736	-	3,531,813	13.2%
Tuition to Private Schools	-	-	-	504,220	576,276	-	1,080,496	4.0%
Other Tuition	-	-	-	108,000	-	-	108,000	0.4%
Gasoline	-	-	-	-	475,353	-	475,353	1.8%
Supplies, Books and Materials	-	-	25,175	538,736	2,597,050	6,750	3,167,711	11.8%
Equipment	-	-	-	66,006	385,520	-	451,526	1.7%
Heating Oil	-	-	-	-	-	-	-	0.0%
Dues and Fees	-	-	-	29,852	4,543	-	34,395	0.1%

<b>Total Expenditures Recorded in Desegregation Funds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 901,658</b>	<b>\$ 15,691,413</b>	<b>\$ 9,874,247</b>	<b>\$ 304,108</b>	<b>\$ 26,771,426</b>	<b>100.0%</b>
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<b>Remaining Desegregation Funding Balance</b>	<b>\$ 7,021,333</b>	<b>\$ 7,339,130</b>	<b>\$ 5,982,431</b>	<b>\$ (5,431,337)</b>	<b>\$ (298,276)</b>	<b>\$ 3,717,975</b>	<b>\$ 18,331,257</b>	
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<sup>1</sup> The ADE Desegregation Funding for FY 2006 totaling \$7,021,333 was not reflected in NLRSD's ASPCN records.

<sup>2</sup> The ADE Desegregation Funding for FY 2007 was reflected in NLRSD's ASPCN records except for the following amounts:  
387 - Health Insurance and Teacher Retirement \$835,501  
388 - Magnet & M-to-M Transportation \$406,459

<sup>3</sup> The entire amount of the ADE Desegregation Funding for these respective fiscal years were reflected in NLRSD's ASPCN records.

<sup>4</sup> This amount is the net of two transactions reflected in the APSCN Revenue Audit Trail Report: \$1,300,628 and (\$838,720).

<sup>5</sup> Transactions reflected in APSCN as of December 9, 2010.

# Appendix B



Arkansas Department of Education - Desegregation Funding Analysis  
North Little Rock School District  
Appendix B: Matrix of Potential Issues Identified During Desegregation Funding Analysis

Potential Issues Identified	Potential Misconduct	Potential Fraud	Lack of Segregation of Duties	Lack of Written Policies & Procedures	Lack of Additional Review, Oversight and Compliance
A. Lack of Policies & Procedures:					
Understanding of Mandates Surrounding Desegregation Funding	X	X	X	X	X
Following Precedence on Calculation of Transportation Reimbursement	X		X	X	X
B. Accounts Payable:					
Access to Make Changes to Vendor Master List	X	X	X	X	X
C. Plant Services Blanket Purchase Orders:					
Blanket Purchase Orders Are Not Competitively Bidded	X	X	X	X	X
Approvals Thresholds Do Not Follow Board Policy	X	X	X	X	X
Count:	5	4	5	5	5

# Appendix C



**North Little Rock School District (“NLRSD”)  
Follow-up Questions  
February 8, 2011**

The following is a list of follow-up questions related to our analysis of the journal entries recorded in NLRSD’s APSCN in connection with the recording of the receipt and use of the funding provided by the Arkansas Department of Education (“Desegregation Funding”). The Desegregation Funding provided by ADE to NLRSD was associated with the following APSCN Source of Funds noted in the Arkansas Financial Handbook:

Source of Fund	Related Revenue Account
387 M-to-M Revenue	32812
387 Teacher Retirement & Insurance Court Settlement	32814
388 Magnet & M-to-M Transportation	32813

**I. FY 2006 and FY 2007**

NLRSD representatives stated that its accounting records were maintain in AS/400 CIMS III software (“AS/400”) prior to reporting live in APSCN beginning in FY 2008.

**A. FY 2006**

Navigant noted that there were no related expenditures reflected in (or migrated to) APSCN for FY 2006 related to the use of the Desegregation Funding.

Can you quantify the related expenditures that were recorded in AS/400 that reflects the use of the Desegregation Funding for FY 2006? For example, provide the following information in connection with the nature and amount of the expenditures for At-Risk Programs:

<u>At-Risk Program Name</u>	<u>Expenditure Type</u>	<u>Expenditure Amount</u>
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These items on the AS/400 were not coded to the Fund/Source of Funds that we are now using in APSCN. These expenditures were coded to the Operational Fund 2000.

Since the termination of payments pursuant to section VIII (B) and (C), which concluded in or about 1999, NLRSD has not received any funding from ADE that was restricted in use for Desegregation Programs. NLRSD has and currently does receive incentive funding from ADE, which is intended to encourage NLRSD’s participation in the M-to-M and Magnet School transfers. However, these are the

primary funds that are used to support the programs outlined in the NLRSD Desegregation Plan and discussed in the testimony given in the hearing on NLRSD's Petition for Unitary Status in 2010.

B. FY 2007

1. Revenue

a. 387 Health Insurance & Teacher Retirement

The ADE paid \$1,936,864 to NLRSD for FY 2007, however, only \$1,101,363 was recorded as a lump sum amount on June 29, 2007 to Source of Fund 2000 and Revenue Account #32814, or a difference of \$835,501.

1. Should the \$1,101,363 be recorded in Source of Fund 2387?  
Yes. It should have been coded to 2387, not 2000.
2. Where is the remainder of \$835,501 recorded in APSCN?  
NLRSD recorded in APSCN what was submitted by the ADE. The 835,501 is not recorded in APSCN.

b. 387 M-to-M Revenue

What is purpose of the journal entry for (\$406,459) recorded to Source of Fund 2387 and Revenue Account 32812 on June 29, 2007? The Reference and Description fields were blank.  
The (406,459) was not a journal entry, but a (-) receipt to adjust downward the amount received in MM Revenue to agree with the amount in AS/400.

c. 388 Magnet & M-to-M Transportation

The ADE paid \$1,072,894 to NLRSD for FY 2007, however, only \$666,435 was recorded as a lump sum amount on June 29, 2007 to Source of Fund 2388 and Revenue Account #32813, or a difference of \$406,459.

Where is the remainder of \$406,459 recorded in APSCN?  
The amount recorded in APSCN was the amount received from ADE. In transporation revenue, much of the time we receive an amount for a previous fiscal year in the next fiscal year. I don't know how the ADE reports to you, but, we record what is sent to us via Direct Deposit.

2. Expenditures

Navigant noted that there were no related expenditures reflected in (or migrated to) APSCN for FY 2007 related to the use of the Desegregation Funding.

Can you quantify the related expenditures that were recorded in AS/400 that reflects the use of the Desegregation Funding for FY 2007? For example, provide the following information in connection with the nature and amount of the expenditures for At-Risk Programs:

<u>At-Risk Program Name</u>	<u>Expenditure Type</u>	<u>Expenditure Amount</u>
As stated in the interview and explained above, the expenditures that utilized the MM funds were spent out of 2000 (operating).		

II. FY 2008

A. Revenue

387 Health Insurance & Teacher Retirement

The ADE paid \$1,586,718 to NLRSD for FY 2008, which were recorded by NLRSD in APSCN as follows:

\$1,037,302 to Source of Fund 2387 and Revenue Account 32814 (7 entries)  
\$ 549,416 to Source of Fund 2000 and Revenue Account #32814 (2 entries)

Why was \$549,416 recorded to Source of Fund 2000?  
An error on the FSOF was made and not corrected.

B. Expenditures

Navigant noted that there were limited expenditures reflected in (or migrated to) APSCN for FY 2008 related to the use of the Desegregation Funding.

Can you quantify the related expenditures that were recorded in AS/400 that reflects the use of the Desegregation Funding for FY 2008? For example, provide the following information in connection with the nature and amount of the expenditures for At-Risk Programs:

<u>At-Risk Program Name</u>	<u>Expenditure Type</u>	<u>Expenditure Amount</u>
As stated in the interview and explained above, these expenditures were considered operational and were not coded to specific FSOF related to M-to-M or Transportation.		



### III. FY 2009

#### ADE funding of 388 Magnet & M-to-M Transportation

The ADE paid \$1,251,199 to NLRSD for FY 2009, which were recorded in three journal entries in APSCN to Source of Fund 388 and Revenue Account 32813. Additionally, the following two additional entries were also recorded in APSCN in period 13:

\$1,300,628 – “Book MM Transp cost”  
(\$838,720) – “Adj Mag Transp”

What is the purpose of these two entries?

JE1446 was booking the Transportation cost not yet received with the offset to Accounts Receivable. JE1455 adjusts the amount that will be received.

### IV. FY 2010

#### A. Revenue: 387 M-to-M Revenue

What is purpose of the journal entry for (\$58,059) recorded to Source of Fund 2387 and Revenue Account 32812 on June 30, 2010?

NLRSD received notice from the ADE that they had overpaid NLRSD by 58,059.00. This represents the check # 142912 of the repayment to the ADE.

#### B. Revenue: of 388 Magnet & M-to-M Transportation

The ADE paid \$1,349,523 to NLRSD for FY 2010, which were recorded in the following two journal entries in APSCN:

\$905,715 to Source of Fund 2388 and Revenue Account 32813

\$443,808 to Source of Fund 2387 and Revenue Account 32814

Receipt#10108 was for 905,715.36

Receipt#10574 for 443,807.63 was coded to the incorrect FSOF/Account

Why was \$443,808 recorded to the Source of Fund and Revenue Account that pertains to Teacher Retirement & Insurance Court Settlement?

An error occurred and was not caught.

### V. Document Requests

#### A. Organization chart of the accounting department

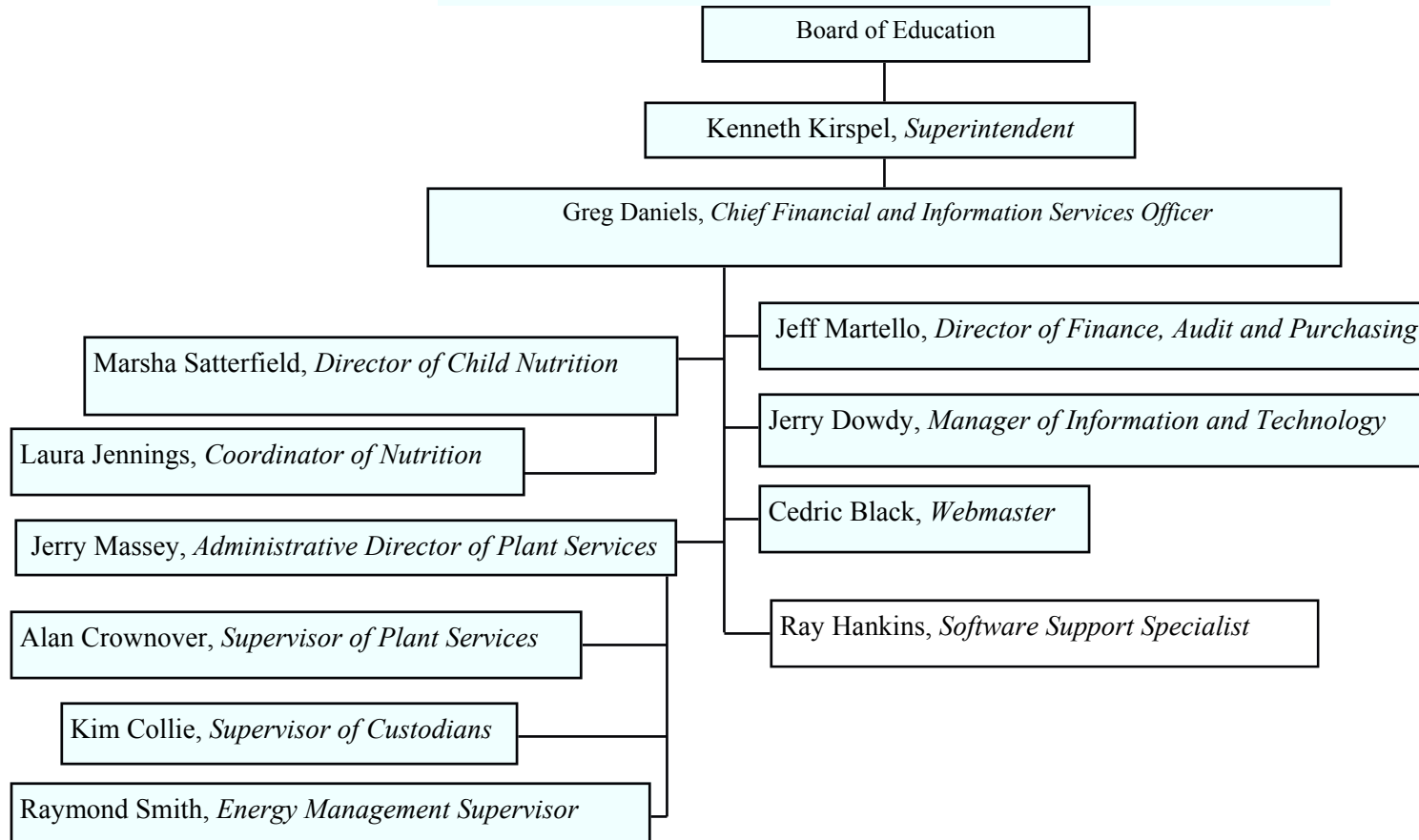
Attachment: Org Chart 10-11 Finance Department.pdf

#### B. Business Practices from the Board Policy Book

Attachment: BusPolxxxxxxx.pdf (several files)

# Appendix D

# North Little Rock School District Organizational Chart



Updated  
8/19/2010

# Appendix E

## **7.1—FISCAL YEAR**

The District's fiscal year shall begin July 1 and end on the following June 30.

Legal Reference:       A.C.A. § 6-20-410

Date Adopted: June 26, 1986

Last Revised: July 17, 2008

## **7.2—ANNUAL OPERATING BUDGET**

The Superintendent shall be responsible for the preparation of the annual operating budget for the District. The Superintendent shall present the budget to the Board for its review, modification, and approval.

The budget shall be prepared in the electronic format as prescribed by the State Board of Education and filed with the Arkansas Department of Education no later than September 15 of each year.

The approved budget shall provide for expenditures that are within anticipated revenues and reserves. The District Treasurer shall present monthly reconciliation reports and a statement on the general financial condition of the District monthly to the Board.

Line item changes may be made to the budget at any time during the fiscal year upon the approval of the Board. Any changes made shall be in accordance with District policy and state law.

Legal References:      A.C.A. § 6-17-914  
                                 A.C.A. § 6-13-701 (c) (3)  
                                 A.C.A. § 6-20-2202

Date Adopted: June 26, 1986

Last Revised: July 17, 2008

### **7.2.1 – ANNUAL AUDIT**

All District accounts are to be audited annually by a certified public accountant selected by the Board. The audit firm shall be selected every five years beginning with the 1987-88 fiscal year.

A copy of the audit report shall be placed in the North Little Rock Public Library and copies sent to the Arkansas Department of Education and the State School Auditor.

Date Adopted: March 23, 1993

Last Revised: July 17, 2008

### **7.3—MILLAGE RATE**

The Board shall publish, at least sixty (60) days in advance of the school election at which the annual ad valorem property tax for the district is decided by the electors, the District's proposed budget, together with a millage rate sufficient to provide the funds necessary for the District's operation.

Legal References: A.C.A. § 6-13-622

Arkansas Constitution: Article 14 Section 3 (c) as amended by Amendment 74

Date Adopted: June 26, 1986

Last Revised: July 17, 2008



## **7.4—GRANTS AND SPECIAL FUNDING**

The Superintendent or his/her designee may apply for grants or special funding for the District. Any grants or special funding that require matching District resources shall receive Board approval prior to the filing of the grant's or special resource's application.

Date Adopted: June 26, 1986

Last Revised: July 17, 2008

## **7.5—PURCHASES OF COMMODITIES**

Purchases shall be made in accordance with State laws and procurement procedures governing school purchases that are deemed to be in the best interest of the District and are the result of fair and open competition between qualified bidders and suppliers.

### **DEFINITIONS**

“Commodities” are all supplies, goods, material, equipment, computers, software, machinery, facilities, personal property, and services, other than personal and professional services, purchased on behalf of the District.

“Specifications” means a technical description or other description of the physical and/or functional characteristics of a commodity.

Purchases of commodities with a purchase price of more than \$10,000 require prior Board approval; unless an emergency exists in which case the Superintendent may waive this requirement.

The district shall notify in writing all actual or prospective bidders, offerors, or contractors who within at least 10 calendar days make a written request to the district for notification of opportunities to bid. The notification shall be made in sufficient time to allow actual or prospective bidders, offerors, or contractors to submit a bid or other appropriate response.

All purchases of commodities in which the estimated purchase price equals or exceeds ten thousand dollars (\$10,000) shall be procured by soliciting bids through the Purchasing Office. Specifications shall be devised for all commodities to be bid that are specific enough to ensure uniformity of the bid and yet not so restrictive that it would prevent competitive bidding. The bid specifications shall not include the name or identity of any specific vendor. The Board reserves the right to reject all bids and to purchase the commodity by negotiating a contract. In such an instance, each responsible bidder who submitted a bid shall be notified and given a reasonable opportunity to negotiate.

Bids shall be awarded after careful examination of the details of the bid to determine the best overall value to the District. In instances where the low bid was not accepted a statement of the reasons shall be attached to the bid. Bidders submitting written bids shall be notified in writing of the bid award.

The following commodities may be purchased without soliciting bids provided that the purchasing official determines in writing that it is not practicable to use other than the required or designated commodity or service, and a copy of this statement is attached to the purchase order:

1. Commodities in instances of an unforeseen and unavoidable emergency;
2. Commodities available only from the federal government;
3. Utility services;
4. Used equipment and machinery; and
5. Commodities available only from a single source.

Prospective bidders, offerors, or contractors may appeal to the district's superintendent if they believe the district failed follow district bidding and purchasing policy or state law.

Any award of a contract shall be subject to revocation for ten working days or, if an appeal is received, after resolution of the appeal. This shall give prospective bidders, offerors, or contractors the opportunity to appeal the bid award if they believe the facts warrant an appeal. Any appeal shall be **in writing by certified mail** and received by the district office, "attention to the Administrative" within seven calendar days following the initial and revocable award of the contract.

If the district receives an appeal of a bid award, they shall notify, in writing, those prospective bidders, offerors, or contractors who have made a written request to the district for notification of opportunities to bid that an appeal has been submitted. The notification shall state:

- that the contract award has been halted pending resolution of the appeal and could be revoked;
- the reasons for the appeal;
- that the recipient of the letter may respond to the protested issues identified in the appeal;
- the date the decision on the appeal will be made and notification sent;
- that if the appeal is upheld, the bidding process will start all over again;
- that if the bidding is re-opened, changes will be made to the request for bids as necessary to satisfy the reasons for upholding the appeal.

The sole authority to resolve any appeal made relating to this policy shall rest with the superintendent. The superintendent's decision shall be final and conclusive. In the event the district upholds an appeal, the sole responsibility of the district to the aggrieved bidder(s) shall be the re-opening of the bidding process.

Legal References:      A.C.A. § 6-21-301, 303, 304, 305, 306  
                                 A.C.A. § 6-24-101 et seq.

Date Adopted: June 26, 1986  
Last Revised: July 17, 2008

## **7.6—ACTIVITY ACCOUNT**

The District shall maintain an account of activity funds. The funds for the account are those revenues derived from the sale of tickets to athletic contests or other school sponsored activities; the sale of food other than that sold in the cafeteria; the sale of soft drinks, school supplies, and books; and fees charged by clubs and organizations.

Activity funds shall be maintained and accounted for according to guidelines and procedures established by the General Education Division of the Department of Education.

The Superintendent shall be the custodian of all activity funds and shall be responsible and accountable for the funds. The Superintendent may appoint a co-custodian for each school in the District who shall also be responsible for the activity funds he/she maintains.

Legal Reference:       A.C.A. § 6-13-701 (e)

Date Adopted: June 26, 1986

Last Revised: July 17, 2008

## 7.7—CASH IN CLASSROOMS

Teachers shall deposit daily to the principal's office all activity funds collected in their classrooms. No cash or checks are to be left in any classroom overnight.

Date Adopted: June 26, 1986

Last Revised: July 17, 2008

### **7.7.1—RESPONSIBILITY FOR FUNDS**

Funds entrusted to District employees are the complete responsibility of such employees.

Date Adopted: June 26, 1986

Last Revised: July 17, 2008

## 7.8—PERSONAL PROPERTY

Personal property--all items purchased by the teacher with his own funds to be used as teaching aids in the classroom shall be considered as his personal property. These items should be labeled and registered in the principal's office. Items should be removed from the building each summer, otherwise items become the property of the District.

Date Adopted: June 26, 1986

Last Revised: July 17, 2008

### **7.8.1.—DONATED PROPERTY**

Items which have been purchased by any individual or group, including parent support groups, become the permanent property of the District.

Date Adopted: June 26, 1986

Last Revised: July 17, 2008



## **7.9—PROPERTY INSURANCE**

The Superintendent shall be responsible, with approval of the Board, for maintaining adequate insurance coverage for all District properties.

Date Adopted: June 26, 1986

Last Revised: July 17, 2008

### **7.9.1—SALE OF REAL ESTATE**

District owned real estate shall be sold only upon action of the Board of Education.

The manner of sale of real property should be determined by action of the Board. This would involve advertising for bids, securing offers, or any other arrangement that would be advisable in line with the nature of the property or equipment to be sold.

Date Adopted: June 26, 1986

Last Revised: July 17, 2008

## **7.10—PUBLIC USE OF SCHOOL BUILDINGS**

It is the policy of the Board that District school buildings may be used by citizens of the District to conduct lawful meetings for social, civic, or recreational purposes provided such meetings do not interfere with the regular school work. The Superintendent shall be responsible, with Board approval, for establishing procedures governing such use of school buildings. The governing procedures shall be viewpoint neutral. Building principals shall be consulted to determine if there exists any conflict with planned school activities prior to other groups being allowed to use school facilities.

The District shall establish a fee schedule for the use of school facilities. Charges made for the use of school facilities shall reflect the actual costs (e.g. labor, utility, and materials) incurred by the District.

Organizations using school facilities assume full and complete responsibility for the conduct of all persons, regardless of age, associated with their use of the facility while they are in or about the facility. Smoking or the use of tobacco or products containing tobacco in any form or the use of drugs or intoxicants is prohibited. Firearms of any kind are not allowed on school property unless the person carrying the firearm is permitted to do so by law as defined in A.C.A. § 5-73-120.

Legal Reference:       A.C.A. § 6-21-101  
                              A.C.A. § 5-73-120

Date Adopted: June 26, 1986  
Last Revised: July 17, 2008

### **7.10.1—ENERGY MANAGEMENT CONSERVATION POLICY**

As the School Board of the North Little Rock School District, we believe it to be our responsibility to ensure that every effort is made to conserve energy and natural resources while exercising sound financial management.

The implementation of this policy is the joint responsibility of the board members, administrators, teachers, students and support personnel and its success is based on cooperation at all levels.

The district will maintain accurate records of energy consumption and cost of energy and will provide information to the local media on the goals and progress of the energy conservation program.

The building administrator, working with the energy manager will be accountable for energy management on his/her campus with energy audits being conducted and conservation program outlines being updated. Judicious use of the various energy systems of each campus will be the joint responsibility of the energy manager, plant services, principal and head custodian to ensure that an efficient energy posture is maintained on a daily basis.

To ensure the overall success of the energy management program, the following specific areas of emphasis will be adopted:

1. All district personnel will be expected to contribute to energy efficiency in our district. Every person will be expected to be an “energy saver” as well as an “energy consumer”.
2. Energy management on his/her campus will be made a part of the building administrator’s annual evaluation.
3. Within sixty (60) days, administrative Energy Guidelines will be adopted that will be the “rules of the game” in implementing our energy program.
4. Further, to maintain a safer and healthier learning environment and to complement the energy management program, the district shall follow the Arkansas Public School Academic Facilities and Transportation preventive maintenance and monitoring plan for its facilities and systems, including HVAC, building envelope, and moisture management.
5. The School Board of North Little Rock School District directs the development of short and long range plans in the areas of facilities management and preventive maintenance as prescribed by Arkansas Public School Academic, and Transportation Division.

Date Adopted: September 15, 2005

Last Revised: July 17, 2008

## **7.11—USE OF SCHOOL FUNDS FOR POLITICAL PURPOSES**

School funds shall not be used for political, charitable, or humanitarian purposes.

Date Adopted: July 17, 2008

## **7.12—EXPENSE REIMBURSEMENT**

Reimbursement for expenses related to travel and/or attendance at conference and professional development activities incurred by district employees and/or members of the Board of Directors on behalf of the district shall be done according to the following guidelines. Original receipts must accompany all requests for reimbursement to the extent that such receipts are customarily available. For a receipt to be valid it should contain the name of the issuing company, the date, and the amount of items purchased. Employees are only eligible for reimbursement for travel expenses for travel which has been approved in advance. No cash advances shall be made for travel. Reimbursement for travel shall be for the lesser of the cost between travel by air or by car with some consideration allowed for length of time of the method of travel.

To the extent practicable, employees shall have the district pay initial conference and professional development registration fees and associated necessary and materials. In the occasional circumstances where this is not practical, the district shall reimburse the employee for such fees if they were authorized in advance and are supported with proper receipts.

Meal expenses incurred by the superintendent or other administrators as necessary, in the performance of their duties when meeting with state officials or consultants may be reimbursed on a prorated, per person basis in line within the mandates of this policy. Such expenses shall only be reimbursed when the expenditure is likely to result in a tangible benefit to the district.

### **Rates for Reimbursement**

Mileage allowance shall be reimbursed at the rate of the state of Arkansas permanent rate. Mileage shall be reimbursed on the basis of the shortest, most reasonable, route available.

When travel necessitates overnight lodging, reimbursement shall be equal to or less than the current IRS rate unless at least one of the following conditions is met.

- The location of the conference or other approved reason for travel is located in a hotel which does not offer rates within the IRS rate schedule. In such an instance, the employee shall be reimbursed at the “special conference rate” if available. If such a rate is not offered, or is no longer available, the employee shall be reimbursed for lodging costs that are reasonable for single occupancy rates at the hotel in which the conference is held.
- The hotel in which the conference is held has no rooms available. In such an instance, the employee shall be reimbursed for reasonable single occupancy lodging costs in another hotel located near the conference.
- The conference or other approved reason for travel is held in a location other than one that is part of a hotel. If the rates of the hotels located near the conference or other approved reason for travel are not within the IRS rate schedule, the employee shall be reimbursed for reasonable single occupancy lodging costs in a hotel located near the conference. The IRS rate will be attached to the purchase order.

To the extent practicable, employees shall receive assistance from administrators or their designee in arranging travel plans to help keep expenses to a minimum.

### **Expenses not covered**

The district shall not reimburse the following items/categories of expenses.

- Alcoholic beverages;
- Entertainment expenses – including sports or sporting events or pay per view or game expenses at motels;
- Replacement due to loss or theft;
- Discretionary expenses for items such as clothing or gifts;
- Medical expenses incurred while on route to or from or at the destination of the reason for the travel;
- Optional or supplementary insurance obtained by the employee for the period covered during the travel; and
- Tips, other than those required by the source of the expense, e.g. a restaurant which adds a tip to the bill for all groups of six or more.

### **Airport Associated Expenses**

Receipts for airport associated expenses are required for reimbursement. All airline flights shall be by coach/economy class. Upon arrival at their destination, employees are expected to take the less expensive option between a taxi and an airport shuttle service to his/her hotel or meeting site. When circumstances dictate that a rental car is necessary and/or the most economical approach to the travel requirements, the least expensive car that will accomplish the job should be rented. The district shall not reimburse for any kind of rental car supplemental insurance.

Date Adopted: July 17, 2008

## 7.14—USE OF DISTRICT CELL PHONES and COMPUTERS

Board members, staff, and students shall not be given cell phones or computers for any purpose other than their specific use associated with school business. School employees who use a school issued cell phones and/or computers for non-school purposes, except as permitted by the district's Internet/computer use policy, shall be subject to discipline, up to and including termination. Students who use a school issued cell phones and/or computers for non-school purposes, except as permitted by the district's Internet/computer use policy, shall be subject to discipline, up to and including suspension or expulsion.

All employees are forbidden from using school issued cell phones while driving any vehicle at any time. Violation may result in disciplinary action up to and including termination.

Cross References: 4.47 POSSESSION AND USE OF CELL PHONES, BEEPERS, ETC.  
CFSC COMPUTER NETWORK APPROPRIATE USE  
CFSC-CL COMPUTER NETWORK APPROPRIATE USE FOR CLASSIFIED

Legal References: IRC § 132(d)  
IRC § 274(d)  
IRC § 280F(d)(4)

Date Adopted: August 20, 2009  
Last Revised: August 20, 2009



## 7.16—INFORMATION TECHNOLOGY SECURITY

The superintendent shall be responsible for ensuring the district has the necessary components in place to meet the district's needs and the state's requirements for information technology (IT) security. The district shall appoint an information technology security officer (ISO) who, along with other IT staff, the superintendent and district management appointed by the superintendent shall develop the necessary procedures to create a district-wide information technology security system meeting the requirements of this policy and the standards prescribed by the Arkansas Department of Education.

The IT security system shall contain the necessary components designed to accomplish the following.

Sensitive information shall be protected from improper denial, disclosure, or modification.

Physical access to computer facilities, data rooms, systems, networks and data will be limited to those authorized personnel who require access to perform assigned duties.

Traffic between internal (district) resources and external (Internet) entities will be regulated by network perimeter controls. To the extent technologically feasible, network transmission of sensitive data should enforce encryption.

User access to the district's technology system and its applications shall be based on the least amount of access to data and programs necessary to perform the user's job duties.

Student or financial applications software developed for or by the district will be tested prior to implementation to ensure data security through proper segregation of programs.

Monitoring of internal and external networks and systems will be designed to provide early notification of events and rapid response and recovery from IT related incidents and/or attacks.

Continuity of critical IT services will be ensured through the development of a disaster recovery plan appropriate for the size and complexity of the district's IT operations.

Software protection of servers and workstations will be deployed to identify and eradicate malicious software attacks such as viruses, spyware, and malware.

Legal Reference: Commissioner's Memo RT 09-010

Date Adopted: August 20, 2009  
Last Revised: August 20, 2009

**Earle School District**  
**LEA # 1802**  
**Crittenden County**

**Fiscal Distress Indicators and Additional Concerns:**

- \* A declining balance determined to jeopardize the fiscal integrity of the school district.
- \* Material failure to provide timely and accurate legally required financial reports to the department, the Division of Legislative Audit, the General Assembly, or the Internal Revenue Services.
- \* Insufficient funds to cover payroll, salary, employment benefits, or legal tax obligations.
- \* Material discrepancies between budgeted and actual school district expenditures.
- \* Any other fiscal condition of a school district deemed to have a detrimental negative impact of the continuation of educational services by the school district.

<b>District Profile:</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>
<b>Superintendent</b>	<b>Jack Crumbley</b>	<b>Jack Crumbley</b>	<b>Jack Crumbley</b>	<b>Jack Crumbley</b>
4 QTR ADM	819	807	777	749
Assessment	25,109,534	24,741,061	24,882,333	24,341,951
Total Mills	44.80	44.80	44.80	44.80
Total Debt Bond/Non Bond	7,365,733	7,533,295	7,699,996	7,798,172
Per Pupil Expenditures	10,157	10,075	12,081	13,288
Personnel-Non-Fed Certified FTE	55.39	76.88	77.05	76.84
Personnel-Non-Fed Certified Clsrm FTE	48.96	70.25	70.25	70.32
Avg Salary-Non-Fed Cert Clsrm FTE	49,446	33,529	37,610	35,782
Avg Salary-Non-Fed Cert FTE	52,727	37,915	41,834	39,643
Net Legal Balance (Excl Cat & QZAB)	352,931	530,574	358,503	* 485,326

\*FY10 balance includes a \$500,000 current loan.

•As of January 2011, the District had an adjusted bank balance of \$377,601.62 which included \$688,215 in current loan proceeds

**District Actions:**

- Effective February 7, 2010, Mr. Ricky Nicks was named "Interim" Superintendent of the District.
- Effective March 3, 2010, Mr. Ricky Nicks was named "Acting" Superintendent of the District.



# ARKANSAS DEPARTMENT OF EDUCATION

Dr. Tom W. Kimbrell  
*Commissioner*

February 18, 2011

**State Board  
of Education**

Dr. Naccaman Williams  
*Springdale*  
**Chair**

Jim Cooper  
*Melbourne*  
**Vice Chair**

Sherry Burrow  
*Jonesboro*

Brenda Gullett  
*Fayetteville*

Sam Ledbetter  
*Little Rock*

Alice Mahony  
*El Dorado*

Dr. Ben Mays  
*Clinton*

Toyce Newton  
*Crossett*

Vicki Saviers  
*Little Rock*

Mr. Rickey Nicks, Superintendent  
Earle School District  
P.O. Box 637  
Earle, AR 72331

Dear Mr. Nicks:

Pursuant to Ark. Code Ann. § 6-20-1905, this letter is to provide notice that the Earle School District has been identified by the Arkansas Department of Education (Department) as a school district in Fiscal Distress. According to Ark. Code Ann. § 6-20-1904, the Earle School District meets one (1) or more of the criteria necessary to be identified as a school district in Fiscal Distress, including:

- A declining balance determined to jeopardize the fiscal integrity of the school district, and
- Material failure to provide timely and accurate legally required financial reports to the department, the Division of Legislative Audit, the General Assembly, or the Internal Revenue Services;
- Insufficient funds to cover payroll, salary, employment benefits, or legal tax obligations;
- Materials discrepancies between budgeted and actual school district expenditures;
- Any other fiscal condition of a school district deemed to have a detrimental negative impact on the continuation of educational services by that school district.

The Department will request that the State Board of Education (SBE) classify the Earle School District as being in Fiscal Distress at its meeting on, April 11, 2011. The meeting will begin at 9:00 a.m. in the Auditorium of the Arch Ford Education Building, Four Capitol Mall in Little Rock, Arkansas.

Please find included in this mailing a copy of the Department's rules on Identifying and Governing the Arkansas Fiscal Assessment and Accountability Program. This document outlines the identification and classification of Fiscal Distress. It also provides the process by which a district may appeal the classification of Fiscal Distress to the SBE. An appeal would be heard at the same April 11, 2011, SBE Meeting. Additional information may be found in Arkansas Code Ann. § 6-20-1901 et seq.

Four Capitol Mall  
Little Rock, AR  
72201-1019  
(501) 682-4475  
ArkansasEd.org

Fiscal Distress Identification  
Page 2

Ark. Code Ann. §6-20-1907 states that no school district identified by the Department as being in Fiscal Distress may incur any debt without prior written approval from the Department. "Any debt" includes any employment contract, vendor contract, lease, loan, purchase, or any other obligation that will increase the district's financial obligations, accounts payable, or its liabilities. The district is required to obtain prior written approval from the Department, effective with its receipt of this letter. Please retain this notice in your District audit file.

Should the district have questions or comments, please contact the Fiscal Distress Services, at (501) 682-5124.

Sincerely,



Hazel Burnett,  
ADE Coordinator Fiscal Distress Accountability and Reporting

HB:ddm

cc: Dr. Tom Kimbrell, Commissioner of Education  
Mr. Tony Wood, Deputy Commissioner of Education  
Jeremy Lasiter, General Counsel  
Mr. William J. Goff, Assistant Commissioner  
Senator James "Jim" Luker  
Representative Fred Smith  
Eric Cox, School Board President

The Law Firm of  
**BEQUETTE & BILLINGSLEY**  
A Professional Association

GEORGE J. BEQUETTE, JR.  
jbequette@bbpalaw.com

KEITH I. BILLINGSLEY  
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Metropolitan National Bank Tower  
425 West Capitol Avenue, Suite 3200  
Little Rock, Arkansas 72201-3469  
www.bbpalaw.com

Telephone  
(501) 374-1107

Telecopier  
(501) 374-5092

March 16, 2011

**RECEIVED**

**MAR 18 2011**

**FINANCIAL ACCOUNTABILITY  
& REPORTING**

***Via U.S. Mail and Certified Mail  
No. 7009 1410 0000 1976 6355  
Return Receipt Requested***

Tom W. Kimbrell, Ed.D.  
Commissioner of Education  
Arkansas Department of Education  
Four Capitol Mall  
Little Rock, AR 72201

Re: Earle School District

Dear Dr. Kimbrell:

This firm represents the Earle School District ("District"). The District is in receipt of a letter dated February 18, 2011 from Ms. Hazel Burnett of the Arkansas Department of Education ("Department") notifying the District that it has been identified by the Department as a school district in fiscal distress pursuant to Ark. Code Ann. § 6-20-1905.

The purpose of this letter is to notify the Department of the District's appeal to the Arkansas State Board of Education ("State Board") of the notice of fiscal distress status from the Department. The District should not be classified as in fiscal distress for the following reasons:

1. The District does not have a declining fund balance which would jeopardize the fiscal integrity of the District;
2. The District has not materially failed to provide timely and accurate legally required financial reports;
3. The District has sufficient funds to cover payroll, salary, employment benefits and legal tax obligations;

Tom W. Kimbrell, Ed.D.

March 16, 2011

Page 2

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4. There have been no material discrepancies between budgeted and actual school district expenditures; and
5. There are no other fiscal conditions of the District which could be reasonably deemed to have a detrimental negative impact on the continuation of educational services by the District.

It is the District's understanding that the hearing on the appeal submitted by the District will be heard by the State Board on April 11, 2011. Please advise if this understanding is not correct.

Thank you for your consideration this matter. Please contact me should you have further questions or comments.

Very truly yours,

  
Jay Bequette

cc: Mr. Tony Wood  
Deputy Commissioner of Education

Ms. Hazel Burnett  
ADE Coordinator, Fiscal Distress Accountability and Reporting

Jeremy Lasiter, Esq.  
General Counsel

Mr. William J. Goff  
Assistant Commissioner

Mr. Rickey Nicks  
Superintendent, Earle School District

**EARLE SCHOOL DISTRICT**  
**Current Loan Data**  
**AS OF 03/21/2011**

<u>2008-09</u>	<u>FUND #</u>	<u>Beginning Balance</u>	<u>LOAN PROCEEDS</u>	<u>LOAN PAYMENTS</u>	<u>Year End Balance</u>
8/26/2008	2000		350,000.00		
12/10/2008	2000			356,978.61	
<b>2008-09 Total</b>		<b>0.00</b>	<b>350,000.00</b>	<b>356,978.61</b>	<b>0.00</b>
<u>2009-10</u>	<u>FUND #</u>	<u>Beginning Balance</u>	<u>LOAN PROCEEDS</u>	<u>LOAN PAYMENTS</u>	
9/29/2009	2001		500,000.00		
3/12/2010	2001		500,000.00		
2/4/2010	2000			500,000.00	
<b>2009-10 Total</b>		<b>0.00</b>	<b>1,000,000.00</b>	<b>500,000.00</b>	<b>500,000.00</b>
<u>2010-11</u>	<u>FUND #</u>	<u>Beginning Balance</u>	<u>LOAN PROCEEDS</u>	<u>LOAN PAYMENTS</u>	
2/3/2011	2001		75,000.00		Posted to Period 4 (October)
2/3/2011	2001		18,215.00		Posted to Period 4 (October)
1/29/2011	2001		95,000.00		Posted to Period 6 (December)
1/29/2011	2001		500,000.00		Posted to Period 6 (December)
1/29/2011	2001			613.71	Posted to Period 6 (December)
1/29/2011	2001			18,144.53	Posted to Period 6 (December)
1/29/2011	2001			505,575.00	Posted to Period 6 (December)
2/3/2011	2001			3,097.02	Posted to Period 7 (January)
3/8/2011	2000			2,820.78	Posted to Period 8 (February)
<b>2010-11 Total YTD</b>		<b>500,000.00</b>	<b>688,215.00</b>	<b>530,251.04</b>	<b>688,215.00</b>

Posted as Dues & Fees  
 Posted as Interest  
 Posted as Principal  
 Posted as Interest  
 Posted as Interest

Arkansas Department of Education  
Arkansas Public School Computer Network  
Earle School District  
Bank Reconciliation

	BANK BALANCE	DEPOSIT IN TRANSIT	OUTSTANDING CHECKS	ADJUSTED BANK BALANCE	GL CASH BALANCE	BANK VARIANCE
<b>July , 2010</b>	820,316.37	532,075.11	1,078,960.89	273,430.59	273,430.59	<b>0.00</b>
<b>August, 2010</b>	328,894.35	131,616.16	446,609.20	13,901.31	13,901.31	<b>0.00</b>
<b>September, 2010</b>	284,613.91	526,103.91	682,101.90	128,615.92	128,615.35	<b>0.57</b>
<b>October, 2010</b>	382,749.64	369,587.36	605,600.10	146,736.90	145,156.33	<b>1,580.57</b>
<b>November, 2010</b>	255,014.64	403,292.81	595,117.87	63,189.58	63,189.58	<b>0.00</b>
<b>December, 2010</b>	469,606.07	0.00	276,044.41	193,561.66	193,561.66	<b>0.00</b>
<b>January, 2011</b>	772,507.76	0.00	434,906.14	<b>337,601.62</b>	259,231.38	<b>78,370.24</b>

The \$337,601.62 adjusted bank balance for January 2011 includes \$688,215 current loan proceeds.



**A declining balance determined to jeopardize the fiscal integrity of the school district**

<b>District LEA</b>	<b>1802000</b>
<b>District Description</b>	<b>EARLE SCHOOL DISTRICT</b>
FY-08 Legal Balance	566,192
FY-08 Restricted SOF	35,619
FY-08 Deposits with Paying Agents	0
FY-08 Current Loans	0
<b>FY-08 Unrestricted Legal Balance</b>	<b>530,574</b>
FY-09 Legal Balance	358,503
FY-09 Restricted SOF	12,594
FY-09 Deposits with Paying Agents	0
FY-09 Current Loans	(Repaid within year) 350,000
<b>FY-09 Unrestricted Legal Balance</b>	<b>345,908</b>
FY-10 Legal Balance	736,608
FY-10 Restricted SOF	268,211
FY-10 Deposits with Paying Agents	0
FY-10 Current Loans	500,000
<b>FY-10 Unrestricted Legal Balance</b>	<b>(31,602)</b>
Two Year Change	(562,176)
<b>Two Year Projected Balance</b>	<b>(593,778)</b>
<b><u>FY-11BUDGET</u></b>	
FY-11 Legal Balance	746,207
FY-11 Restricted SOF	150,751
FY-11 Deposits with Paying Agents	0
FY-11 Current Loans	0
<b>FY-11 Unrestricted Legal Balance</b>	<b>595,456</b>

As of January 2011 the District had an adjusted bank balance of \$377,601.62 which includes \$688,215 current loan proceeds.

**Material failure to provide timely and accurate legally required financial reports to the department, the Division of Legislative Audit, the General Assembly, or the Internal Revenue Services**

The Department held a conference on January 31, 2011 with the District. The district only disclosed a portion of the current loan information until questioned. Information submitted with questionnaire did not contain correct financial information.

**Insufficient funds to cover payroll, salary, employment benefits, or legal tax obligations**

FY10 the district utilized \$1,000,000 in current loans. Of the \$1,000,000 only \$500,000 was repaid during the year with the remaining \$500,000 incorporated in the ending balance of \$468,397.

During our review it was noted on October 14, 2010 and again on February 25, 2011 the district paid a late fee of \$154 respectively to Employee Benefits Division.

FY11 the district currently has utilized a total of \$688,215 in current loans.

**Material discrepancies between budgeted and actual school district expenditures**

The FY10 and FY11 budgets did not contain any revenue or expenditures amounts for currents loans.

**Any other fiscal condition of a school district deemed to have a detrimental negative impact on the continuation of educational services by that school district**

There were several questionable items noted during our review which cause concerns including large amounts posted to miscellaneous revenue then reversed through journal entries. Also noted were numerous bank charges each month.

Between the dates of December 1, 2010 to January 28, 2011 the following entries were made to ASPCN receipts as Miscellaneous Revenue. During this range of dates, no revenue was posted to Local Taxes and State Foundation Funding accounts. On January 29, 2011 the District made numerous entries many of which were back dated to November and December 2010.

<u>DATE</u>	<u>Receipt Amount</u>
12/7/2010	675,000.00
12/7/2010	(675,000.00)
12/7/2010	520,000.00
12/7/2010	(520,000.00)
12/15/2010	<u>412,483.57</u>
<b>Total</b>	<b>412,483.57</b>

The \$412,483.57 entry was reversed on January 29, 2011.

The Law Firm of  
**BEQUETTE & BILLINGSLEY**  
A Professional Association

GEORGE J. BEQUETTE, JR.  
jbequette@bbpalaw.com

KEITH L. BILLINGSLEY  
kbillingsley@bbpalaw.com

Metropolitan National Bank Tower  
425 West Capitol Avenue, Suite 3200  
Little Rock, Arkansas 72201-3469  
www.bbpalaw.com

Telephone  
(501) 374-1107

Telecopier  
(501) 374-5092

May 3, 2011

**Via Email**

Jeremy Lasiter, Esq.  
General Counsel  
Arkansas Department of Education  
Four Capitol Mall  
Little Rock, AR 72201

Re: Earle School District

Dear Mr. Lasiter:

This firm represents the Earle School District. Enclosed herewith please find Memorandum in Support of its Fiscal Distress Appeal.

Thank you for your consideration this matter.

Very truly yours,



Jay Bequette

Enclosure

cc: Tom W. Kimbrell, Ed.D.  
Commissioner of Education

Mr. William J. Goff  
Assistant Commissioner

Ms. Hazel Burnett  
ADE Coordinator, Fiscal Distress Accountability and Reporting

Mr. Mark White  
Staff Attorney

Mr. Rickey Nicks  
Superintendent, Earle School District

BEFORE THE ARKANSAS STATE BOARD OF EDUCATION

**In the Matter of the Fiscal Distress Appeal by the  
Earle School District**

**MEMORANDUM IN SUPPORT OF FISCAL DISTRESS APPEAL**  
**BY THE EARLE SCHOOL DISTRICT**

Earle School District, by its attorneys, Bequette & Billingsley, P.A., in support of its Fiscal Distress Appeal, submits the following:

1. On February 18, 2011, the Arkansas Department of Education ("Department") provided notice to the Earle School District ("District") that the District had been identified by the Department as a school district in fiscal distress pursuant to Ark. Code Ann. § 6-20-1905. The Department's notice alleged that the District met the following criteria set out in Ark. Code Ann. § 6-20-1904:

- (a) A declining balance determined to jeopardize the fiscal integrity of the school district;
- (b) Material failure to provide timely and accurate legally required financial reports to the Department, the Division of Legislative Audit, the General Assembly, or the Internal Revenue Service;
- (c) Insufficient funds to cover payroll, salary, employment benefits, or legal tax obligations;
- (d) Material discrepancies between budgeted and actual school district expenditures; and

- (e) Any other fiscal condition of the school district deemed to have a detrimental negative impact on the continuation of educational services by that school district.

2. On March 16, 2011, the District notified the Department of the District's appeal to the Arkansas State Board of Education ("State Board") of the Department's notice of fiscal distress status. In its appeal, the District denied that it should be classified as a school district in fiscal distress.

3. Fiscal Recovery Plan Overview. The District acknowledges that when its current administration, including Rickey Nicks as Acting Superintendent and Al Hicks as Chief Financial Officer, assumed leadership of the District in February of 2010, the District needed to immediately address the issue of a declining fund balance in the preceding two school years. Attached hereto as Exhibit "A" (ESD 001) is a narrative summary of the District's fiscal recovery plan, which was initiated in February 2010, and has continued with the unanimous resolution of the District's Board of Directors dated February 4, 2011 and the fiscal recovery plan approved by the Board. Since Mr. Nicks assumed leadership of the District in February 2010, aggressive measures have been taken to improve the District's financial status.

4. 2011 Fiscal Year. The Department has been correctly critical of the District's financial performance during the 2010 Fiscal Year. The District hastens to add that the 2010 Fiscal Year budgets were prepared prior to the time that the District's current administrative team assumed leadership of the District in February 2010; moreover, the 2010 Fiscal Year was already more than halfway complete by that time. In the fifteen months since the District's current administration assumed leadership, significant improvements have been made. For example, the District

acknowledges that there were material discrepancies between budgeted and actual school district expenditures during the 2010 Fiscal Year. However, the District's performance during the 2011 Fiscal Year shows that to date these variances have been completely corrected, such that the negative total budget variance of (\$796,843.83) for the 2010 Fiscal Year has improved to a positive total variance of \$3,444.00 through April, 2011. Attached hereto as Exhibit "B" (ESD 006) is a two-page comparison of the 2010 and 2011 Fiscal Year budgets. The improvements in the District's budgetary results for the 2011 Fiscal Year have largely resulted from active and aggressive management of the District's financial resources from February 2010 to the present time. These improvements were achieved in large measure due to the District obtaining appropriate staffing levels and the re-funding of the District's bonds. Attached hereto as Exhibit "C" (ESD 008) are documents showing the total savings achieved from the District's reductions in force during the 2010 and 2011 Fiscal Years, and the savings which inured to the District from the re-funding of its bonds.

5.     Real Estate Sales. Due to the District's recent history of declining fund balances, the District's leadership team identified certain income-producing real property owned by the District as a potential means of easing the District's liquidity concerns. To that end, the District has recently closed on the sale of three separate real properties, resulting in the deposit of \$70,507.26 in immediately available funds. Attached hereto as Exhibit "D" (ESD 012) are a summary of the three recent real property transactions and the closing statements for each sale. The largest of the proposed real estate sales encompasses a 640 acre farm owned by the District. This transaction is currently under contract for a purchase price of \$2,275.00 per acre, which will result in projected gross proceeds to the District of \$1,456,000.00. The 640 acre farm sale is expected to be closed and funded as soon as May 6, 2011, pending completion of appraisals and the buyer's financing of the

purchase. Attached hereto as Exhibit "E" (ESD 022) is a copy of the contract between the District and the purchaser of the 640 acre farm.

6. Unrestricted Legal Balance. Due to the significant improvements made by the District in its budgetary process and its ability to effectively control and manage its expenses, the District anticipates and projects that it will be able to retire its current loan debt of \$688,215.00 by the close of the 2010-2011 school year, resulting in an unrestricted legal balance of \$328,854.00. See attached Exhibit "F" (ESD 025). This projection assumes that the 640 acre farm sale does not close by June 30, 2011. If the proceeds from the 640 acre farm sale are included, the District's unrestricted legal balance jumps to \$1,869,094.00. See attached Exhibit "G" (ESD 026). The foregoing projections are confirmed by the District's Unrestricted Fund Balance Worksheets, which were prepared by the District as a means of comparing the District's legal balance based on whether or not the 640 acre farm sale transaction closes during the 2011 Fiscal Year. See attached Exhibit "H" (ESD 027).

7. Financial Transactions Recording and Reporting. The Department was understandably critical of the District's failure to record financial transactions in a timely manner, which resulted in inaccurate monthly financial reports to the District's Board of Directors. These deficiencies resulted from the previous lack of focus by the previous administration on reconciling the District's bank statements each month in a timely fashion and failing to timely and properly record financial transactions. As shown by the ABSCAN reports for March and April, 2011, which are accompanied by the District's bank statements for those months, all of which are attached hereto as Exhibit "I" (ESD 029), the District has corrected this deficiency, which has resulted in accurate reports to the District's Board and the Department.

8. 2011 Audit. On March 30, 2011, in compliance with applicable Arkansas law, the District's auditor transmitted the District's Regulatory Basis Financial Statements and Other Reports for the Year Ended June 30, 2010 ("Audit") to the Arkansas Division of Legislative Audit via overnight mail for delivery on March 31, 2011. Attached hereto as Exhibit "J" (ESD 049) are documents establishing the timely submittal of the District's Audit.

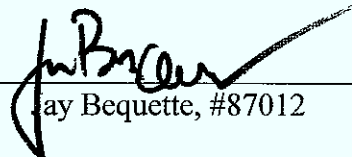
9. Current Loan Balance. The District's Audit specifically mentioned the current loan balance of the District. *See* Audit at 7. Attached hereto as Exhibit "K" (ESD 053) is a full and complete copy of the District's Audit for the year ended June 30, 2010.

10. Based upon the foregoing, the District respectfully submits that the State Board should not classify the District as being in fiscal distress. The submissions included herewith support the District's position that it has substantially improved its financial status such that it should not be classified in fiscal distress. As the Department and the State Board are well aware, the consequences of being classified in fiscal distress are dire as they relate to the District's standing in the community it serves and in the District's ability to retain and recruit students and staff.

Respectfully submitted,

BEQUETTE & BILLINGSLEY, P.A.  
425 West Capitol Avenue, Suite 3200  
Little Rock, AR 72201-3469  
Phone: (501) 374-1107  
Fax: (501) 374-5092

By: \_\_\_\_\_

  
Jay Bequette, #87012

Attorneys for Earle School District



## Earle School District Fiscal Recovery Plan

### Narrative

The Earle School District, has actively addressed the issue of a declining balance for the past two years. The board of directors in February of 2010 recognized the **need to change the financial direction** in which the District was headed. It changed the leadership and asked for an immediate plan to rectify the problem; the acting superintendent and financial management team went to work and analyzed the district's financial status. It was determined that there were **immediate cash flow concerns** that had to be addressed in order to survive the remainder of the 2009-2010 school year.

Secondly, plans had to be developed to reduce expenditures and the impact of a declining enrollment. The district initiated the **Reduction in Force Policy in April, 2010**, with the effects to be implemented for the 2010-2011 school year. It was determined the **Middle School campus could be closed** and the **restructuring of the district to a K-6, 7-12 configuration would be more economically viable**. Additionally, the plan calls for the **sale of district-owned properties to free up cash** and provide stability for the district, pending the sale of said properties.

The District also **refinanced two bond issues** to add to the financial solvency of the district. The refinance will provide for significant savings in 2011-12; continued savings in 2012-13; and smaller savings over the duration of the bond issues.

The plan also calls for revisiting the **RIF policy in April of 2011**, to stay in line with staffing needs for the 2011-2012 school year. Attention will be paid to enrollment figures and projections, and adjustments will be made accordingly.

The District has taken these and other positive measures in the **past eleven months** to turn the financial situation around, and with the adoption of the February 4, 2011 resolution, the board of directors, superintendent, and financial management team **commits to being fiscally responsible** to the patrons, students and parents of the Earle School District.



**BOARD OF DIRECTORS:**

ERIC COX  
*President*

CHARLIE COX  
*Vice-President*

ARTHUR BERRY  
*Secretary*

SARAH JOHNSON  
*Member*

APRIL NANCE  
*Member*

**EARLE SCHOOL DISTRICT**

1401 Third Street  
P. O. Box 637  
Earle, Arkansas 72331  
(870) 792-8486  
FAX: (870) 792-8897

RICKEY NICKS  
*Superintendent*

ADOLPHUS HICKS  
*Business Manager*

February 4, 2011

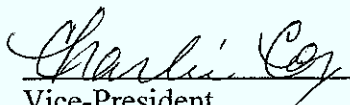
**BOARD RESOLUTION**

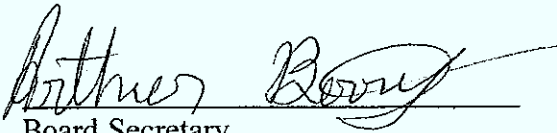
At the February 4, 2011 called board meeting, the Board of Directors of the Earle School District approves the resolution to support the Fiscal Recovery Plan proposed by the Superintendent and financial management of the school to include but not limited to the actions taken prior to this resolution (2009-2010 school year). The sale of district property, the reduction in force of faculty and staff for the 2011-2012 school year, the control of expenditures and the execution of the academic plan without sacrificing quality.

This resolution is supported and approved.

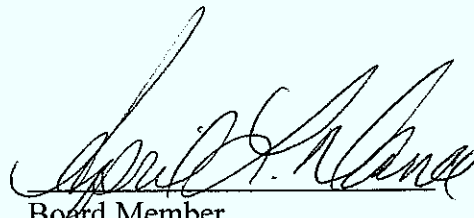
VOTE: YES 5 NO 0

  
Board President

  
Vice-President

  
Board Secretary

  
Board Member

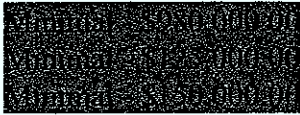





  
Board Member

# EARLE SCHOOL DISTRICT

## Fiscal Recovery Plan

<b><u>BOARD MEETING DATE(S)</u></b>	<b><u>ACTION</u></b>	<b><u>STATUS/OUTCOME</u></b>
Feb. 6, 2010	Previous Superintendent Suspended	
7, 2010	Rickey Nicks, named Interim Superintendent	
10, 2010	Board meeting called to discuss urgent business <ol style="list-style-type: none"> <li>1. Financial Report</li> <li>2. Audit</li> <li>3. [REDACTED]</li> <li>4. Contracts</li> <li>5. Transfers – Bookkeeper transferred from central office</li> </ol>	[REDACTED]
March 13, 2010	[REDACTED] [REDACTED] funds applied for to help with buildings, staffing needs	Approved [REDACTED] staff/buildings (May 2010)
	Rickey Nicks named Acting Superintendent for the 2010-2011 school year	NAMED Superintendent effective July 1, 2011
	Al Hicks hired as Business Manager	Permanent – effective June 1, 2011
	[REDACTED] [REDACTED] process for closing the middle school campus for the 2010-2011 school year	Closed as of June 30, 2010 - (proposed sale of property spring, 2011)
April 24, 2010	Outstanding Invoices Totaling [REDACTED] for current fiscal year (2009-2010)	Paid off in fiscal year 2009-10

	Construction plans were finalized for buildings damaged by the 2007 tornado	Parent center, music room, adm. building (completed 12/2010)
	Rif Personnel were not hired (See RIF list)	State Reduction of 137 positions finalized 2/21/11
May 22, 2010	Bond completes station 2010-11	Final teachers hired for 2010-11 school year
June 19, 2010	Board approves bond refinance that saves the District over \$3.2 million for the 2010-2011 and 2011-2012 school years (see all)	Completed June 2010 savings for 2010-2011 school year - \$3.2 million; savings of \$2.1 million (2011-2012)
July, 2010	District receives 21 <sup>st</sup> Century Community Learning Grant \$500,000	\$500,000 in 2010-2011
August 8, 2010	Bond refinance issues up for sale	(Preliminary sales started)
August 28, 2010	Finalized the sale of bond issues at all home meetings	(Board signs off on sale)
9/30/2010	Certification problems cleared up. The preliminary DOE Review was clear of violations. District operating at proficient level.	After probationary status – District reduced staff to minimal levels. (To be revisited in spring of 2011).
October 23, 2010	Private Audit authorized by the Board	To be completed March, 2011
November 30, 2010	Audit scheduled to Start December 6, 2010	
December 11, 2010	Parent center, music room and adm. building complete	In use as of January 1, 2011

February 4, 2011	<p>Approval of Fiscal Recovery Plan by School Board for the sale of school property:</p> <p>Called board meeting:</p> <ul style="list-style-type: none"> <li>a.) school Section</li> <li>b.) school House</li> <li>c.) middle school main building</li> <li>d.) middle school cafeteria</li> <li>e.) middle school pre-school</li> <li>f.) school lot on 3<sup>rd</sup> Street</li> <li>g.) school lot on TN Street</li> </ul>	<p>Actions to Comply: Sale of property to shore up cash flow problems</p> <p>      </p>
March, 2011	Analyze staffing needs (certified)	To be completed by May, 2011
April, 2011	Analyze staffing needs (classified)	To be completed by May, 2011
May, 2011	Determine Budgetary Projections for 2011-2012 school year	To be completed by June 1, 2011
June, 2011	<p>Close out school year</p> <p>Ending Balance</p> <p></p> <p></p>	<p>-----</p> <p>Projected Balance</p> <p></p>

Earle School District

2010 Fiscal Year

Budget & Actual Expense Comparison

<u>Fund Name</u>	<u>Fund /Acct.</u>	<u>Bgt.2010 ##</u>	<u>Act.2010*</u>	<u>Variance</u>
Classified Salaries	2* 61120	\$ 636,010.00	\$ 985,637.09	\$ (349,627.09)
Crt.Substitutes	1 2* 61710	\$ 92,329.00	\$ 143,188.13	\$ (50,859.13)
Consulting Educator	2* 63230	\$ 750.00	\$ 35,037.00	\$ (34,287.00)
Statistical Svcs.	2* 63420	\$ 37,250.00	\$ 62,925.00	\$ (25,675.00)
Bldg & Grounds	2* 64310	\$ 50,530.00	\$ 294,623.00	\$ (244,093.00)
Gen. Supplies	2* 66100	\$ 308,420.00	\$ 400,726.61	\$ (92,306.61)
<b>Total</b>		<b>\$ 1,125,289.00</b>	<b>\$ 1,922,136.83</b>	<b>\$ (796,847.83)</b>

( )=Unfavorable

A. Hicks

4/29/2011

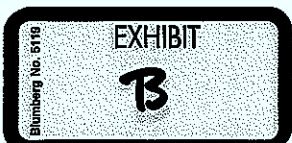
Earle School District

2011 Fiscal Year To Date- April

Budget & Actual Expense Compari:

<u>Bgt.2011 ##YTD</u>	<u>Act.2011 YTD*</u>	<u>Variance</u>
\$ 932,120.00	\$ 925,554.00	\$ 6,566.00
\$ -	\$ 117,194.00	\$ (117,194.00)
\$ 94,773.00	\$ -	\$ 94,773.00
\$ -	\$ -	\$ -
\$ 222,758.00	\$ 111,269.00	\$ 111,489.00
\$ 213,803.00	\$ 305,993.00	\$ (92,190.00)
<b>\$ 1,463,454.00</b>	<b>\$ 1,460,010.00</b>	<b>\$ 3,444.00</b>

( )= Unfavorable



Earle School DistrictActual Expense comparison 2010 vs 2011YTD Thru April

<u>Fund Name</u>	<u>Fund /Acct.</u>	<u>Act Exp.2010</u>	<u>Act.Exp.2011</u>	<u>Variance</u>
Certified Salaries	1*61110	\$ 2,242,016.00	\$ 2,053,273.00	\$ 188,743.00
Classified Salaries	2* 61120	\$ 835,356.00	\$ 925,554.00	\$ (90,198.00)
Crt.Substitutes	1 2* 61710	\$ 87,582.00	\$ 117,194.00	\$ (29,612.00)
Salary Benefits	2*62*	\$ 779,649.00	\$ 750,684.00	\$ 28,965.00
Consulting Educator	2* 63230	\$ 44,379.00	\$ -	\$ 44,379.00
Statistical Svcs.	2* 63420	\$ 41,640.00	\$ -	\$ 41,640.00
Bldgs.& Grounds	2* 64310	\$ 256,041.00	\$ 111,269.00	\$ 144,772.00
Gen. Supplies	2* 66100	\$ 323,150.00	\$ 305,993.00	\$ 17,157.00
<b>Total</b>		<b>\$ 4,609,813.00</b>	<b>\$ 4,263,967.00</b>	<b>\$ 345,846.00</b>
<b>Debt Service</b>	<b>4*</b>	<b>\$ 495,934.00</b>	<b>\$ 225,409.00</b>	<b>\$ 270,525.00</b>

( )=Unfavorable

A.Hicks

4/29/2011

**RIF/ATTRITION PERSONEL  
2010-2011**

1. JANET CAL(PREK PARA-PRO)	\$ 20,500.00
2. LASONYA KEY(ELEM. PARA-PRO)	16,000.00
3. BARBARA RICHMOND(ELEM. PARA-PRO)	16,000.00
4. MYRTLE JAMISON	70,307.78
5. RUTHIE MOORE	20,000.00
6. EVA JOYCE STEPP	<u>43,283.00</u>
	\$186,090.78
FRINGES	<u>40,939.99</u>
TOTAL SAVINGS	\$227,030.00

**POSITIONS AVAILABLE**

1. MATH E.H.S (RICK HATLEY)
2. SPECIAL EDUCATION(JO ANN WILLIAMS)
3. SIX GRADE TEACHER(CONTHA WEST)
4. GLORIA TURNER(SOCIAL STUDIES)

**RETIRING AND RESIGNED PERSONEL**

1. BEVERLY PRESCOTT(RETIRING)
2. EVA JOYCE STEPP(RESIGNED)
3. JO ANN WILLIAMS(RESIGNED)
4. CONTHA WEST (RESIGNED)
5. KATHRYN TOLLISON(RESIGNED)
6. RICK HATLEY(RESIGNED)
7. JACK CRUMBLY(RETIRING)
8. MYRTLE JAMISON(RESIGNED)
9. PHYLISTIA STANLEY(RESIGNED)

**PROGRAMS ENDING 2010-2011 FISICAL YEAR**

1. ALTERNATIVE LEARNING PROGRAM





# *Rif & Refunding*

## RIF/TERMINATIONS/TRANSFERS

Linda Coins	\$38,882.00
Paula Bunton	35,532.00
Rickye Roberson	33,000.00
Earnestine Weaver	37,735.00
Zena Witherspoon	40,267.00
Junette M. Freeman	36,528.96
Deborah Slaughter	21,360.00
Kitanda Moore	<u>21,360.00</u>
	<b>\$299,147.96</b>
Fringes	<u>58,579.64</u>
	<b><u>\$357,727.60</u></b>

## NON-RENEWAL/TRANSFER

Tagwunda Smith	\$77,408.00	Adjusted amount for 2010-2011: \$48,189.00
Mary Harvey	79,919.00	Adjusted amount for 2010-2011: \$29,990.00
Jessica Jefferson	<u>38,714.00</u>	Adjusted amount for 2010-2011: <u>\$37,732.00</u>
	<b>\$196,041.00</b>	<b>\$115,911.00</b>

**RIF Difference: \$357,727.60 + TRANSFER Difference: \$80,130.00 = \$437,857.60**

## TERMINATION/NON-RENEWAL

Miro Blazewicz

}----- Will need to be replaced.

Florine Williams

# **Earle School District Refunding Results**

2003 Bond Issue		2004 Bond Issue	
Old Net Debt Service	5,314,017.50	Old Net Debt Service	3,898,075.00
New Net Debt Service	4,893,988.78	New Net Debt Service	
Savings	420,028.72	Savings	3,898,075.00

Savings per Year		Saving per Year	
Year 1	221,586.22	Year 1	66,930.54
Year 2	60,645.00	Year 2	38,467.50
Year 3	17,325.00	Year 3	37,467.50
Year 4	14,025.00	Year 4	16,707.50
Year 5	10,650.00	Year 5	6,297.50
Year 6	12,660.00	Year 6	5,960.00
Year 7	9,987.50	Year 7	5,622.50
Year 8	12,362.50	Year 8	5,285.00
Year 9	9,672.50	Year 9	5,135.00
Year 10	7,037.50	Year 10	4,905.00
Year 11	9,555.00	Year 11	4,675.00
Year 12	7,010.00	Year 12	4,645.00
Year 13	4,450.00	Year 13	4,490.00
Year 14	6,765.00	Year 14	4,335.00
Year 15	3,912.50	Year 15	4,348.74
Year 16	5,867.50	Year 16	4,116.24
Year 17	2,527.50	Year 17	3,883.74
Year 18	3,990.00	Year 18	3,713.74
	<u>420,028.72</u>	Year 19	3,478.74
		Year 20	6,197.50
		Year 21	3,917.50
		Year 22	6,845.00
		Year 23	4,440.00
		Year 24	<u>2,280.00</u>
			253,844.24

Ross, Sinclair & Associates was the winning bidder of the 2004 Refunding issue, and Morgan Keegan was the winning bidder of the 2003 Refunding Issue.

**EARLE SCHOOL DISTRICT**  
**SALE OF PROPERTY**

<b><u>DESCRIPTION</u></b>	<b><u>AMOUNT</u></b>
Farm Land 640 Acres	\$ 1,456,000.00
Dunbar Building	\$ 55,000.00
Lots 1-8 Block 49 Earle	\$ 7,441.80
Lot 2 of The Stalcup Ad	\$ 8,801.21
<b>TOTAL</b>	<b>\$ 1,527,243.01</b>



ESD012

**A. Settlement Statement (HUD-1)****B. Type of Loan**

1. <input type="checkbox"/> FHA	2. <input type="checkbox"/> RHS	3. <input checked="" type="checkbox"/> Conv. Unins.	6. File Number: 4026M	7. Loan Number:	8. Mortgage Insurance Case Number:
4. <input type="checkbox"/> VA	5. <input type="checkbox"/> Conv. Ins.				

**C. Note:** This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.

<b>D. Name and Address of Borrower:</b>  New Bethel M. B. Church Mississippi Street Earle, Arkansas 72331	<b>E. Name and Address of Seller:</b>  Special School District of Earle	<b>F. Name and Address of Lender:</b>  
<b>G. Property Location:</b> Mississippi Street Earle, AR 72331 Crittenden County, Arkansas Lots 1-8, Block 49, Town of Earle	<b>H. Settlement Agent:</b> Cowling Title Company 1231 Hwy 77, Suite #1 Marion, AR 72364 Ph. (870)735-4702  <b>I. Settlement Date:</b> April 26, 2011	

<b>J. Summary of Borrower's transaction</b>		<b>K. Summary of Seller's transaction</b>	
100. Gross Amount Due from Borrower:		400. Gross Amount Due to Seller:	
101. Contract sales price	8,000.00	401. Contract sales price	8,000.00
102. Personal property		402. Personal property	
103. Settlement Charges to Borrower (Line 1400)	408.20	403.	
104.		404.	
105.		405.	
<b>Adjustments for items paid by Seller in advance</b>		<b>Adjustments for items paid by Seller in advance</b>	
106. City/Town Taxes to		406. City/Town Taxes to	
107. County Taxes to		407. County Taxes to	
108. Assessments to		408. Assessments to	
109.		409.	
110.		410.	
111.		411.	
112.		412.	
120. Gross Amount Due from Borrower	8,408.20	420. Gross Amount Due to Seller	8,000.00
<b>200. Amounts Paid by or in Behalf of Borrower</b>		<b>500. Reductions in Amount Due Seller:</b>	
201. Deposit or earnest money		501. Excess deposit (see instructions)	
202. Principal amount of new loan(s)		502. Settlement charges to Seller (Line 1400)	558.20
203. Existing loan(s) taken subject to		503. Existing loan(s) taken subject to	
204.		504. Payoff First Mortgage	
205.		505. Payoff Second Mortgage	
206.		506.	
207.		507.	
208.		508.	
209.		509.	
<b>Adjustments for items unpaid by Seller</b>		<b>Adjustments for items unpaid by Seller</b>	
210. City/Town Taxes to		510. City/Town Taxes to	
211. County Taxes to		511. County Taxes to	
212. Assessments to		512. Assessments to	
213.		513.	
214.		514.	
215.		515.	
216.		516.	
217.		517.	
218.		518.	
219.		519.	
220. Total Paid by/for Borrower		520. Total Reduction Amount Due Seller	558.20
<b>300. Cash at Settlement from/to Borrower</b>		<b>600. Cash at settlement to/from Seller</b>	
301. Gross amount due from Borrower (line 120)	8,408.20	601. Gross amount due to Seller (line 420)	8,000.00
302. Less amount paid by/for Borrower (line 220)	( )	602. Less reductions due Seller (line 520)	( 558.20 )
303. Cash <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	8,408.20	603. Cash <input checked="" type="checkbox"/> To <input type="checkbox"/> From Seller	7,441.80

L. Settlement Charges				Paid From Borrower's Funds at Settlement	Paid From Seller's Funds at Settlement
<b>700. Total Real Estate Broker Fees</b>					
Division of commission (line 700) as follows:					
701. \$	to				
702. \$	to				
703. Commission paid at settlement					
704.					
705.					
<b>800. Items Payable in Connection with Loan</b>					
801. Our origination charge		\$	(from GFE #1)		
802. Your credit or charge (points) for the specific interest rate chosen		\$	(from GFE #2)		
803. Your adjusted origination charges			(from GFE #A)		
804. Appraisal fee	to		(from GFE #3)		
805. Credit Report	to		(from GFE #3)		
806. Tax service	to		(from GFE #3)		
807. Flood certification	to		(from GFE #3)		
808.			(from GFE #3)		
809.			(from GFE #3)		
810.			(from GFE #3)		
811.			(from GFE #3)		
<b>900. Items Required by Lender to Be Paid in Advance</b>					
901. Daily interest charges from	to	@ \$/day	(from GFE #10)		
902. MIP Tot Ins. for Life of Loan	months to		(from GFE #3)		
903. Homeowner's insurance for	years to		(from GFE #11)		
904.			(from GFE #11)		
905.			(from GFE #11)		
<b>1000. Reserves Deposited with Lender</b>					
1001. Initial deposit for your escrow account			(from GFE #9)		
1002. Homeowner's insurance	months @ \$	per month	\$		
1003. Mortgage insurance	months @ \$	per month	\$		
1004. Property taxes			\$		
1005.			\$		
1006.	months @ \$	per month	\$		
1007.	months @ \$	per month	\$		
1008.			\$		
1009.			\$		
<b>1100. Title Charges</b>					
1101. Title services and lender's title insurance			(from GFE #4)	370.00	
1102. Settlement or closing fee	to Cowling Title Company		\$		370.00
1103. Owner's title insurance to Fidelity National Title Insurance			(from GFE #5)		175.00
1104. Lender's title insurance to Fidelity National Title Insurance			\$		
1105. Lender's title policy limit	\$				
1106. Owner's title policy limit	\$	8,000.00			
1107. Agent's portion of the total title insurance premium	to Cowling Title Company	\$	140.00		
1108. Underwriter's portion of the total title insurance premium	to Fidelity National Title Insurance	\$	35.00		
1109.					
1110.					
1111.					
1112.					
1113.					
<b>1200. Government Recording and Transfer Charges</b>					
1201. Government recording charges	to Circuit Clerk Office		(from GFE #7)	25.00	
1202. Deed \$	25.00 Mortgage \$	Releases \$	Other \$		
1203. Transfer taxes	to Arkansas Revenue Dept.		(from GFE #8)	13.20	
1204. City/County tax/stamps	\$	\$			13.20
1205. State tax/stamps	\$	26.40	\$		
1206.					
1207.					
<b>1300. Additional Settlement Charges</b>					
1301. Required services that you can shop for			(from GFE #6)		
1302.					
1303.					
1304.					
1305.					
<b>1400. Total Settlement Charges (enter on lines 103, Section J and 502, Section K)</b>				408.20	558.20

Certified to be a true copy.

# BUYER / SELLER CERTIFICATION

**Borrower:** New Bethel M. B. Church  
**Seller:** Special School District of Earle  
**Settlement Agent:** Cowling Title Company  
(870)735-4702  
**Place of Settlement:** 1231 Hwy 77, Suite #1  
Marion, AR 72364  
**Settlement Date:** April 26, 2011  
**Property Location:** Mississippi Street  
Earle, AR 72331  
Crittenden County, Arkansas  
Lots 1-8, Block 49, Town of  
Earle

The Buyer and Seller this date have checked, reviewed and approved the figures appearing on the Disclosure/Settlement Statement (Statement of Actual Costs), consisting of three (3) pages. Buyer acknowledges receipt of the payment of the loan proceeds in full, and Seller acknowledges payment in full of the proceeds due Seller from the settlement.

As part of the consideration of this sale, the contract between the parties is by reference incorporated herein and made a part hereof; the terms and conditions contained therein shall survive the closing and shall not merge upon the delivery of the warranty deed.

I have carefully reviewed the HUD-1 Settlement Statement and to the best of my knowledge and belief, it is a true and accurate statement of all receipts and disbursements made on my account or by me in this transaction. I further certify that I have received a copy of the HUD-1 Settlement Statement.

New Bethel M. B. Church  
BY: Arthur Lee Maples, Sr.  
Arthur Lee Maples, Sr., Chairman Deacon

Special School District of Earle  
BY: Eric Cox  
Eric Cox, Board President  
BY: Arthur Berry  
Arthur Berry, Board Secretary

To the best of my knowledge, the HUD-1 Settlement Statement which I have prepared is a true and accurate account of the funds which were received and have been or will be disbursed by the undersigned as part of the settlement of this transaction.

Q. Nalley  
Cowling Title Company  
Settlement Agent

WARNING: It is a crime to knowingly make false statements to the United States on this or any similar form. Penalties upon conviction can include a fine and imprisonment. For details see: Title 18 U. S. Code Section 1001 & Section 1010.

(4026M.PFD/4026M/14)

ESD015

**A. Settlement Statement (HUD-1)****B. Type of Loan**

1. <input type="checkbox"/> FHA	2. <input type="checkbox"/> RHS	3. <input checked="" type="checkbox"/> Conv. Unins.	6. File Number: 4025M	7. Loan Number:	8. Mortgage Insurance Case Number:
4. <input type="checkbox"/> VA	5. <input type="checkbox"/> Conv. Ins.				

**C. Note:** This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.

<b>D. Name and Address of Buyer:</b>  Charlie Young and Elizabeth Young 1604 Second Street Earle, Arkansas 72331	<b>E. Name and Address of Seller:</b>  The Earle School District No. P.O. Box 687 Earle, AR 72331	<b>F. Name and Address of Lender:</b>
<b>G. Property Location:</b> 1604 Second Street Earle, AR 72331 Crittenden County, Arkansas Lot 2 of the Stalcup Addition to the City of Earle, Arkansas	<b>H. Settlement Agent:</b> Cowling Title Company 1231 Hwy 77, Suite #1 Marion, AR 72364 Place of Settlement: 1231 Hwy 77, Suite #1 Marion, AR 72364	<b>I. Settlement Date:</b>  April 26, 2011

<b>J. Summary of Buyer's transaction</b>		<b>K. Summary of Seller's transaction</b>	
100. Gross Amount Due from Buyer:		400. Gross Amount Due to Seller:	
101. Contract sales price	9,500.00	401. Contract sales price	9,500.00
102. Personal property		402. Personal property	
103. Settlement Charges to Buyer (Line 1400)	411.50	403.	
104.		404.	
105.		405.	
<b>Adjustments for items paid by Seller in advance</b>		<b>Adjustments for items paid by Seller in advance</b>	
106. City/Town Taxes to		406. City/Town Taxes to	
107. County Taxes to		407. County Taxes to	
108. Assessments to		408. Assessments to	
109.		409.	
110.		410.	
111.		411.	
112.		412.	
120. Gross Amount Due from Buyer	9,911.50	420. Gross Amount Due to Seller	9,500.00
200. Amounts Paid by or in Behalf of Buyer		500. Reductions in Amount Due Seller:	
201. Deposit or earnest money		501. Excess deposit (see instructions)	
202. Principal amount of new loan(s)		502. Settlement charges to Seller (Line 1400)	665.68
203. Existing loan(s) taken subject to		503. Existing loan(s) taken subject to	
204.		504. Payoff First Mortgage	
205.		505. Payoff Second Mortgage	
206.		506.	
207.		507.	
208.		508.	
209.		509.	
<b>Adjustments for items unpaid by Seller</b>		<b>Adjustments for items unpaid by Seller</b>	
210. City/Town Taxes to		510. City/Town Taxes to	
211. County Taxes 01/01/11 to 04/27/11	33.11	511. County Taxes 01/01/11 to 04/27/11	33.11
212. Assessments to		512. Assessments to	
213.		513.	
214.		514.	
215.		515.	
216.		516.	
217.		517.	
218.		518.	
219.		519.	
220. Total Paid by/for Buyer	33.11	520. Total Reduction Amount Due Seller	698.79
300. Cash at Settlement from/to Buyer		600. Cash at settlement to/from Seller	
301. Gross amount due from Buyer (line 120)	9,911.50	601. Gross amount due to Seller (line 420)	9,500.00
302. Less amount paid by/for Buyer (line 220)	( 33.11)	602. Less reductions due Seller (line 520)	( 698.79)
303. Cash <input checked="" type="checkbox"/> From <input type="checkbox"/> To Buyer	9,878.39	603. Cash <input checked="" type="checkbox"/> To <input type="checkbox"/> From Seller	8,801.21



L. Settlement Charges				Paid From Buyer's Funds at Settlement	Paid From Seller's Funds at Settlement
<b>700. Total Real Estate Broker Fees</b>					
Division of commission (line 700) as follows:					
701. \$	to				
702. \$	to				
703. Commission paid at settlement					
704.					
705.					
<b>800. Items Payable in Connection with Loan</b>					
801. Our origination charge	\$		(from GFE #1)		
802. Your credit or charge (points) for the specific interest rate chosen	\$		(from GFE #2)		
803. Your adjusted origination charges			(from GFE #A)		
804. Appraisal fee	to		(from GFE #3)		
805. Credit Report	to		(from GFE #3)		
806. Tax service	to		(from GFE #3)		
807. Flood certification	to		(from GFE #3)		
808.			(from GFE #3)		
809.			(from GFE #3)		
810.			(from GFE #3)		
811.			(from GFE #3)		
<b>900. Items Required by Lender to Be Paid in Advance</b>					
901. Daily interest charges from	to	@ \$/day	(from GFE #10)		
902. MIP Tot Ins. for Life of Loan	months to		(from GFE #3)		
903. Homeowner's insurance for	years to		(from GFE #11)		
904.			(from GFE #11)		
905.			(from GFE #11)		
<b>1000. Reserves Deposited with Lender</b>					
1001. Initial deposit for your escrow account			(from GFE #9)		
1002. Homeowner's insurance	months @ \$	per month	\$		
1003. Mortgage insurance	months @ \$	per month	\$		
1004. Property taxes			\$		
County Taxes	months @ \$	per month	\$		
1005.			\$		
1006.	months @ \$	per month	\$		
1007.	months @ \$	per month	\$		
1008.			\$		
1009.			\$		
<b>1100. Title Charges</b>					
1101. Title services and lender's title insurance			(from GFE #4)	370.00	
1102. Settlement or closing fee	to Cowling Title Company		\$		370.00
1103. Owner's title insurance to Cowling Title Company			(from GFE #5)		175.00
1104. Lender's title insurance to Fidelity National Title Insurance			\$		
1105. Lender's title policy limit	\$				
1106. Owner's title policy limit	\$ 9,500.00				
1107. Agent's portion of the total title insurance premium	to Cowling Title Company	\$ 140.00			
1108. Underwriter's portion of the total title insurance premium	to Fidelity National Title Insurance	\$ 35.00			
1109.					
1110.					
1111.					
1112.					
1113.					
<b>1200. Government Recording and Transfer Charges</b>					
1201. Government recording charges	to Circuit Clerk Office	(from GFE #7)		25.00	
1202. Deed \$ 25.00	Mortgage \$	Releases \$	Other \$		
1203. Transfer taxes	to Arkansas Revenue Dept.	(from GFE #8)		16.50	
1204. City/County tax/stamps	\$	\$			
1205. State tax/stamps	\$ 33.00	\$			16.50
1206.					
1207.					
<b>1300. Additional Settlement Charges</b>					
1301. Required services that you can shop for		(from GFE #6)			
1302. 2010 Real Estate Taxes	to Crittenden County Tax Collector	Parcel #211601000000			104.18
1303.					
1304.					
1305.					
<b>1400. Total Settlement Charges (enter on lines 103, Section J and 502, Section K)</b>				411.50	665.68

Certified to be a true copy.

## BUYER / SELLER CERTIFICATION

**Buyer:** Charlie Young and Elizabeth Young  
**Seller:** The Earle School District No.  
**Settlement Agent:** Cowling Title Company  
(870)735-4702  
**Place of Settlement:** 1231 Hwy 77, Suite #1  
Marion, AR 72364  
**Settlement Date:** April 26, 2011  
**Property Location:** 1604 Second Street  
Earle, AR 72331  
Crittenden County, Arkansas  
Lot 2 of the Stalcup Addition  
to the City of Earle, Arkansas

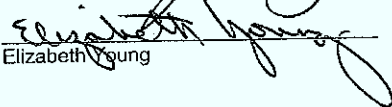
The Buyer and Seller this date have checked, reviewed and approved the figures appearing on the Disclosure/Settlement Statement (Statement of Actual Costs), consisting of three (3) pages. Buyer acknowledges receipt of the payment of the loan proceeds in full, and Seller acknowledges payment in full of the proceeds due Seller from the settlement.

The Buyer and Seller understand that the tax prorations shown on the Settlement Statement are Based on the prior tax periods rate(s). The Buyer and Seller agree to adjust the tax prorations shown on the Settlement Statement when the actual advalorem tax bill is rendered. Seller agrees to forward the next tax bill to Buyer immediately upon receipt of the bill from the tax office. Buyer understands that the next tax bill (even though in the name of the Seller) is the responsibility of the Buyer.

As part of the consideration of this sale, the contract between the parties is by reference incorporated herein and made a part hereof; the terms and conditions contained therein shall survive the closing and shall not merge upon the delivery of the warranty deed.

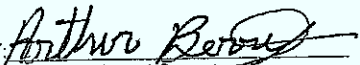
I have carefully reviewed the HUD-1 Settlement Statement and to the best of my knowledge and belief, it is a true and accurate statement of all receipts and disbursements made on my account or by me in this transaction. I further certify that I have received a copy of the HUD-1 Settlement Statement.

  
Charlie Young

  
Elizabeth Young

The Earle School District No. 1 of Crittenden County

BY:   
Eric Cox, Board President

BY:   
Arthur Berry, Board Secretary

To the best of my knowledge, the HUD-1 Settlement Statement which I have prepared is a true and accurate account of the funds which were received and have been or will be disbursed by the undersigned as part of the settlement of this transaction.

  
Cowling Title Company  
Settlement Agent

WARNING: It is a crime to knowingly make false statements to the United States on this or any similar form. Penalties upon conviction can include a fine and imprisonment. For details see: Title 18 U. S. Code Section 1001 & Section 1010.

(4025M.PFD/4025M/29)

ESD018



# A. Settlement Statement (HUD-1)

## B. Type of Loan

1. <input type="checkbox"/> FHA	2. <input type="checkbox"/> RHS	3. <input checked="" type="checkbox"/> Conv. Unins.	6. File Number: 4045M	7. Loan Number:	8. Mortgage Insurance Case Number:
4. <input type="checkbox"/> VA	5. <input type="checkbox"/> Conv. Ins.				

C. Note: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.

D. Name and Address of Borrower:  Mt. Beulah M. B. Church 320 Lee Street Earle, AR 72331	E. Name and Address of Seller:  Earle Special School District	F. Name and Address of Lender:
G. Property Location: 320 Lee Street Earle, AR 72331 Crittenden County, Arkansas Lot 2 in Plat Book 5, Page 290	H. Settlement Agent: Cowling Title Company 1231 Hwy 77, Suite #1 Marion, AR 72364 Place of Settlement: 1231 Hwy 77, Suite #1 Marion, AR 72364	I. Settlement Date:  April 29, 2011

J. Summary of Borrower's transaction		K. Summary of Seller's transaction	
100. Gross Amount Due from Borrower:	55,000.00	400. Gross Amount Due to Seller:	55,000.00
101. Contract sales price		401. Contract sales price	
102. Personal property		402. Personal property	
103. Settlement Charges to Borrower (Line 1400)	480.75	403.	
104.		404.	
105.		405.	
Adjustments for items paid by Seller in advance		Adjustments for items paid by Seller in advance	
106. City/Town Taxes to		406. City/Town Taxes to	
107. County Taxes to		407. County Taxes to	
108. Assessments to		408. Assessments to	
109.		409.	
110.		410.	
111.		411.	
112.		412.	
120. Gross Amount Due from Borrower	55,480.75	420. Gross Amount Due to Seller	55,000.00
200. Amounts Paid by or in Behalf of Borrower		500. Reductions in Amount Due Seller:	
201. Deposit or earnest money		501. Excess deposit (see Instructions)	
202. Principal amount of new loan(s)		502. Settlement charges to Seller (Line 1400)	735.75
203. Existing loan(s) taken subject to		503. Existing loan(s) taken subject to	
204.		504. Payoff First Mortgage	
205.		505. Payoff Second Mortgage	
206.		506.	
207.		507.	
208.		508.	
209.		509.	
Adjustments for items unpaid by Seller		Adjustments for items unpaid by Seller	
210. City/Town Taxes to		510. City/Town Taxes to	
211. County Taxes to		511. County Taxes to	
212. Assessments to		512. Assessments to	
213.		513.	
214.		514.	
215.		515.	
216.		516.	
217.		517.	
218.		518.	
219.		519.	
220. Total Paid by/for Borrower		520. Total Reduction Amount Due Seller	735.75
300. Cash at Settlement from/to Borrower		600. Cash at settlement to/from Seller	
301. Gross amount due from Borrower (line 120)	55,480.75	601. Gross amount due to Seller (line 420)	55,000.00
302. Less amount paid by/for Borrower (line 220)	( )	602. Less reductions due Seller (line 520)	( 735.75 )
303. Cash <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	55,480.75	603. Cash <input checked="" type="checkbox"/> To <input type="checkbox"/> From Seller	54,264.25

The Public Reporting Burden for this collection of information is estimated at 35 minutes per response for collecting, reviewing, and reporting the data. This agency may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number. No confidentiality is assured; this disclosure is mandatory. This is designed to provide the parties to a RESPA covered transaction with information during the settlement process.

L. Settlement Charges				Paid From Borrower's Funds at Settlement	Paid From Seller's Funds at Settlement
<b>700. Total Real Estate Broker Fees</b>					
Division of commission (line 700) as follows:					
701. \$	to				
702. \$	to				
703. Commission paid at settlement					
704.					
705.					
<b>800. Items Payable in Connection with Loan</b>					
801. Our origination charge		\$	(from GFE #1)		
802. Your credit or charge (points) for the specific interest rate chosen		\$	(from GFE #2)		
803. Your adjusted origination charges			(from GFE #A)		
804. Appraisal fee	to		(from GFE #3)		
805. Credit Report	to		(from GFE #3)		
806. Tax service	to		(from GFE #3)		
807. Flood certification	to		(from GFE #3)		
808.			(from GFE #3)		
809.			(from GFE #3)		
810.			(from GFE #3)		
811.			(from GFE #3)		
<b>900. Items Required by Lender to Be Paid in Advance</b>					
901. Daily interest charges from	to	@ \$/day	(from GFE #10)		
902. MIP Tot Ins. for Life of Loan	months to		(from GFE #3)		
903. Homeowner's insurance for	years to		(from GFE #11)		
904.			(from GFE #11)		
905.					
<b>1000. Reserves Deposited with Lender</b>					
1001. Initial deposit for your escrow account			(from GFE #9)		
1002. Homeowner's insurance	months @ \$	per month	\$		
1003. Mortgage insurance	months @ \$	per month	\$		
1004. Property taxes			\$		
1005.			\$		
1006.	months @ \$	per month	\$		
1007.	months @ \$	per month	\$		
1008.			\$		
1009.			\$		
<b>1100. Title Charges</b>					
1101. Title services and lender's title insurance			(from GFE #4)	370.00	
1102. Settlement or closing fee	to Cowling Title Company		\$		370.00
1103. Owner's title insurance to Fidelity National Title Insurance			(from GFE #5)		275.00
1104. Lender's title insurance to Fidelity National Title Insurance			\$		
1105. Lender's title policy limit	\$				
1106. Owner's title policy limit	\$ 55,000.00				
1107. Agent's portion of the total title insurance premium	to Cowling Title Company	\$ 220.00			
1108. Underwriter's portion of the total title insurance premium	to Fidelity National Title Insurance	\$ 55.00			
1109.					
1110.					
1111.					
1112.					
1113.					
<b>1200. Government Recording and Transfer Charges</b>					
1201. Government recording charges	to Circuit Clerk Office		(from GFE #7)	20.00	
1202. Deed \$ 20.00	Mortgage \$	Releases \$	Other \$		
1203. Transfer taxes	to Arkansas Revenue Dept.		(from GFE #8)	90.75	
1204. City/County tax/stamps	\$	\$			90.75
1205. State tax/stamps	\$ 181.50	\$			
1206.					
1207.					
<b>1300. Additional Settlement Charges</b>					
1301. Required services that you can shop for			(from GFE #6)		
1302.					
1303.					
1304.					
1305.					
<b>1400. Total Settlement Charges (enter on lines 103, Section J and 502, Section K)</b>				480.75	735.75

Certified to be a true copy.

# BUYER / SELLER CERTIFICATION

**Borrower:** Mt. Beulah M. B. Church  
**Seller:** Earle Special School District  
**Settlement Agent:** Cowling Title Company  
(870)735-4702  
**Place of Settlement:** 1231 Hwy 77, Suite #1  
Marion, AR 72364  
**Settlement Date:** April 29, 2011  
**Property Location:** 320 Lee Street  
Earle, AR 72331  
Crittenden County, Arkansas  
Lot 2 in Plat Book 5, Page 290

The Buyer and Seller this date have checked, reviewed and approved the figures appearing on the Disclosure/Settlement Statement (Statement of Actual Costs), consisting of three (3) pages. Buyer acknowledges receipt of the payment of the loan proceeds in full, and Seller acknowledges payment in full of the proceeds due Seller from the settlement.

As part of the consideration of this sale, the contract between the parties is by reference incorporated herein and made a part hereof; the terms and conditions contained therein shall survive the closing and shall not merge upon the delivery of the warranty deed.

I have carefully reviewed the HUD-1 Settlement Statement and to the best of my knowledge and belief, it is a true and accurate statement of all receipts and disbursements made on my account or by me in this transaction. I further certify that I have received a copy of the HUD-1 Settlement Statement.

Mt. Beulah M.B. Church

BY: Donnie R. Cheers 5/2/11  
Donnie Ray Cheers, Deacon Trustee

BY: Frank A. Wilson 5/2/11  
Frank A. Wilson, Deacon Trustee

Earle Special School District

BY: Charlie Cox 4/29/11  
Charlie Cox, Board Vice President

BY: Arthur Berry 4/29/11  
Arthur Berry, Board Secretary

To the best of my knowledge, the HUD-1 Settlement Statement which I have prepared is a true and accurate account of the funds which were received and have been or will be disbursed by the undersigned as part of the settlement of this transaction.

Carrie Nall  
Cowling Title Company  
Settlement Agent

WARNING: It is a crime to knowingly make false statements to the United States on this or any similar form. Penalties upon conviction can include a fine and imprisonment. For details see: Title 18 U. S. Code Section 1001 & Section 1010.

(4045M.PFD/4045M/18)

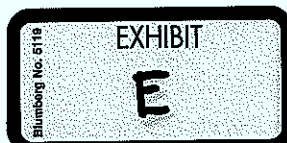
ESD021

**Earle School District**  
**SEALED BID OFFER AND REAL ESTATE CONTRACT**

The undersigned, (hereinafter BUYER) hereby offers to purchase the real estate described on the attached Legal Description Rider for the sum of \$ 2,275.00 per acre with said real estate consisting of 640-acres. This offer is made subject to acceptance by the SELLER, Earle School District #1 by a signature of all the Directors to this instrument. In the event SELLER accepts this Offer, then this instrument shall constitute the contract by the SELLER and the BUYER for the sale of said real estate. BUYER hereby tenders to SELLER a proposed earnest money deposit of 10% of the total amount of the bid, being the sum of \$ N/A, and upon acceptance of the bid, the earnest money deposit shall be placed in a non-refundable escrow account of the Earle School District #1. Earnest money tenders shall be returned to BUYER if this Offer is not accepted.

Upon acceptance of the Offer by SELLER, the following terms shall apply to this transaction:

1. EARNEST MONEY. If BUYER defaults, the SELLER, at their sole option may either retain the earnest money as liquidated damages, or seek any other remedy, legal or equitable. If SELLER defaults, the earnest money shall be refunded to the BUYER and BUYER shall have no other legal or equitable remedies.
2. PAYMENT. The purchase price with the earnest money applied, and subject to prorations shall be paid at closing.
3. CLOSING. Closing shall occur within thirty (30) days from the date of this contract, shall be held at the place designated by the lending institution financing BUYER, or as otherwise agreed by the parties, but if there is no agreement, at the office of Cowling Title Company, 1231 State Highway 77, Marion, Arkansas, 72364.
4. TITLE EXCEPTIONS. Title, when conveyed, shall be subject only to: (a) general real estate taxes for N/A and subsequent years; (b) building, zoning and subdivision restrictions, building line and use or occupancy restrictions and covenants of record provided that the same are not violated by the existing improvements or the present use of the property and provided further that such restrictions or covenants do not contain a reverter or right of re-entry, © private and public utility easements; (d) public roads and highways, provided these easements or roads and highways do not underlie the existing improvements; (e) acts done or suffered by the BUYER.
5. TRANSFER TAXES. At closing, each party will furnish and execute the necessary transfer tax forms.
6. POSSESSION, USE AND OCCUPANCY Possession shall be given on the day of closing, subject to the rights of the existing farm tenant, whose farming rights will be terminated effective October 1, 2011.
7. MINERAL RIGHTS. BUYER has had the opportunity to inspect the premises and agrees to accept the same in its current condition.
8. INSPECTION AND REPAIR. BUYER has had the opportunity to inspect the premises and agrees to accept the same in its current condition.
9. SURVEY. SELLER shall not be required to furnish to BUYER a survey.
10. CLOSING ITEMS. At the closing SELLER will deliver to BUYER a recordable general warranty deed with release of homestead rights.
11. TIME OF ESSENCE. Time is of the essence of this agreement.



ESD022



13. **SURVIVAL.** Except as otherwise expressly stated herein, all agreements, representations and warranties contained in this Contract shall survive the closing and shall not be canceled by the delivery of the deed.
14. **TENDER.** No tender of deed, guaranty policy, title commitment, or owner's duplicate certificate of title or tax search shall be required, but a notice to the BUYER that the same is or are ready for delivery shall have all the force and effect of a tender.
15. **TITLE EVIDENCE.** At least ten days prior to the closing date, SELLER shall deliver to BUYER, at SELLER'S option, either an Abstract of Title to the property or a commitment for title insurance by a title insurance company licensed to do business in the State of Arkansas. If the evidence of title discloses defects, SELLER shall have thirty (30) days after delivery of the title evidence to cure them. If SELLER is unable to clear the title defects, this Contract shall terminate and SELLER shall refund the earnest money to BUYER, unless BUYER agrees to accept the property with the title defects.
16. **ENTIRETY OF AGREEMENT.** This Agreement contains the entire agreement between the parties and NO ORAL REPRESENTATION, warranty or covenant exists other than those herein set forth.

This agreement is executed in duplicate either copy of which shall have the same force and effect as an original and it is made binding upon the heirs, executors, administrators, successors and assigns of the parties.

Executed this thirty-first (31<sup>st</sup>) day of March, 2011 at Earle, Arkansas.

BUYER:

*Swift Ditch Farm ptshg.*  
*By: [Signature] ptshg.*  
*Don Hasman*

NOTARY PUBLIC:

*[Signature]*  
Witness my hand and seal this thirty-first (31<sup>st</sup>) day of  
March, 2011; State of Arkansas; County of Crittenden  
My commission expires: *4/14/2012*

**Nami Matthews Sr., Notary Public**  
**Crittenden County, Arkansas**  
**My Commission Expires 4/14/2012**

*[Signature]*  
Superintendent  
*[Signature]*  
Director  
*[Signature]*  
Director  
*[Signature]*  
Director

Director

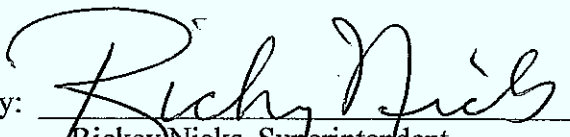
Director

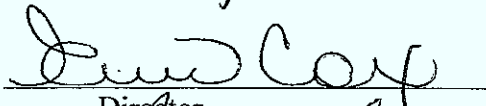
BUYER

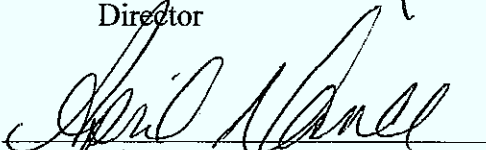
ACCEPTANCE OF OFFER


SELLER (Earle School District # 1) hereby accepts the foregoing offer and agrees to the terms as set forth hereinabove.

Executed this thirty-first (31<sup>st</sup>) day of march, 2011. at Earle, Arkansas.

By:   
Rickey Nicks, Superintendent

  
Director

  
Director

  
Director

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director



**Arkansas Department of Education  
Response to Fiscal Distress Appeal from  
Earle School District**

**1. A declining balance determined to jeopardize the fiscal integrity of the school district**

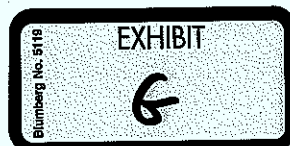
District Lea		1802000
District Description	ADE REPORT	EARLE SCHOOL
FY-08 Balance	\$ 566,192.00	\$ 566,192.00
FY-08 Restricted SOF	\$ 35,619.00	\$ 35,619.00
FY-08 Deposits with Paying Agents	\$ -	\$ -
FY-08 Current Loans	\$ -	\$ -
<b>FY-08 Unrestricted Legal Balance</b>	<b>\$ 530,574.00</b>	<b>\$ 530,574.00</b>
FY-09 Legal Balance	\$ 358,503.00	\$ 358,503.00
FY-09 Restricted SOF	\$ 12,594.00	\$ 12,594.00
FY-09 Deposits with Paying Agents		
FY-09 Current Loans	\$ 350,000.00	\$ 350,000.00
<b>FY-09 Unrestricted Legal Balance</b>	<b>\$ 345,908.00</b>	<b>\$ 345,908.00</b>
FY-10 Legal Balance	\$ 736,608.00	\$ 736,608.00
FY-10 Restricted SOF	\$ 268,211.00	\$ 268,211.00
FY-10 Deposits with Paying Agents		
FY-Current Loans	\$ 500,000.00	\$ 500,000.00
<b>FY-10 Unrestricted Legal Balance</b>	<b>\$ (31,602.00)</b>	<b>\$ (31,602.00)</b>
Two Year Change	\$ (562,176.00)	
<b>Two Year Projected Balance</b>	<b>\$ (593,778.00)</b>	
		<b>W/O Land Sale</b>
<b>FY-11BUDGET</b>		<b>Actual YTD-APRIL</b>
FY-11 Legal Balance	\$ 746,207.00	\$ 1,017,069.00
FY-11 Restricted SOF	\$ 150,751.00	-
FY-11 Deposits with Paying Agents	\$ -	-
FY-11 Current Loans	\$ -	\$ 688,215.00
<b>FY-11 Unrestricted Legal Balance</b>	<b>\$ 595,456.00</b>	<b>\$ 328,854.00</b>



**Arkansas Department of Education  
Response to Fiscal Distress Appeal from  
Earle School District**

1. A declining balance determined to jeopardize the fiscal integrity of the school district

District Lea		1802000
District Description	ADE REPORT	EARLE SCHOOL
FY-08 Balance	\$ 566,192.00	\$ 566,192.00
FY-08 Restricted SOF	\$ 35,619.00	\$ 35,619.00
FY-08 Deposits with Paying Agents	\$ -	\$ -
FY-08 Current Loans	\$ -	\$ -
<b>FY-08 Unrestricted Legal Balance</b>	<b>\$ 530,574.00</b>	<b>\$ 530,574.00</b>
FY-09 Legal Balance	\$ 358,503.00	\$ 358,503.00
FY-09 Restricted SOF	\$ 12,594.00	\$ 12,594.00
FY-09 Deposits with Paying Agents		
FY-09 Current Loans	\$ 350,000.00	\$ 350,000.00
<b>FY-09 Unrestricted Legal Balance</b>	<b>\$ 345,908.00</b>	<b>\$ 345,908.00</b>
FY-10 Legal Balance	\$ 736,608.00	\$ 736,608.00
FY-10 Restricted SOF	\$ 268,211.00	\$ 268,211.00
FY-10 Deposits with Paying Agents		
FY-Current Loans	\$ 500,000.00	\$ 500,000.00
<b>FY-10 Unrestricted Legal Balance</b>	<b>\$ (31,602.00)</b>	<b>\$ (31,602.00)</b>
Two Year Change	\$ (562,176.00)	
<b>Two Year Projected Balance</b>	<b>\$ (593,778.00)</b>	
		<b>With Land Sale</b>
<b>FY-11BUDGET</b>		<b>Actual YTD-APRIL</b>
FY-11 Legal Balance	\$ 746,207.00	\$ 1,017,069.00
FY-11 Restricted SOF	\$ 150,751.00	\$ -
FY-11 Deposits with Paying Agents	\$ -	\$ 1,527,240.00
FY-11 Current Loans	\$ -	\$ 688,215.00
<b>FY-11 Unrestricted Legal Balance</b>	<b>\$ 595,456.00</b>	<b>\$ 1,869,094.00</b>



Blumberg No. 5119

EXHIBIT

H

# Arkansas Department of Education Unrestricted Fund Balance Worksheet

Attachment Q17 A

District Earle											
Funds: 1000, 2000, & 4000											
	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected	Projected	
	Jan	Feb	Mar	April	May	June	Period 13	Period 13	Period 13	Period 13	TOTAL
10-11											
BEGINNING BALANCE	367,694.00	813,662.00	971,571.00	1,001,916.00	1,017,069.00	2,688,340.00	1,771,156.00				
REVENUE											
Local	99,768.00	57,524.00	23,891.00	25,573.00	50,000.00	32,000.00	90,000.00				378,756.00
40% ( _ Accrual or _ Deferral)											0.00
State Aide	359,031.00	359,031.00	359,031.00	359,031.00	359,031.00	359,031.00					2,154,186.00
Land Sale 640 acres/\$2275.00/acre					1,456,000.00						1,456,000.00
Dunbar bldg					55,000.00						55,000.00
Two lots					16,240.00						16,240.00
Transfers	234,357.00										234,357.00
Total Revenue	693,156.00	416,555.00	382,922.00	384,604.00	1,936,271.00	397,031.00	90,000.00				4,294,539.00
EXPENDITURES											
Salaries & Benefits	76,699.00	213,718.00	239,805.00	247,819.00	240,000.00	400,000.00					1,418,041.00
Other Expenditures	32,468.00	44,928.00	112,772.00	34,494.00	25,000.00	220,000.00					469,662.00
Debt Payments (all types of debt)	138,021.00			87,138.00							225,159.00
Transfers to Bldg fund											0.00
Transfers to Food Service Fund											0.00
Current Loan						688,215.00					688,215.00
Total Expenditures	247,188.00	258,646.00	352,577.00	369,451.00	265,000.00	1,308,215.00	0.00				2,801,077.00
ENDING BALANCE	813,662.00	971,571.00	1,001,916.00	1,017,069.00	2,688,340.00	1,771,156.00	1,861,156.00				

January 2011

Division - Fiscal and Administrative Services  
Section - LEA Fiscal Distress Services

ESD028

ARKANSAS PUBLIC SCHOOL COMPUTER NETWORK  
DATE: 05/02/2011 EARLE SCHOOL DISTRICT 2  
TIME: 16:35:06 BANK RECONCILIATION REPORT  
FOR PERIOD 10 OF 11

PAGE NUMBER: 17  
MODULE NUM: BNKRE1AR  
SORT BY CHECK NO  
ALL CHECKS

SELECTION CRITERIA: ALL

PAYEE NAME	CHECK DATE	CLEARED DATE	CHECK NUMBER	OUTSTANDING	CANCELLED
------------	---------------	-----------------	-----------------	-------------	-----------

TOTAL OUTSTANDING CHECKS FOR PERIOD = 330,839.16

TOTAL OF CANCELLED CHECKS FOR PERIOD = 647,132.17

TOTAL CHECKS WRITTEN FOR PERIOD = 712,959.38

1. BALANCE SHOWN ON BANK STATEMENT AT PERIOD END: 628903.85  
2. ADD: CASH IN TRANSIT AT END OF PERIOD: .00

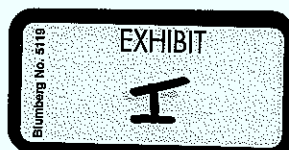
3. SUB-TOTAL: 628903.85

4. DEDUCT OUTSTANDING CHECKS FOR PERIOD: 330839.16

5. ADJUSTED BANK BALANCE AT END OF PERIOD: 298064.69

6. CASH BALANCE AT END OF PERIOD: 292660.54

7. VARIANCE: 5404.15



ESD029

ARKANSAS PUBLIC SCHOOL COMPUTER NETWORK  
DATE: 04/13/2011 EARLE SCHOOL DISTRICT 2  
TIME: 15:32:13 BANK RECONCILIATION REPORT  
FOR PERIOD 9 OF 11

PAGE NUMBER: 19  
MODULE NUM: BNKREIAR  
SORT BY CHECK NO  
ALL CHECKS

SELECTION CRITERIA: ALL

PAYEE NAME	CHECK DATE	CLEARED DATE	CHECK NUMBER	OUTSTANDING	CANCELLED
SANDRESS D. STEWART-MCVA	03/30/11		180076	905.49	.00

TOTAL OUTSTANDING CHECKS FOR PERIOD = 265,052.33

TOTAL OF CANCELLED CHECKS FOR PERIOD = 674,622.53

TOTAL CHECKS WRITTEN FOR PERIOD = 622,178.71

1. BALANCE SHOWN ON BANK STATEMENT AT PERIOD END:	666179.13
2. ADD: CASH IN TRANSIT AT END OF PERIOD:	.00
-----	
3. SUB-TOTAL:	666179.13
4. DEDUCT OUTSTANDING CHECKS FOR PERIOD:	265052.33
-----	
5. ADJUSTED BANK BALANCE AT END OF PERIOD:	401126.80
6. CASH BALANCE AT END OF PERIOD:	395722.65
-----	
7. VARIANCE:	5404.15
=====	



**REGIONS**

Regions Bank

Earle  
801 Commerce ST  
Earle, AR 72331

EARLE SCHOOL DISTRICT  
PO BOX 637  
EARLE AR 72331-0637

ACCOUNT # 0020002793

Cycle 053  
Enclosures 27  
Page 0  
1 of 7

**BUSINESS ANALYZED CHECKING**

April 1, 2011 through April 29, 2011

**SUMMARY**

Beginning Balance	\$666,179.13	Minimum Balance	\$93,094
Deposits & Credits	\$700,583.31 +		
Withdrawals	\$176,908.29 -		
Fees	\$363.76 -		
Automatic Transfers	\$0.00 +		
Checks	\$560,586.54 -		
Ending Balance	\$628,903.85		

**DEPOSITS & CREDITS**

04/01	Deposit - Thank You	2,471.32
04/06	Deposit - Thank You	364.00
04/08	Deposit - Thank You	668.50
04/08	State of Ark Direct Pay Earle School D	9,343.75
04/12	State of Ark Direct Pay Earle School D	4,065.00
04/14	State of Ark Direct Pay Earle School D	6,809.00
04/14	State of Ark Direct Pay Earle School D	3,359.34
04/20	Deposit - Thank You	26,173.07
04/20	State of Ark Direct Pay Earle School D	37,913.00
04/26	State of Ark Direct Pay Earle School D	51,502.30
04/26	State of Ark Direct Pay Earle School D	4,065.00
04/27	Deposit - Thank You	16,243.01
04/27	Deposit - Thank You	1,408.19
04/27	Account Correction	1,000.00
04/27	State of Ark Direct Pay Earle School D	3,093.83
04/28	State of Ark Direct Pay Earle School D	359,031.00
04/28	State of Ark Direct Pay Earle School D	98,073.00
04/29	State of Ark Direct Pay Earle School D	75,000.00
Total Deposits & Credits		\$700,583.31

**WITHDRAWALS**

04/01	IRS USATAXPYMT Earle School D 220149133731465	246.99
04/08	Earle School Dis Dir Dep Earle S D -Sett-Tms ACH	43,245.88
04/11	IRS USATAXPYMT Earle School D 220150175358131	43,236.84
04/15	Regn Loan Trans	2,820.77
04/22	Earle School Dis Dir Dep Earle S D -Sett-Tms ACH	44,296.01
04/29	IRS USATAXPYMT Earle School D 220151955852306	43,061.80
Total Withdrawals		\$176,908.29

ESD031

**Regions Bank**

Earle  
801 Commerce ST  
Earle, AR 72331

EARLE SCHOOL DISTRICT  
PO BOX 637  
EARLE AR 72331-0637

ACCOUNT # 0020002793

Cycle 053  
Enclosures 27  
Page 0  
2 of 7

**FEES**

04/11 Analysis Charge 03-11 363.76

**CHECKS**

Date	Check No.	Amount	Date	Check No.	Amount
04/12		494.50	04/06	69756	9,108.25
04/14		80.00	04/14	69761 *	23,244.06
04/19		1,377.16	04/01	69790 *	38,908.06
04/21		1,234.47	04/01	69793 *	100.00
04/21		1,128.47	04/20	69794	208.08
04/21		767.84	04/04	69795	25.01
04/21		637.99	04/05	69797 *	100.00
04/21		568.93	04/12	69798	40.00
04/21		469.70	04/01	69800 *	100.00
04/21		465.85	04/06	69801	268.60
04/21		387.09	04/01	69803 *	157.00
04/21		263.92	04/05	69805 *	139.00
04/21		227.38	04/04	69806	3,494.09
04/21		218.78	04/08	69807	6,718.83
04/21		202.06	04/12	69808	1,681.38
04/21		103.26	04/08	69809	98.56
04/21		50.95	04/11	69810	1,898.69
04/22		1,560.76	04/08	69811	1,814.50
04/22		486.40	04/08	69812	514.11
04/22		484.07	04/07	69813	3,929.26
04/22		320.44	04/07	69814	3,542.84
04/22		132.09	04/11	69815	48,631.25
04/25		914.34	04/07	69816	1,399.36
04/25		452.56	04/08	69817	441.57
04/25		122.14	04/06	69818	150.00
04/26		171.36	04/08	69819	38,506.26
04/27		156.76	04/08	69820	1,134.40
04/27		60.00	04/06	69821	200.00
04/25	5925 *	1,436.25	04/15	69822	119.68
04/01	65126 *	32.80	04/13	69823	466.67
04/01	65239 *	118.02	04/06	69824	300.00
04/01	65368 *	336.46	04/11	69825	82.01
04/07	68298 *	5,417.55	04/11	69828 *	208.13
04/07	69462 *	2,687.60	04/13	69831 *	1,018.56
04/07	69485 *	2,695.08	04/11	69833 *	189.12
04/01	69606 *	805.06	04/12	69836 *	190.00
04/07	69619 *	5,365.06	04/11	69837	223.42
04/04	69708 *	150.00	04/11	69838	38.62
04/04	69743 *	1,566.72	04/19	69839	568.00
04/21	69751 *	2,265.76	04/13	69840	144.00
04/06	69752	196.68	04/11	69841	186.48
04/06	69754 *	58,667.80	04/13	69842	250.00
04/06	69755	1,782.87	04/13	69844 *	300.00



**Regions Bank**

Earle  
801 Commerce ST  
Earle, AR 72331

EARLE SCHOOL DISTRICT  
PO BOX 637  
EARLE AR 72331-0637

ACCOUNT # 0020002793

Cycle 053  
Enclosures 27  
Page 0  
3 of 7

**CHECKS (CONTINUED)**

Date	Check No.	Amount	Date	Check No.	Amount
04/18	69845	200.00	04/29	69928	300.00
04/18	69846	207.41	04/11	80288 *	197.31
04/18	69847	100.00	04/04	178233 *	984.86
04/13	69849 *	350.00	04/18	179412 *	296.63
04/13	69850	2,500.00	04/22	179679 *	76.39
04/18	69852 *	300.00	04/01	179865 *	466.35
04/25	69853	628.68	04/08	179879 *	865.43
04/25	69855 *	160.43	04/15	179887 *	1,143.34
04/25	69858 *	3,357.00	04/08	179942 *	555.89
04/26	69859	11,817.06	04/05	179967 *	1,353.18
04/26	69860	4,028.88	04/01	179979 *	806.20
04/26	69861	662.87	04/01	179980	132.09
04/25	69862	650.00	04/01	179981	653.87
04/21	69863	991.90	04/04	180000 *	934.26
04/22	69864	10.02	04/04	180002 *	103.26
04/21	69865	736.46	04/05	180011 *	290.50
04/25	69866	219.50	04/11	180028 *	210.06
04/26	69867	677.11	04/08	180052 *	101.58
04/22	69868	242.44	04/04	180076 *	905.49
04/22	69869	301.81	04/07	180077	466.35
04/20	69870	31.10	04/08	180078	570.66
04/20	69871	601.09	04/08	180079	475.22
04/26	69872	574.10	04/08	180080	629.88
04/22	69873	436.35	04/07	180081	651.10
04/21	69874	16,361.54	04/11	180082	2,125.26
04/25	69875	595.81	04/11	180083	544.12
04/21	69876	824.11	04/08	180086 *	700.61
04/25	69877	3,251.54	04/08	180087	3,061.90
04/20	69878	4,750.45	04/12	180088	290.33
04/26	69879	102.37	04/08	180089	1,111.70
04/29	69897 *	2,874.00	04/11	180091 *	19.82
04/29	69903 *	125.00	04/21	180092	865.43
04/25	69905 *	74.52	04/08	180093	976.35
04/25	69906	3,043.65	04/08	180094	436.01
04/22	69907	14.16	04/08	180095	921.87
04/26	69908	112.53	04/08	180096	624.63
04/22	69909	159.16	04/08	180097	860.89
04/25	69913 *	2,850.00	04/08	180098	436.49
04/21	69915 *	216.00	04/15	180100 *	1,143.34
04/25	69916	65.64	04/08	180108 *	544.85
04/25	69917	190.00	04/08	180109	230.23
04/25	69919 *	390.99	04/08	180110	807.17
04/26	69920	3,557.91	04/08	180111	966.72
04/21	69922 *	90.00	04/08	180112	64.61
04/25	69924 *	215.87	04/26	180113	1,424.12
04/26	69925	417.05	04/08	180114	406.91
04/25	69926	90.00	04/08	180115	172.61
04/22	69927	213.12	04/11	180116	492.48

**Regions Bank**

Earle  
801 Commerce ST  
Earle, AR 72331

EARLE SCHOOL DISTRICT  
PO BOX 637  
EARLE AR 72331-0637

ACCOUNT # 0020002793

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**CHECKS (CONTINUED)**

Date	Check No.	Amount	Date	Check No.	Amount
04/11	180117	442.28	04/08	180180	1,096.50
04/14	180118	676.75	04/08	180181	1,353.18
04/12	180119	937.52	04/08	180182	533.45
04/07	180120	400.66	04/08	180183	321.25
04/08	180121	579.47	04/11	180184	131.78
04/08	180123 *	957.29	04/08	180185	299.08
04/12	180124	343.40	04/12	180187 *	488.56
04/13	180128 *	310.38	04/11	180188	436.08
04/11	180129	1,313.88	04/13	180189	56.98
04/12	180131 *	122.14	04/08	180190	1,028.84
04/12	180132	514.32	04/11	180191	951.73
04/12	180133	562.72	04/08	180192	944.26
04/07	180135 *	1,204.03	04/08	180193	806.20
04/08	180137 *	563.12	04/08	180194	231.16
04/15	180141 *	533.12	04/08	180195	653.87
04/12	180142	269.77	04/07	180196	541.01
04/08	180143	2,046.64	04/12	180197	1,191.56
04/08	180144	1,055.27	04/08	180198	1,450.58
04/08	180145	404.54	04/19	180199	50.95
04/08	180147 *	276.78	04/08	180200	356.64
04/07	180148	443.65	04/07	180201	539.16
04/08	180149	50.95	04/11	180202	409.38
04/08	180150	555.39	04/11	180203	398.65
04/08	180151	76.39	04/07	180204	901.22
04/08	180153 *	914.97	04/07	180205	119.55
04/08	180154	906.21	04/07	180206	941.28
04/12	180155	25.48	04/07	180207	676.49
04/08	180156	152.85	04/11	180208	1,441.49
04/08	180158 *	517.43	04/13	180209	309.45
04/08	180159	461.47	04/08	180210	320.44
04/08	180160	977.95	04/08	180211	1,143.69
04/07	180161	633.67	04/12	180213 *	388.77
04/07	180162	364.57	04/11	180214	81.24
04/12	180165 *	543.26	04/11	180215	934.26
04/08	180166	1,277.22	04/08	180218 *	1,070.30
04/11	180167	1,369.75	04/11	180219	1,132.16
04/11	180168	1,069.80	04/08	180222 *	1,134.24
04/11	180169	348.40	04/12	180223	384.07
04/08	180170	1,421.26	04/19	180225 *	1,436.25
04/07	180171	405.28	04/14	180226	74.78
04/08	180172	492.47	04/12	180227	1,153.56
04/08	180173	471.28	04/11	180228	486.40
04/08	180174	76.39	04/08	180229	1,234.47
04/08	180175	98.88	04/08	180230	473.23
04/11	180176	1,086.53	04/08	180231	163.05
04/11	180177	532.01	04/08	180232	568.93
04/08	180178	986.71	04/08	180234 *	1,287.16
04/08	180179	471.28	04/07	180235	826.23

**Regions Bank**

Earle  
801 Commerce ST  
Earle, AR 72331

EARLE SCHOOL DISTRICT  
PO BOX 637  
EARLE AR 72331-0637

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**CHECKS (CONTINUED)**

Date	Check No.	Amount	Date	Check No.	Amount
04/18	180236	143.90	04/22	180302	544.12
04/11	180237	215.69	04/21	180305 *	700.61
04/07	180238	511.94	04/21	180306	3,061.90
04/08	180239	119.00	04/22	180307	290.33
04/11	180241 *	312.95	04/21	180308	1,111.70
04/11	180244 *	119.00	04/22	180310 *	99.07
04/08	180245	232.75	04/21	180312 *	976.35
04/18	180248 *	839.32	04/21	180313	436.01
04/11	180249	148.56	04/21	180314	921.87
04/14	180251 *	456.58	04/21	180315	739.48
04/08	180252	84.38	04/21	180316	860.89
04/08	180253	469.70	04/21	180317	436.49
04/07	180254	810.08	04/25	180323 *	1,242.06
04/12	180255	234.22	04/21	180327 *	544.85
04/08	180256	320.44	04/21	180328	741.79
04/08	180257	1,024.78	04/21	180329	966.72
04/08	180258	138.00	04/26	180330	1,424.12
04/08	180259	343.89	04/21	180331	406.91
04/08	180260	119.00	04/21	180332	195.60
04/08	180261	378.52	04/22	180333	492.48
04/11	180263 *	64.11	04/22	180334	442.28
04/14	180265 *	176.28	04/22	180335	676.75
04/08	180266	1,228.01	04/25	180336	937.52
04/08	180268 *	1,128.47	04/21	180337	400.66
04/08	180271 *	145.78	04/21	180338	579.47
04/22	180273 *	821.51	04/21	180340 *	957.29
04/08	180274	465.85	04/21	180341	387.70
04/08	180275	1,038.43	04/25	180345 *	285.34
04/11	180279 *	545.06	04/25	180346	1,313.88
04/11	180280	258.30	04/26	180347	494.50
04/08	180281	496.30	04/25	180349 *	536.78
04/08	180282	1,244.35	04/25	180350	606.73
04/08	180283	299.85	04/22	180352 *	1,204.03
04/14	180284	114.88	04/25	180357 *	269.77
04/08	180285	767.84	04/21	180358	2,046.64
04/08	180286	113.22	04/21	180359	404.54
04/12	180289 *	301.08	04/21	180361 *	443.65
04/08	180290	348.90	04/21	180362	50.95
04/12	180291	287.21	04/21	180363	555.39
04/25	180292	486.17	04/21	180364	188.56
04/08	180293	152.00	04/21	180366 *	914.97
04/08	180294	122.14	04/21	180367	1,352.14
04/08	180295	839.03	04/21	180368	251.65
04/21	180297 *	570.66	04/22	180369	50.95
04/21	180298	566.43	04/21	180370	555.89
04/25	180299	629.88	04/21	180371	517.43
04/22	180300	659.38	04/22	180372	461.47
04/22	180301	2,125.26	04/21	180373	977.95

**Regions Bank**

Earle  
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**CHECKS (CONTINUED)**

Date	Check No.	Amount	Date	Check No.	Amount
04/21	180374	633.67	04/21	180417	553.14
04/21	180375	75.45	04/21	180418	1,441.49
04/21	180378 *	1,277.22	04/21	180419	334.71
04/21	180379	1,369.75	04/22	180420	463.86
04/25	180380	1,069.80	04/21	180421	1,143.69
04/25	180381	392.70	04/22	180423 *	347.10
04/21	180382	1,421.26	04/21	180424	109.56
04/25	180383	502.31	04/25	180425	934.26
04/21	180384	492.47	04/21	180426	64.11
04/21	180385	471.28	04/22	180427	159.90
04/21	180386	188.56	04/21	180428	50.95
04/21	180387	210.65	04/22	180431 *	1,070.30
04/25	180388	1,086.53	04/21	180432	1,132.16
04/21	180389	986.71	04/21	180435 *	1,134.24
04/21	180390	471.28	04/25	180436	613.03
04/28	180391	1,096.50	04/22	180439 *	74.78
04/25	180392	1,353.18	04/22	180440	1,153.56
04/21	180393	533.45	04/21	180443 *	134.73
04/22	180394	128.22	04/21	180446 *	1,287.16
04/21	180395	429.43	04/21	180447	551.34
04/22	180397 *	1,014.67	04/21	180449 *	511.94
04/25	180398	436.08	04/22	180450	119.00
04/27	180399	209.51	04/22	180460 *	132.09
04/21	180400	1,028.84	04/21	180465 *	940.34
04/21	180401	951.73	04/22	180467 *	98.88
04/21	180402	944.26	04/21	180468	1,024.78
04/21	180403	753.62	04/21	180469	157.59
04/21	180404	653.87	04/21	180470	287.29
04/21	180405	541.01	04/22	180471	134.73
04/25	180406	1,035.91	04/21	180472	258.95
04/22	180407	1,450.58	04/21	180476 *	1,228.01
04/25	180408	50.95	04/21	180481 *	194.37
04/22	180409	454.56	04/22	180483 *	821.51
04/21	180410	663.45	04/22	180485 *	1,038.43
04/26	180411	259.32	04/25	180489 *	545.06
04/21	180412	101.89	04/21	180491 *	496.30
04/21	180413	398.65	04/21	180492	1,244.35
04/21	180414	901.22	04/21	180497 *	262.38
04/21	180415	135.47	04/25	180502 *	123.69
04/21	180416	941.28	04/22	180503	150.23

Total Checks \$560,586.54

\* Break In Check Number Sequence.

**DAILY BALANCE SUMMARY**

Date	Balance	Date	Balance	Date	Balance
04/01	625,787.55	04/05	615,741.18	04/07	509,957.96
04/04	617,623.86	04/06	545,430.98	04/08	368,090.53

ESD036

**Regions Bank**

Earle  
801 Commerce ST  
Earle, AR 72331

EARLE SCHOOL DISTRICT  
PO BOX 637  
EARLE AR 72331-0637

ACCOUNT # 0020002793

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**DAILY BALANCE SUMMARY (CONTINUED)**

<u>Date</u>	<u>Balance</u>	<u>Date</u>	<u>Balance</u>	<u>Date</u>	<u>Balance</u>
04/11	255,213.67	04/18	220,626.28	04/25	93,094.39
04/12	248,834.82	04/19	217,193.92	04/26	122,938.39
04/13	243,128.78	04/20	275,689.27	04/27	144,257.15
04/14	228,473.79	04/21	191,668.19	04/28	600,264.65
04/15	222,713.54	04/22	126,254.94	04/29	628,903.85

**PRICING FOR TREASURY MANAGEMENT AND  
DEPOSITORY PRODUCTS AND SERVICES MAY  
CHANGE DEPENDING ON THE PRODUCTS AND  
SERVICES USED. ANY CHANGE WILL BE  
REFLECTED IN YOUR JUNE STATEMENT.  
PLEASE CONTACT YOUR TREASURY MANAGEMENT  
OFFICER WITH QUESTIONS SPECIFIC TO YOUR  
ACCOUNT.**

For all your banking needs, please call 1-800-REGIONS (734-4667).  
or visit us on the Internet at [www.regions.com](http://www.regions.com).

Thank You For Banking With Regions!

ESD037

## Easy Steps to Balance Your Account

Checking  
Account

1.	Write here the amount shown on statement for <b>ENDING BALANCE</b>	\$
2.	Enter any deposits which have not been credited on this statement.	\$ +
3.	Total lines 1 & 2	\$ =
4.	Enter total from 4a (column on right side of page)	\$ -
5.	Subtract line 4 from line 3. This should be your checkbook balance.	\$ =

4a List any checks, payments, transfers or other withdrawals from your account that are not on this statement.

Check No.	Amount	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
Total Enter in Line 4 at Left	\$	

The law requires you to use "reasonable care and promptness" in examining your bank statement and any checks sent with it and to report to the Bank an unauthorized signature (i.e., a forgery), any alteration of a check, or any unauthorized endorsement. You must report any forged signatures, alterations or forged endorsements to the Bank within the time periods specified under the Deposit Agreement. If you do not do this, the Bank will not be liable to you for the losses or claims arising from the forged signatures, forged endorsements or alterations. Please see the Deposit Agreement for further explanation of your responsibilities with regard to your statement and checks. A copy of our current Deposit Agreement may be requested at any of our branch locations.

Summary of Our Error Resolution Procedures  
In Case of Errors or Questions About Your Electronic Transfers  
Telephone us toll-free at 1-800-444-2867  
(or, if in Birmingham area, 326-5667)  
or write us at  
Regions Electronic Funds Transfer Services  
Post Office Box 413  
Birmingham, Alabama 35201

As soon as you can, if you think your statement is wrong or if you need more information about a transfer listed on your statement. We must hear from you no later than sixty (60) days after we sent the FIRST statement on which the problem or error appeared.

- (1) Tell us your name and account number.
- (2) Describe the error or the transfer you are unsure about and explain as clearly as you can why you believe it is an error or why you need more information.
- (3) Tell us the dollar amount of the suspected error.

If you tell us verbally, we may require that you send us your complaint or question in writing within ten (10) business days.

We will determine whether an error occurred within ten (10) business days after we hear from you and will correct any error promptly. If we need more time, however, we may take up to forty-five (45) days to investigate your complaint or question (ninety (90) days for POS transactions or for transfers initiated outside of the United States). If we decide to do this, we will credit your account within ten (10) business days for the amount you think is in error. If, after the investigation, we determine that no bank error occurred, we will debit your account to the extent previously credited. If we ask you to put your complaint in writing and we do not receive it within ten (10) business days, we may not credit your account.

**New Accounts:** If an alleged error occurred within thirty (30) days after your first deposit to your account was made, we may have up to ninety (90) days to investigate your complaint, provided we credit your account within twenty (20) business days for the amount you think is in error. If we decide there was no error, we will send you a written explanation within three (3) business days after we finish our investigation. You may ask for copies of the documents that we used in our investigation.

FOR QUESTIONS CONCERNING THIS STATEMENT OR FOR VERIFICATION OF A PREAUTHORIZED DEPOSIT, PLEASE CALL THE PHONE NUMBER ON THE REVERSE SIDE OF THIS STATEMENT OR VISIT YOUR NEAREST REGIONS LOCATION.

ADJ - Adjustment	RI - Return Item	CR - Credit	SC - Service Charge	OD - Overdrawn
EB - Electronic Banking	NSF - Nonsufficient Funds	APY - Annual Percentage Yield	FWT - Federal Withholding Tax	*Break in Number Sequence





Earle  
801 Commerce ST  
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**BUSINESS ANALYZED CHECKING**  
March 1, 2011 through March 31, 2011

SUMMARY			
Beginning Balance	\$606,837.92	Minimum Balance	\$165,455
Deposits & Credits	\$824,777.22 +		
Withdrawals	\$174,934.10 -		
Fees	\$459.68 -		
Automatic Transfers	\$0.00 +		
Checks	\$590,042.23 -		
Ending Balance	\$666,179.13		

DEPOSITS & CREDITS			
03/01	Deposit - Thank You		6,063.22
03/01	Deposit - Thank You		4,905.00
03/01	State of Ark Direct Pay Earle School D		51,513.28
03/02	State of Ark Direct Pay Earle School D		5,206.00
03/03	Deposit - Thank You		1,995.27
03/07	Deposit - Thank You		28,674.85
03/07	Deposit - Thank You		515.00
03/08	State of Ark Direct Pay Earle School D		400.00
03/09	State of Ark Direct Pay Earle School D		4,546.85
03/11	Deposit - Thank You		1,000.09
03/11	Deposit - Thank You		700.00
03/11	Deposit - Thank You		192.22
03/16	Deposit - Thank You		25,350.11
03/18	Deposit - Thank You		268.92
03/23	State of Ark Direct Pay Earle School D		98,073.00
03/28	Deposit - Thank You		59,677.43
03/29	State of Ark Direct Pay Earle School D		359,031.00
03/29	State of Ark Direct Pay Earle School D		51,385.98
03/29	State of Ark Direct Pay Earle School D		39,195.00
03/30	State of Ark Direct Pay Earle School D		76,984.00
03/31	State of Ark Direct Pay Earle School D		9,100.00
Total Deposits & Credits			\$824,777.22

WITHDRAWALS			
03/11	Earle School Dis Dir Dep Earle S D -Sett-Tms ACH		44,069.94
03/14	IRS USATAXPYMT Earle School D 220147343017505		43,505.92
03/15	Regn Loan Trans		2,547.80
03/15	IRS USATAXPYMT Earle School D 220147463069100		191.86
03/16	Account Correction		1,000.00
03/21	IRS USATAXPYMT Earle School D 220148045710924		141.50
03/25	Earle School Dis Dir Dep Earle S D -Sett-Tms ACH		42,686.06





Earle  
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## CHECKS CONTINUED

Date	Check No.	Amount	Date	Check No.	Amount
03/29	69654	350.00	03/23	69711	13,453.27
03/01	69655	179.80	03/23	69712	3,036.22
03/21	69656	512.26	03/30	69713	192.10
03/01	69657	291.39	03/21	69714	4,670.35
03/02	69658	555.00	03/23	69715	121.54
03/03	69659	15,027.72	03/21	69716	357.93
03/07	69660	224.70	03/22	69717	350.00
03/01	69662 *	930.10	03/21	69718	9,942.89
03/01	69663	367.80	03/22	69719	964.51
03/01	69664	167.53	03/30	69720	619.96
03/02	69666 *	1,659.99	03/21	69721	747.93
03/02	69667	154.00	03/21	69722	1,441.31
03/03	69668	656.90	03/18	69723	84.76
03/04	69669	100.00	03/21	69724	1,294.58
03/16	69670	200.00	03/21	69725	1,399.36
03/04	69671	48.15	03/22	69727 *	2,734.10
03/02	69672	220.00	03/21	69728	121.37
03/04	69673	16,500.00	03/21	69729	365.94
03/04	69674	64.72	03/29	69730	155.23
03/08	69675	35.00	03/24	69731	330.15
03/03	69676	1,000.00	03/29	69732	1,265.66
03/08	69678 *	301.81	03/22	69733	13,446.47
03/08	69679	93.60	03/21	69734	3,198.19
03/07	69680	376.98	03/22	69735	209.97
03/14	69681	1,567.90	03/21	69736	2,162.92
03/11	69682	733.09	03/24	69737	800.02
03/15	69683	23,545.50	03/23	69738	110.89
03/14	69686 *	77.09	03/21	69739	179.80
03/11	69687	61.00	03/21	69740	2,186.28
03/15	69688	18.00	03/22	69741	1,221.35
03/14	69689	33.84	03/29	69742	2,000.00
03/11	69690	105.00	03/18	69744 *	674.56
03/16	69691	54.57	03/18	69745	4,793.13
03/15	69692	26.64	03/22	69746	417.05
03/16	69693	605.00	03/22	69747	754.60
03/17	69694	349.92	03/23	69748	92.89
03/15	69695	230.00	03/22	69749	93.96
03/15	69696	26.00	03/25	69750	1,234.00
03/11	69697	325.34	03/25	69753 *	2,035.60
03/14	69698	1,900.00	03/30	69757 *	792.16
03/21	69701 *	80.00	03/29	69759 *	15,893.69
03/21	69703 *	16,297.00	03/28	69760	805.05
03/22	69704	168.41	03/28	69762 *	76.66
03/25	69705	1,763.63	03/28	69763	4,493.00
03/21	69706	1,810.00	03/28	69764	1,814.00
03/22	69707	83.97	03/25	69765	420.00
03/22	69709 *	2,206.26	03/25	69766	2,874.00
03/23	69710	3,342.29	03/25	69767	776.00

Regions Bank

Regions Bank

Earle  
801 Commerce ST  
Earle, AR 72331

EARLE SCHOOL DISTRICT  
PO BOX 637  
EARLE AR 72331-0637

ACCOUNT # 0020002793

Cycle 053  
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CHECKS (CONTINUED)

Date	Check No.	Amount	Date	Check No.	Amount
03/29	69768	466.34	03/01	179467	251.24
03/29	69770 *	1,048.32	03/02	179471 *	526.80
03/28	69771	96.00	03/02	179472	134.73
03/25	69772	125.00	03/01	179473	514.32
03/17	69774 *	82.08	03/01	179474	305.89
03/22	69775	135.60	03/01	179482 *	369.08
03/23	69776	45.00	03/01	179483	269.77
03/18	69777	485.00	03/01	179494 *	101.89
03/21	69778	189.16	03/01	179503 *	625.59
03/21	69779	380.78	03/14	179504	446.87
03/24	69780	350.00	03/01	179505	1,277.22
03/24	69781	129.83	03/02	179515 *	152.00
03/23	69782	90.00	03/14	179516	1,086.53
03/22	69783	90.00	03/14	179517	367.86
03/21	69785 *	223.49	03/23	179521 *	1,353.18
03/22	69786	150.00	03/01	179525 *	142.47
03/29	69787	155.00	03/01	179528 *	143.90
03/22	69788	223.49	03/01	179530 *	525.23
03/21	69789	457.00	03/01	179538 *	1,276.92
03/31	69792 *	223.00	03/02	179547 *	141.83
03/31	69796 *	261.36	03/10	179550 *	1,441.49
03/31	69799 *	151.20	03/07	179551	207.57
03/01	178694 *	827.87	03/03	179552	484.07
03/21	178930 *	180.28	03/07	179557 *	934.26
03/11	178933 *	101.58	03/01	179570 *	1,436.25
03/02	178998 *	1,357.18	03/01	179571	81.24
03/22	179048 *	555.89	03/01	179573 *	486.40
03/11	179218 *	436.01	03/28	179581 *	98.88
03/11	179235 *	453.02	03/02	179588 *	93.83
03/18	179300 *	1,353.18	03/08	179596 *	456.58
03/28	179355 *	50.95	03/01	179597	90.68
03/10	179385 *	152.00	03/01	179598	469.70
03/01	179394 *	965.10	03/01	179599	695.74
03/21	179415 *	137.59	03/02	179604 *	213.93
03/15	179417 *	103.26	03/02	179608 *	64.11
03/02	179423 *	629.88	03/04	179614 *	927.85
03/14	179431 *	330.75	03/03	179617 *	194.37
03/21	179434 *	986.15	03/03	179627 *	446.30
03/02	179437 *	436.01	03/11	179638 *	570.86
03/04	179438	921.87	03/11	179639	475.22
03/02	179441 *	1,377.16	03/11	179640	629.88
03/15	179443 *	1,143.34	03/11	179641	651.10
03/11	179454 *	404.51	03/11	179642	2,125.26
03/01	179457 *	406.91	03/11	179643	544.12
03/01	179458	195.60	03/14	179646 *	700.61
03/01	179462 *	937.52	03/14	179647	3,061.90
03/07	179463	579.47	03/14	179648	290.33
03/01	179466 *	957.29	03/11	179649	1,111.70

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Regions Bank

Earle  
801 Commerce ST  
Earle, AR 72331

EARLE SCHOOL DISTRICT  
PO BOX 637  
EARLE AR 72331-0637

ACCOUNT # 0020002793

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CHECKS (CONTINUED)

Date	Check No.	Amount	Date	Check No.	Amount
03/21	179651 *	865.43	03/11	179719	251.65
03/11	179652	976.35	03/15	179722 *	871.69
03/17	179653	436.01	03/15	179723	1,277.22
03/11	179654	921.87	03/11	179724	1,369.75
03/14	179655	860.89	03/14	179725	1,069.80
03/11	179656	513.15	03/14	179726	392.70
03/15	179658 *	1,143.34	03/14	179727	1,421.26
03/15	179662 *	1,377.16	03/14	179728	305.69
03/14	179667 *	544.85	03/11	179729	492.47
03/14	179668	262.38	03/14	179730	471.28
03/23	179669	532.98	03/15	179731	232.75
03/11	179670	1,010.95	03/14	179732	143.90
03/17	179671	1,424.12	03/15	179733	152.00
03/14	179672	406.91	03/14	179734	1,086.53
03/14	179673	304.21	03/14	179735	367.86
03/14	179674	492.48	03/14	179736	986.71
03/14	179675	442.28	03/14	179737	471.28
03/15	179676	676.75	03/11	179738	1,096.50
03/14	179677	937.52	03/25	179739	1,353.18
03/11	179678	579.47	03/14	179740	352.19
03/14	179681 *	957.29	03/14	179741	533.45
03/14	179682	387.70	03/14	179742	577.56
03/15	179686 *	335.37	03/15	179743	162.34
03/14	179687	1,313.88	03/14	179744	310.00
03/15	179688	494.50	03/14	179746 *	436.08
03/15	179689	134.73	03/11	179747	71.24
03/15	179690	514.32	03/14	179748	1,028.84
03/15	179691	232.75	03/23	179749	25.48
03/11	179693 *	1,204.03	03/14	179750	951.73
03/14	179695 *	319.27	03/11	179751	944.26
03/14	179699 *	369.08	03/14	179752	806.20
03/21	179700	269.77	03/14	179753	263.92
03/14	179701	2,046.64	03/14	179754	653.87
03/14	179702	923.28	03/14	179755	541.01
03/11	179703	404.54	03/15	179756	1,191.56
03/11	179705 *	232.75	03/14	179757	1,450.58
03/14	179706	71.24	03/11	179759 *	76.39
03/11	179707	555.39	03/18	179760	305.69
03/14	179708	50.95	03/14	179761	263.15
03/25	179710 *	914.97	03/14	179762	155.68
03/14	179711	1,063.88	03/14	179763	50.95
03/18	179712	35.61	03/14	179764	398.65
03/15	179713	101.89	03/11	179765	901.22
03/14	179714	555.89	03/10	179766	157.77
03/11	179715	517.43	03/10	179767	941.28
03/14	179716	461.47	03/10	179768	676.49
03/11	179717	977.95	03/14	179769	1,441.49
03/11	179718	633.67	03/14	179770	207.57

## Regions Bank

Earle  
801 Commerce ST  
Earle, AR 72331

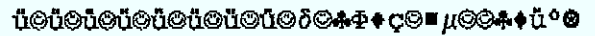
EARLE SCHOOL DISTRICT  
PO BOX 637  
EARLE AR 72331-0637

ACCOUNT # 0020002793

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## CHECKS (CONTINUED)

Date	Check No.	Amount	Date	Check No.	Amount
03/15	179771	362.82	03/14	179837	97.18
03/11	179772	1,143.69	03/14	179840 *	194.37
03/15	179774 *	347.10	03/14	179842 *	821.51
03/11	179775	56.98	03/11	179843	465.85
03/11	179776	109.56	03/14	179844	1,038.43
03/16	179777	188.56	03/14	179848 *	545.06
03/21	179778	934.26	03/14	179849	370.93
03/11	179779	228.04	03/15	179850	496.30
03/11	179780	103.26	03/11	179851	1,244.35
03/14	179781	232.75	03/14	179852	343.51
03/14	179784 *	1,070.30	03/15	179853	135.50
03/11	179785	1,132.16	03/14	179854	188.56
03/11	179788 *	1,134.24	03/14	179855	767.84
03/22	179789	313.90	03/14	179856	262.38
03/15	179792 *	1,436.25	03/14	179858 *	450.71
03/15	179793	84.38	03/14	179859	159.90
03/11	179794	1,153.56	03/14	179860	607.44
03/15	179795	486.40	03/18	179861	121.10
03/14	179796	1,234.47	03/16	179862	295.85
03/14	179797	493.83	03/22	179863	386.32
03/11	179798	206.42	03/16	179864	71.24
03/14	179799	568.93	03/23	179866 *	570.66
03/14	179801 *	1,287.16	03/23	179867	407.84
03/11	179802	407.61	03/23	179868	628.88
03/28	179803	50.95	03/24	179869	462.60
03/11	179804	511.94	03/25	179870	2,125.26
03/11	179805	159.90	03/25	179871	544.12
03/14	179807 *	495.84	03/24	179874 *	700.61
03/14	179810 *	119.00	03/24	179875	3,061.90
03/15	179811	50.95	03/24	179876	290.33
03/15	179816 *	164.90	03/23	179877	1,111.70
03/11	179817	202.06	03/28	179880 *	976.35
03/17	179819 *	580.03	03/29	179881	436.01
03/15	179820	93.83	03/28	179882	921.87
03/15	179821	469.70	03/24	179883	402.20
03/11	179822	1,641.06	03/24	179884	860.89
03/14	179823	228.04	03/25	179885	436.49
03/11	179824	1,024.78	03/29	179891 *	1,377.16
03/11	179825	183.69	03/23	179895 *	132.09
03/14	179826	422.70	03/24	179896	544.85
03/11	179827	119.00	03/24	179897	132.09
03/14	179828	209.51	03/23	179898	254.74
03/15	179830 *	84.38	03/29	179899	1,010.95
03/15	179832 *	25.48	03/23	179900	1,424.12
03/11	179833	121.39	03/29	179901	406.91
03/14	179834	1,228.01	03/29	179902	102.48
03/16	179835	251.65	03/22	179903	492.48
03/14	179836	1,128.47	03/22	179904	263.97



Earle  
801 Commerce ST  
Earle, AR 72331

ACCOUNT# 0020002793

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## CHECKS CONTINUED

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>	<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
03/28	179905	676.75	03/24	179970	114.18
03/22	179906	937.52	03/28	179971	181.29
03/24	179907	127.37	03/28	179972	316.36
03/25	179908	579.47	03/23	179974 *	141.73
03/28	179911 *	957.29	03/22	179975	436.08
03/28	179912	200.73	03/25	179976	1,028.84
03/28	179916 *	207.57	03/23	179977	951.73
03/28	179917	1,313.88	03/23	179978	944.26
03/29	179918	494.50	03/24	179982 *	541.01
03/23	179919	514.32	03/23	179983	893.81
03/22	179920	297.80	03/17	179984	1,450.58
03/22	179922 *	1,204.03	03/24	179985	356.64
03/23	179924 *	193.83	03/29	179986	132.09
03/21	179928 *	128.60	03/25	179987	155.68
03/30	179929	269.77	03/28	179988	398.65
03/28	179930	2,046.64	03/23	179989	901.22
03/28	179931	493.47	03/23	179990	84.52
03/23	179932	404.54	03/23	179991	941.28
03/25	179934 *	50.95	03/23	179992	485.75
03/25	179935	555.39	03/18	179993	1,441.49
03/21	179936	98.88	03/18	179994	103.78
03/25	179938 *	914.97	03/21	179995	276.78
03/29	179939	479.97	03/23	179996	1,143.69
03/24	179940	202.06	03/23	179998 *	347.10
03/22	179941	50.95	03/22	179999	42.74
03/25	179943 *	517.43	03/23	180001 *	42.74
03/24	179944	461.47	03/28	180003 *	276.78
03/23	179945	977.95	03/23	180006 *	1,070.30
03/24	179946	633.67	03/21	180007	1,132.16
03/23	179947	126.79	03/23	180010 *	1,134.24
03/28	179950 *	459.58	03/22	180013 *	1,436.25
03/28	179951	1,277.22	03/22	180014	49.86
03/23	179952	1,369.75	03/29	180015	1,153.56
03/28	179953	1,069.80	03/23	180016	486.40
03/28	179954	205.73	03/28	180017	1,234.47
03/24	179955	1,421.26	03/28	180018	251.84
03/23	179956	356.30	03/25	180019	96.97
03/23	179957	492.47	03/24	180020	568.93
03/25	179958	471.28	03/24	180022 *	1,287.16
03/21	179960 *	25.48	03/24	180023	407.61
03/25	179961	76.39	03/30	180024	78.09
03/28	179962	1,086.53	03/24	180025	511.94
03/28	179963	191.32	03/25	180026	71.24
03/24	179964	1,012.61	03/22	180031 *	42.74
03/28	179965	471.28	03/30	180034 *	839.32
03/23	179966	1,098.50	03/23	180035	164.90
03/31	179968 *	129.21	03/24	180037 *	242.47
03/24	179969	533.45	03/28	180038	42.74

**Regions Bank**

Earle  
801 Commerce ST  
Earle, AR 72331

EARLE SCHOOL DISTRICT  
PO BOX 637  
EARLE AR 72331-0637

ACCOUNT # 0020002793

Cycle 053  
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**CHECKS (CONTINUED)**

Date	Check No.	Amount	Date	Check No.	Amount
03/23	180039	469.70	03/23	180059	465.85
03/24	180040	1,054.80	03/23	180060	1,038.43
03/28	180041	84.38	03/28	180061	120.96
03/23	180042	1,024.78	03/24	180065 *	545.06
03/23	180043	98.79	03/24	180066	103.69
03/31	180044	214.74	03/24	180067	496.30
03/28	180045	71.24	03/23	180068	1,244.35
03/24	180046	134.73	03/23	180069	13.25
03/29	180048 *	42.74	03/24	180070	252.42
03/23	180050 *	56.61	03/28	180071	97.20
03/25	180051	1,228.01	03/24	180072	320.44
03/21	180053 *	1,126.47	03/24	180073	767.84
03/25	180056 *	97.18	03/24	180074	39.53
03/21	180058 *	821.51			

Total Checks \$590,042.23

\* Break In Check Number Sequence.

**DAILY BALANCE SUMMARY**

Date	Balance	Date	Balance	Date	Balance
03/01	625,658.20	03/11	500,637.06	03/23	250,377.09
03/02	609,107.18	03/14	330,087.97	03/24	230,174.88
03/03	591,414.25	03/15	289,119.21	03/25	165,455.68
03/04	570,823.86	03/16	310,665.56	03/28	202,015.69
03/07	597,106.69	03/17	292,519.78	03/29	524,657.06
03/08	594,371.11	03/18	283,696.09	03/30	698,799.66
03/09	581,305.78	03/21	228,580.69	03/31	666,179.13
03/10	577,936.75	03/22	198,716.74		

REGIONS BANK AND ELAVON OFFER UNIQUE SOLUTIONS TO OPTIMIZE YOUR ELECTRONIC PAYMENT PROCESSING. WE PROVIDE CREDIT AND DEBIT CARD PROCESSING, AND ALSO OFFER ELECTRONIC CHECK SERVICE, POINT-OF-SALE SOLUTIONS, AND A FREE ONLINE REPORTING TOOL. FOR INFORMATION, PLEASE GO TO [REGIONS.COM/CARDPROCESSING](http://REGIONS.COM/CARDPROCESSING), OR CALL 1-800-448-7608, EXT. 6505, TO SPEAK TO AN ACCOUNT EXECUTIVE.



**Regions Bank**

Earle  
801 Commerce ST  
Earle, AR 72331

EARLE SCHOOL DISTRICT  
PO BOX 637  
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ACCOUNT # 0020002793

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For all your banking needs, please call 1-800-REGIONS (734-4667).  
or visit us on the Internet at [www.regions.com](http://www.regions.com).

Thank You For Banking With Regions!

ESD047



### Checking Account

1.	Write here the amount shown on statement for <b>ENDING BALANCE</b>	\$
2.	Enter any deposits which have not been credited on this statement.	\$ +
3.	Total lines 1 & 2	\$ =
4.	Enter total from 4a (column on right side of page)	\$ -
5.	Subtract line 4 from line 3. This should be your checkbook balance.	\$ =

4a List any checks, payments, transfers or other withdrawals from your account that are not on this statement.

Check No.	Amount
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
Total Enter in Line 4 at left	\$

**Summary of Our Error Resolution Procedures.**  
In Case of Errors or Questions About Your Electronic Transfers  
Telephone us toll-free at 1-800-444-2867  
(or, if in Birmingham area, 326-5667)  
or write us at  
Regions Electronic Funds Transfer Services  
Post Office Box 413  
Birmingham, Alabama 35201

FOR QUESTIONS CONCERNING THIS STATEMENT OR FOR VERIFICATION OF A PREAUTHORIZED DEPOSIT, PLEASE CALL THE PHONE NUMBER ON THE REVERSE SIDE OF THIS STATEMENT OR VISIT YOUR NEAREST REGIONS LOCATION.

ADJ - Adjustment	RI - Return Item	CR - Credit	SC - Service Charge	OD - Overdrawn
EB - Electronic Banking	NSF - Nonsufficient Funds	APY - Annual Percentage Yield	FWT - Federal Withholding Tax	*Break in Number Sequence



3712 East Highland Drive  
Jonesboro AR 72401  
Phone: 1-870-932-4514  
Fax: 1-870-931-0715

**Freeman & Company, Inc.**

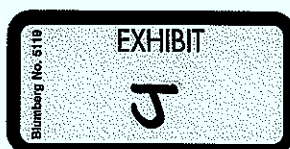
# Fax

<b>To:</b>	Al Hicks / Earle School District	<b>From:</b>	Freeman & Company, Inc.
<b>Fax:</b>	870-792-8897	<b>Date:</b>	April 5, 2011
<b>Phone:</b>	870-792-8486	<b>Pages:</b>	4
<b>Re:</b>	Report submission documentation	<b>CC:</b>	

☐ Urgent    ☒ For Review    ☐ Please Comment    ☐ Please Reply    ☐ Please Recycle

**•Comments:**

*Audit Sent to Legislative audit  
on 3-30-11*



ESD049

 [Print page](#) | [Close](#) 

## Detailed Results

Tracking no.: 873598409590

Select time format: 12H

**Delivered****Delivered**  
Signed for by: A.CATES

## Shipment Dates

## Destination

Ship date Mar 30, 2011

## Signature Proof of Delivery

Delivery date Mar 31, 2011 12:53 PM

## Shipment Options

**Hold at FedEx Location**

Hold at FedEx Location service is not available for this shipment.

## Shipment Facts

Service type	Priority Pak	Delivered to	Receptionist/Front Desk
Weight	1.0 lbs/ .5 kg		

## Shipment Travel History

Select time zone: Local Scan Time

All shipment travel activity is displayed in local time for the location

Date/Time	Activity	Location	Details
Mar 31, 2011 12:53 PM	Delivered		
Mar 31, 2011 8:14 AM	On FedEx vehicle for delivery	LITTLE ROCK, AR	
Mar 31, 2011 7:21 AM	At local FedEx facility	LITTLE ROCK, AR	
Mar 31, 2011 12:19 AM	Arrived at FedEx location	MEMPHIS, TN	
Mar 30, 2011 11:09 PM	Left FedEx origin facility	JONESBORO, AR	
Mar 30, 2011 1:55 PM	Picked up	JONESBORO, AR	

US Airbill  
ExpressFedEx  
Tracking  
Number

8735 9840 9590

Sender's Copy

From Please print and press hard.

Date: 3-30-11

Sender's FedEx  
Account Number

8735 9840 9590

Sender's Name: ROGER WALLS

Phone: 870.932-4514

Company: FREEMAN &amp; CO., INC.

Address: 3712 E. HIGHLAND DR.

City: JONESBORO

State: AR

ZIP: 72401

Your Internal Billing Reference

First 24 characters of the account number.

To Recipient's Name: RONNIE RIDGELL

Phone: 501.683.8600

Company: DIVISION OF LEGISLATIVE AUDIT

Address: 172 STATE CAPITOL BLDG.

We cannot deliver to R.O. boxes or P.O. ZIP codes.

Address: Use this line for the HOLD location address or for continuation of your shipping address.

City: LITTLE ROCK

State: AR

ZIP: 72201

HOLD Weekday  
FedEx location address  
REQUIRED. NOT available for  
FedEx First Overnight.HOLD Saturday  
FedEx location address  
REQUIRED. Available ONLY for  
FedEx Priority Overnight and  
FedEx 2Day to most locations.

## 4a Express Package Service

\* To most locations.

Packages up to 150 lbs.

☒ FedEx Priority Overnight  
Next business morning. Friday  
shipments will be delivered on Monday  
unless SATURDAY Delivery is selected.☐ FedEx Standard Overnight  
Next business morning.  
Saturday Delivery NOT available.☐ FedEx First Overnight  
Next business morning.  
Saturday Delivery NOT available.☐ FedEx 2Day  
Second business day. Thursday  
shipments will be delivered on Monday  
unless SATURDAY Delivery is selected.☐ FedEx Express Saver  
Third business day.  
Saturday Delivery NOT available.

## 4b Express Freight Service

\*\* To most locations.

Packages over 150 lbs.

☐ FedEx 1Day Freight  
Next business day. Friday shipments will  
be delivered on Monday unless SATURDAY  
Delivery is selected.

FedEx 1Day Freight Booking No.

☐ FedEx 2Day Freight  
Second business day. Thursday shipments will be delivered on  
Monday unless SATURDAY Delivery is selected.☐ FedEx 3Day Freight  
Third business day. Saturday Delivery NOT available.

## 5 Packaging

\* Declared value limit \$200.

☐ FedEx Envelope\*☒ FedEx Pak\*  
Includes FedEx Small Pak and  
FedEx Large Pak.☐ FedEx Box☐ FedEx Tube☐ Other

## 6 Special Handling and Delivery Signature Options

☐ SATURDAY Delivery  
NOT available for FedEx Standard Overnight, FedEx Express Saver or FedEx 2Day Freight.☐ No Signature Required  
Package may be left without  
initiating a signature for delivery.☐ Direct Signature  
Signature at recipient's address  
may sign for delivery. Fee applies.☐ Indirect Signature  
If no one is available at recipient's  
address, someone at a neighboring  
address may sign for delivery. Fee applies.

## Does this shipment contain dangerous goods?

One box must be checked.

☐ No☐ YesYes per attached  
Shipper's Declaration.☐ Yes Shipper's Declaration  
not required.☐ Dry Ice  
Dry Ice, 9 UN 1845☐ Cargo Aircraft OnlyDangerous goods (including dry ice) shipments shipped in FedEx packaging  
or placed in a FedEx Priority Drop Box.

## 7 Payment Bill to:

☐ Sender  
Pay to: No in Section  
1 and Section 7.☐ Recipient☐ Third Party☐ Credit Card☒ Cash/CheckFedEx Acct No.  
Card Order No.

Total Packages

Total Weight

Total Declared Value

ck

Your liability is limited to \$100 unless you declare a higher value. See back for details. By using this AIRBILL you  
agree to the service conditions on the back of this AIRBILL and to the terms of FedEx. Before packing, make sure  
that the box is sealed.

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Or let our pros pack for you with FedEx Office Pack & Ship.

CU # 3599

**FedEx**2712 PHILLIPS DR  
JONESBORO, AR 72401

Location: JBRCE  
Device ID: JBRCE-POS1  
Employee: 59989  
Transaction: 76015608720

**PRIORITY OVERNIGHT**

873598409590 0.75 lb (S)

25.47

Scheduled Delivery Date 03/31/2011

*Circle District to Samuel H's 4/30/10 very fine audit*

Shipment subtotal: 25.47

Total Due: 25.47

Check: 25.47  
3599

M = Weight entered manually  
S = Weight read from scale  
T = Taxable item

Subject to additional charges. See FedEx Service Guide  
at [fedex.com](http://fedex.com) for details. All merchandise sales final.

Visit us at: [fedex.com](http://fedex.com)

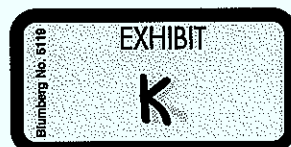
Or call 1.800.GoFedEx

1.800.463.3339

March 30, 2011 1:55:38 PM

EARLE SCHOOL DISTRICT NUMBER ONE  
REGULATORY BASIS FINANCIAL STATEMENTS  
AND OTHER REPORTS

For the Year Ended June 30, 2010



ESD053

EARLE SCHOOL DISTRICT NUMBER ONE  
REGULATORY BASIS FINANCIAL STATEMENTS  
AND OTHER REPORTS

For the Year Ended June 30, 2010

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EARLE SCHOOL DISTRICT NUMBER ONE  
REGULATORY BASIS FINANCIAL STATEMENTS  
AND OTHER REPORTS

For the Year Ended June 30, 2010

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# FREEMAN & COMPANY, INC.

## CERTIFIED PUBLIC ACCOUNTANTS

3712 E. Highland Drive, Jonesboro, Arkansas 72401 Phone: 870-932-4514

### INDEPENDENT AUDITORS' REPORT

Members of the School Board  
Earle School District Number One  
Earle, Arkansas

We have audited the accompanying financial statements of Earle School District Number One, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Earle School District Number One's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, the District has prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2010, or the changes in financial position thereof for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.



Members of the School Board  
Earle School District Number One  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2011, on our consideration of Earle School District Number One's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets, the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Findings and Questioned Costs and Summary of Prior Audit Findings are presented for purposes of additional analysis and are not a required part of the regulatory basis of financial statements. The Schedule of Expenditures of Federal Awards, Findings and Questioned Costs and Prior Audit Findings have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

FREEMAN & COMPANY, INC.

A handwritten signature in cursive script that reads "Freeman & Company, Inc.".

Jonesboro, Arkansas  
February 1, 2011

## **REGULATORY BASIS FINANCIAL STATEMENTS**

EARLE SCHOOL DISTRICT NUMBER ONE

BALANCE SHEET-REGULATORY BASIS

June 30, 2010

	Governmental Funds			
	Major			Fiduciary
	General	Special Revenue	Other Aggregate	Fund Types
ASSETS				
Cash	\$ 602,834		\$ 22,781	\$ 15,811
Deposit with paying agent	99,572		169,107	
Accounts receivable	24,439	\$ 397,395		
Property taxes receivable	<u>108,123</u>			
TOTAL ASSETS	\$ <u>834,968</u>	\$ <u>397,395</u>	\$ <u>191,888</u>	\$ <u>15,811</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 137,832	\$ 13,003		\$ 3,300
Other liabilities	<u>505,575</u>	325,925		
Due student groups				<u>12,511</u>
Total Liabilities	<u>643,407</u>	<u>338,928</u>		<u>15,811</u>
Fund Balances:				
Reserved:				
Debt service	99,572		\$ 250	
Capital projects			191,638	
Unreserved:				
Undesignated	<u>91,989</u>	<u>58,467</u>		
Total Fund Balance	<u>191,561</u>	<u>58,467</u>	<u>191,888</u>	
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>834,968</u>	\$ <u>397,395</u>	\$ <u>191,888</u>	\$ <u>15,811</u>

The accompanying notes are an integral part of these financial statements.

EARLE SCHOOL DISTRICT NUMBER ONE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS-REGULATORY BASIS

For the Year Ended June 30, 2010

	<u>Major</u>		<u>Other</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Aggregate</u>
REVENUES			
Property taxes	\$ 957,456		\$ 127,092
Federal revenues		\$ 2,935,652	
State revenues	6,107,637	3,660	35,980
Tuition, fees and other	709,157	22,706	
Interest	<u>1,810</u>		<u>758</u>
Total Revenues	<u>7,776,060</u>	<u>2,962,018</u>	<u>163,830</u>
EXPENDITURES			
Instructional services	4,374,568	1,068,997	
Student support	160,555	380,051	
Instructional support services	328,553	636,308	
Pupil transportation services	299,657		
Operation and maintenance of plant	1,209,300	9,528	
School administration	357,170		
General administration	465,648	487	
Food services		656,627	
Community services		107	
Capital outlay	13,367	163,340	237,791
Debt service:			
Principal	153,456		150,000
Interest and fiscal charges	<u>62,832</u>		<u>352,434</u>
Total expenditures	<u>7,425,106</u>	<u>2,915,445</u>	<u>740,225</u>
Revenues over (under) expenditures	<u>350,954</u>	<u>46,573</u>	<u>(576,395)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In (Out)	(355,643)		355,643
Proceeds from long-term debt			<u>300,000</u>
Total other financing sources (uses)	<u>(355,643)</u>		<u>655,643</u>

The accompanying notes are an integral part of these financial statements.

EARLE SCHOOL DISTRICT NUMBER ONE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS-REGULATORY BASIS (CONTINUED)

For The Year Ended June 30, 2010

	<u>General</u>	<u>Special Revenue</u>	<u>Other Aggregate</u>
NET CHANGE IN FUND BALANCE	(4,689)	46,573	79,248
FUND BALANCE, BEGINNING OF YEAR	<u>196,250</u>	<u>11,894</u>	<u>112,640</u>
FUND BALANCE, END OF YEAR	\$ <u>191,561</u>	\$ <u>58,467</u>	\$ <u>191,888</u>

# EARLE SCHOOL DISTRICT NUMBER ONE

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL-GENERAL FUND-REGULATORY BASIS

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 1,064,538	\$ 957,456	\$ (107,082)
State revenues	6,071,583	6,107,637	36,054
Tuition, fees and other	138,635	709,157	570,522
Interest	<u>3,891</u>	<u>1,810</u>	<u>(2,081)</u>
Total Revenues	<u>7,278,647</u>	<u>7,776,060</u>	<u>497,413</u>
EXPENDITURES			
Instructional services	4,364,786	4,374,568	(9,782)
Student support	140,440	160,555	(20,115)
Instructional support services	220,737	328,553	(107,816)
Pupil transportation services	170,570	299,657	(129,087)
Operation and maintenance of plant	763,520	1,209,300	(445,780)
School administration	328,608	357,170	(28,562)
General administration	352,628	465,648	(113,020)
Capital outlay		13,367	(13,367)
Debt service:			
Principal		153,456	(153,456)
Interest and fiscal charges	<u>353,000</u>	<u>62,832</u>	<u>290,168</u>
Total expenditures	<u>6,694,289</u>	<u>7,425,106</u>	<u>(730,817)</u>
Revenues over expenditures	<u>584,358</u>	<u>350,954</u>	<u>(233,404)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In (Out)	<u>(242,106)</u>	<u>(355,643)</u>	<u>(113,537)</u>
Total other financing sources (uses)	<u>(242,106)</u>	<u>(355,643)</u>	<u>(113,537)</u>
NET CHANGE IN FUND BALANCE	342,252	(4,689)	(346,941)
FUND BALANCE, BEGINNING OF YEAR	<u>359,342</u>	<u>196,250</u>	<u>(163,092)</u>
FUND BALANCE, END OF YEAR	\$ <u>701,594</u>	\$ <u>191,561</u>	\$ <u>(510,033)</u>

The accompanying notes are an integral part of these financial statements.

EARLE SCHOOL DISTRICT NUMBER ONE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL-SPECIAL REVENUE FUND-REGULATORY BASIS

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Federal revenues	\$ 2,122,954	\$ 2,935,652	\$ 812,698
State revenues	4,437	3,660	(777)
Tuition, fees and other	<u>9,142</u>	<u>22,706</u>	<u>13,564</u>
Total Revenues	<u>2,136,533</u>	<u>2,962,018</u>	<u>825,485</u>
EXPENDITURES			
Instructional services	912,647	1,068,997	(156,350)
Student support	387,808	380,051	7,757
Instructional support services	196,753	636,308	(439,555)
Pupil transportation services	87,995		87,995
Operation and maintenance of plant	6,496	9,528	(3,032)
General administration		487	(487)
Food services	676,331	656,627	19,704
Community services		107	(107)
Capital outlay	<u></u>	<u>163,340</u>	<u>(163,340)</u>
Total expenditures	<u>2,268,030</u>	<u>2,915,445</u>	<u>(647,415)</u>
Revenues over (under) expenditures	<u>(131,497)</u>	<u>46,573</u>	<u>178,070</u>
FUND BALANCE, BEGINNING OF YEAR			
	<u>7,265</u>	<u>11,894</u>	<u>4,629</u>
FUND BALANCE, END OF YEAR	\$ <u>(124,232)</u>	\$ <u>58,467</u>	\$ <u>182,699</u>

The accompanying notes are an integral part of these financial statements.

# EARLE SCHOOL DISTRICT NUMBER ONE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Earle School District (District). There are no component units.

#### Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

*General Fund-* The General Fund is the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

*Special Revenue Fund-* The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Other governmental funds consist of the following:

*Capital Projects Fund-* The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, other governments).

*Debt Service Fund-* The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Fund types including the following:

*Agency Funds-* Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).



EARLE SCHOOL DISTRICT NUMBER ONE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Arkansas Code Annotated §10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP requires that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA.

EARLE SCHOOL DISTRICT NUMBER ONE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Information on capital assets and related depreciation is reported in the Other Supplemental Information. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Assets Class</u>	<u>Estimated Useful Life in Years</u>
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

Property Taxes

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year. Property taxes that are due at the end of the fiscal year and collected within 60 days are accrued. Deferred property taxes are not recognized.

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

Fund Balance Designations

*Reserved fund balance*- represents that portion of the fund balance which is not appropriable for expenditure or is legally segregated for a specific future use.

*Undesignated fund balance*- indicates that portion of the fund balance not reserved or designated.

EARLE SCHOOL DISTRICT NUMBER ONE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE 1; SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	<u>391,426</u>	<u>724,352</u>
Total Deposits	\$ <u>641,426</u>	\$ <u>974,352</u>

The District has executed an overnight sweep account and master repurchase agreement with a local bank. Excess funds are invested each night in short-term repurchase transactions. Such funds are not an obligation of the Federal Deposit Insurance Corporation (FDIC) in case of default by the bank.

EARLE SCHOOL DISTRICT NUMBER ONE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE 3: RECEIVABLES

The receivables of \$529,957 at June 30, 2010, are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Property Taxes	\$ 108,123		\$ 108,123
Federal Grants		\$ 397,395	397,395
Other	<u>24,439</u>	<u>          </u>	<u>24,439</u>
Totals	\$ <u>132,562</u>	\$ <u>397,395</u>	\$ <u>529,957</u>

NOTE 4: COMMITMENTS

LONG-TERM DEBT ISSUED AND OUTSTANDING

The District is presently paying on the following long-term debt:

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2010</u>	<u>Maturities to June 30, 2010</u>
11/01/2003	05/01/2028	3.1-4.9%	\$ 4,460,000	\$ 3,595,000	\$ 865,000
11/01/2004	05/01/2034	3.5-4.8%	2,135,000	2,060,000	75,000
10/01/2008	02/01/2034	3.8-5.4%	1,350,000	1,350,000	
10/12/2007	01/15/2017	5.85%	430,000	358,294	71,706
12/29/2009	12/29/2019	5.5%	300,000	288,548	11,452
06/17/2003	06/17/2013		<u>146,329</u>	<u>146,329</u>	
Totals			\$ <u>8,821,329</u>	\$ <u>7,798,171</u>	\$ <u>1,023,158</u>

EARLE SCHOOL DISTRICT NUMBER ONE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE 4: COMMITMENTS (CONTINUED)

Changes in Long-Term Debt

	Balance <u>July 1, 2009</u>	<u>Issued</u>	<u>Retired</u>	Balance <u>June 30, 2010</u>
Bonds payable	\$ 7,155,000		\$ 150,000	\$ 7,005,000
Postdated warrants	146,329			146,329
Capital leases	398,667	\$ 300,000	51,825	646,842
Installment contract	<u>101,631</u>	<u>          </u>	<u>101,631</u>	<u>          </u>
Totals	\$ <u>7,801,627</u>	\$ <u>300,000</u>	\$ <u>303,456</u>	\$ <u>7,798,171</u>

Total long-term debt principal and interest payments are as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 241,625	\$ 350,100	\$ 591,725
2012	255,494	340,112	595,606
2013	410,917	329,573	740,490
2014	273,920	318,420	592,340
2015	288,503	306,486	594,989
2016-2020	1,412,712	1,348,287	2,760,999
2021-2025	1,410,000	1,034,445	2,444,445
2026-2030	1,765,000	661,525	2,426,525
2031-2034	<u>1,740,000</u>	<u>179,349</u>	<u>1,919,349</u>
	\$ <u>7,798,171</u>	\$ <u>4,868,297</u>	\$ <u>12,666,468</u>

EARLE SCHOOL DISTRICT NUMBER ONE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE 4: COMMITMENTS (CONTINUED)

CAPITAL LEASES

The District has executed the following capital leases:

<u>Class of Property</u>	<u>Asset Balance</u> <u>June 30, 2010</u>
Vocational training facilities	\$ 430,000
	<u>June 30, 2010</u>
Total Minimum Lease Payments	\$ 441,791
Less: Amount Representing Interest	<u>83,497</u>
Total Present Value of Net Minimum Lease Payments	\$ <u>358,294</u>
	<u>Asset Balance</u> <u>June 30, 2010</u>
<u>Class of Property</u>	\$ 169,107
Escrow account for purchase of facilities and equipment	<u>130,893</u>
Facilities and equipment	\$ <u>300,000</u>
	<u>June 30, 2010</u>
Total Minimum Lease Payments	\$ 374,328
Less: Amount Representing Interest	<u>85,780</u>
Total Present Value of Net Minimum Lease Payments	\$ <u>288,548</u>

QUALIFIED ZONE ACADEMY BOND (QZAB)

On June 17, 2003, the District obtained funding through the Qualified Zone Academy Bond (QZAB). A QZAB does not generally require interest payments from the borrower. The principal is not due until the end of the term. The borrower makes annual deposits into an interest-bearing sinking fund. The District borrowed \$146,329 using this method by issuing postdated warrants. The District will deposit \$13,449 into a sinking fund for ten years for a total of \$134,490. This amount plus interest will be used to retire the debt when due.

EARLE SCHOOL DISTRICT NUMBER ONE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE 5: RETIREMENT PLANS

Arkansas Teacher Retirement Systems

**Plan Description.** The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

**Funding Policy.** ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Board of Trustees. The current employer rate is 14%. The District's contributions to ATRS for the years ended June 30, 2010, 2009, and 2008 were \$872,673, \$791,341, and \$734,227, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

**Plan Description.** The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteaching Arkansas public school employees hired before July 1, 1989. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capital, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

**Funding Policy.** APERS has contributory and non-contributory plans. Contributory members are required by law to contribute 5% of their salary. Each participating employer is required by law to contribute at a rate established by the Board of Trustees. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to APERS for the years ended June 30, 2010, 2009, 2008 were \$2,300, \$2,292 and \$2,405, respectively, equal to the required contributions for each year.

EARLE SCHOOL DISTRICT NUMBER ONE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010

NOTE 6: CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2010.

NOTE 7: CONSTRUCTION IN PROGRESS

The construction in progress amount reflected in Other Supplemental Information consists of costs pertaining to construction projects of a field house, parent center - administration building, and a music room.



OTHER REPORTS AND  
SUPPLEMENTAL INFORMATION

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS*

Members of the School Board  
Earle School District Number One  
Earle, Arkansas

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Earle School District Number One as of and for the year ended June 30, 2010, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated February 1, 2011. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Earle School District Number One's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Earle School District Number One's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Earle School District Number One's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 and 2010-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Earle School District Number One's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Earle School District Number One in a separate letter dated February 1, 2011.

Earle School District Number One's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Earle School District Number One's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties.

FREEMAN & COMPANY, INC.

A handwritten signature in cursive script that reads "Freeman & Company, Inc.".

Jonesboro, Arkansas  
February 1, 2011

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the School Board  
Earle School District Number One  
Earle, Arkansas

Compliance

We have audited the compliance of Earle School District Number One with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Earle School District Number One's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Earle School District Number One's management. Our responsibility is to express an opinion on Earle School District Number One's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Earle School District Number One's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Earle School District Number One's compliance with those requirements.

In our opinion, Earle School District Number One complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Earle School District Number One is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs.

In planning and performing our audit, we considered Earle School District Number One's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Earle School District Number One's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties.

FREEMAN & COMPANY, INC.

A handwritten signature in cursive script that reads "Freeman & Company, Inc.".

Jonesboro, Arkansas  
February 1, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
ARKANSAS CODE ANNOTATED 6-1-101 (REPL. 1993)  
AND 6-20-311 (SUPP. 1995)

Members of the School Board  
Earle School District Number One  
Earle, Arkansas

We have audited the basic financial statements of Earle School District Number One for the year ended June 30, 2010, and have issued our report thereon dated February 1, 2011. Our audit was made in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In the course of our audit, nothing came to our attention that caused us to believe there has been any lack of substantial compliance with Arkansas Code Annotated 6-1-101 (Repl. 1993) and 6-20-311 (Supp. 1995).

FREEMAN & COMPANY, INC.

A handwritten signature in cursive script that reads "Freeman & Company, Inc".

February 1, 2011

# EARLE SCHOOL DISTRICT NUMBER ONE

## SCHEDULE OF CAPITAL ASSETS

For the Year Ended June 30, 2010

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010
Capital Assets, not being depreciated:				
Land	\$ 355,291			\$ 355,291
Construction in progress	<u>1,354,795</u>	\$ <u>136,951</u>	\$ <u>1,354,795</u>	<u>136,951</u>
Total Capital Assets, not being depreciated	<u>1,710,086</u>	<u>136,951</u>	<u>1,354,795</u>	<u>492,242</u>
Capital Assets, being depreciated:				
Buildings	5,965,638	1,339,913		7,305,551
Improvements/infrastructure	1,640,978			1,640,978
Equipment	<u>2,003,583</u>	<u>292,429</u>	<u>121,282</u>	<u>2,174,730</u>
Total Capital Assets, being depreciated	<u>9,610,199</u>	<u>1,632,342</u>	<u>121,282</u>	<u>11,121,259</u>
Less accumulated depreciation:				
Buildings	2,433,201	131,157		2,564,358
Improvements/infrastructure	39,058	21,116		60,174
Equipment	<u>1,091,038</u>	<u>151,908</u>	<u>92,649</u>	<u>1,150,297</u>
Total accumulated depreciation	<u>3,563,297</u>	<u>304,181</u>	<u>92,649</u>	<u>3,774,829</u>
Total Capital Assets, being depreciated, net	<u>6,046,902</u>	<u>1,328,161</u>	<u>28,633</u>	<u>7,346,430</u>
Capital Assets, Net	\$ <u>7,756,988</u>	\$ <u>1,465,112</u>	\$ <u>1,383,428</u>	\$ <u>7,838,672</u>

EARLE SCHOOL DISTRICT NUMBER ONE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2010

<u>Federal Grantor/ Pass Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Expenditures</u>
<b>CHILD NUTRITION CLUSTER</b>			
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
Passed Through Arkansas State Department of Education:			
School Lunch Equipment - ARRA	10.579		\$ 13,933
National School Lunch Program (233,204 units served)	10.555	18-02-000	487,741
Passed Through Arkansas State Department of Human Services:			
National School Lunch Program - Non-cash Assistance (Food Distribution) (Note 2)	10.555	1802	32,490
Summer Food Service Program for Children	10.559	SA007	<u>72,317</u>
<b>TOTAL CHILD NUTRITION CLUSTER</b>			<u>592,548 *</u>
<b>OTHER PROGRAMS</b>			
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
Passed Through Arkansas State Department of Education:			
Elementary & Secondary Education Act			
ESEA Title I	84.010	18-02	711,536
ESEA Title I - ARRA	84.389	18-02	<u>465,573</u>
<b>TOTAL TITLE I</b>			<u>1,177,109 *</u>
Special Education	84.027	1802	188,908
Special Education - ARRA	84.391	1802	<u>87,995</u>
<b>TOTAL SPECIAL EDUCATION</b>			<u>276,903</u>
Carl D. Perkins - Vocational Education			
Disadvantaged & Handicapped - Special Needs	84.048	L-18-02-000	33,060
Reading First Grant	84.357	1802	68,173
Improving Teacher Quality	84.367	1802	100,166
SFSF - Education - ARRA	84.394		12,282
SFSF - Govt. Serv. - ARRA	84.397		<u>119,557</u>
<b>TOTAL STATE FISCAL STABILIZATION FUND</b>			<u>131,839</u>
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<u>1,787,250</u>

\* - Denotes a major federal financial assistance program.



<u>Federal Grantor/ Pass Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Expenditures</u>
<u>OTHER PROGRAMS (CONTINUED)</u>			
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Program:			
Community-based Abstinence Education	93.010		282,740
Passed Through State Department of Human Services:			
Quality Approval Grant	93.575		790
Abstinence Education	93.235		<u>1,913</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>285,443</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Passed Through Arkansas State Department of Education:			
Juvenile Justice and Delinquency Prevention	16.540		<u>18,760</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>2,697,934</u>

Notes to Schedule:

1. This schedule includes the federal grant activity of Earle School District Number One and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the regulatory basis financial statements.
2. Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
3. Medicaid reimbursements are defined as contracts of services and not federal awards; therefore, such reimbursements totaling \$16,499 are not covered by the reporting requirements of OMB Circular A-133.

EARLE SCHOOL DISTRICT NUMBER ONE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

SECTION I - SUMMARY OF AUDITOR'S RESULTS

*Financial Statements*

Type of auditor's report issued:

GAAP basis of reporting - adverse

Regulatory basis opinion units - unqualified

Internal control over financial reporting:

- Material weakness identified?   X   Yes        No
- Significant deficiencies identified that are not considered to be material weaknesses?        Yes   X   None reported

Noncompliance material to financial statements noted?        Yes   X   No

*Federal Awards*

Internal control over major programs:

- Material weakness identified?        Yes   X   No
- Significant deficiencies identified that are not considered to be material weaknesses?        Yes   X   None reported

Type of auditor's report issued on compliance for major programs: *unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?        Yes   X   No

Identification of major programs:

<u>Program or Cluster</u>	<u>CFDA Number(s)</u>
1. Child Nutrition Cluster	10.555 and 10.559
2. Elementary & Secondary Education Act ESEA Title I and Title I ARRA	84.010 and 84.389

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee?        Yes   X   No

EARLE SCHOOL DISTRICT NUMBER ONE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESSES**

- 2010-1.        Segregation of Duties
- Statement of Condition: Lack of adequate segregation of duties.
- Criteria: Financial accounting duties should be distributed among appropriate employees to ensure the proper safeguarding of assets.
- Effect of Condition: Financial accounting duties are not distributed among the District's employees to sufficiently reduce the risk of fraud or error and to properly safeguard the District's assets.
- Cause of Condition: Limited financial resources hinder the District's ability to adequately segregate financial accounting duties among employees.
- Recommendation: To ensure the proper safeguarding of the District's assets, financial accounting duties should be distributed among appropriate employees.
- Views of responsible officials and planned corrective actions: The management of Earle School District Number One has indicated that the District has limited funding, and segregation of duties has been distributed among those three employees who work in the Central Office. Management has also indicated that the District does not have the resources to hire additional employees.
- 2010-2.        Bank Account Reconciliations.
- Statement of Condition: Lack of timely bank account reconciliations.
- Criteria: Bank accounts should be reconciled timely to facilitate proper recording of activity.
- Effect of Condition: Financial activity may not be recorded correctly causing misstated financial information.
- Cause of Condition: Due to accounting position changes reconciliations were not done timely.
- Recommendation: Bank account reconciliations be performed in a timely manner.
- Views of responsible officials and planned corrective actions: The management of Earle School District Number One has indicated that the District will prepare timely bank account reconciliations.

EARLE SCHOOL DISTRICT NUMBER ONE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No audit findings or questioned costs relative to the federal awards programs for Earle School District Number One were disclosed during the audit.

EARLE SCHOOL DISTRICT NUMBER ONE

SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2010

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no prior audit findings or questioned costs relative to the federal awards programs for Earle School District Number One.



# ARKANSAS DEPARTMENT OF EDUCATION

Dr. Tom W. Kimbrell  
Commissioner

March 30, 2011

**State Board  
of Education**

Dr. Naccaman Williams  
Springdale  
Chair

Jim Cooper  
Melbourne  
Vice Chair

Sherry Burrow  
Jonesboro

Brenda Gullett  
Fayetteville

Sam Ledbetter  
Little Rock

Alice Mahony  
El Dorado

Dr. Ben Mays  
Clinton

Toyce Newton  
Crossett

Vicki Saviers  
Little Rock

Dr. Charles Hopson, Superintendent  
Pulaski County Special School District  
P.O. Box 8601  
Little Rock, AR 72216

Dear Mr. Hopson:

Pursuant to Ark. Code Ann. § 6-20-1905, this letter is to provide notice that the Pulaski County Special School District has been identified by the Arkansas Department of Education (Department) as a school district in Fiscal Distress. According to Ark. Code Ann. § 6-20-1904, the Pulaski County Special School District meets one (1) or more of the criteria necessary to be identified as a school district in Fiscal Distress, including:

- Material state or federal audit exceptions or violations.

This identification is also based on acts or violations determined to jeopardize the fiscal integrity of the district including without limitations failure to fully develop and implement adequate corrective actions for previously identified audit findings and deficiencies.

The State Board of Education (SBE) will consider whether to classify the Pulaski County Special School District as being in Fiscal Distress at its meeting on, May 9, 2011. The meeting will begin at 9:00 a.m. in the Auditorium of the Arch Ford Education Building, Four Capitol Mall in Little Rock, Arkansas.

Please find included in this mailing a copy of the Department's Rules on Identifying and Governing the Arkansas Fiscal Assessment and Accountability Program. This document outlines the identification and classification of Fiscal Distress. It also provides the process by which a district may appeal the classification of Fiscal Distress to the SBE. If submitted within 30 days of this notice, an appeal would be heard at the same May 9, 2011, SBE Meeting. Additional information may be found in Arkansas Code Ann. § 6-20-1901 et seq.

Four Capitol Mall  
Little Rock, AR  
72201-1019  
(501) 682-4475  
ArkansasEd.org

**Fiscal Distress Identification**  
**Page 2**

Ark. Code Ann. §6-20-1907 states that no school district identified by the Department as being in Fiscal Distress may incur any debt without prior written approval from the Department. "Any debt" includes any employment contract, vendor contract, lease, loan, purchase, or any other obligation that will increase the district's financial obligations, accounts payable, or its liabilities. The district is required to obtain prior written approval from the Department, effective with its receipt of this letter. Please retain this notice in your District audit file.

Should the district have questions or comments, please contact the Fiscal Distress Services, at (501) 682-5124.

Sincerely,

A handwritten signature in cursive script, appearing to read "Hazel Burnett".

Hazel Burnett,  
ADE Coordinator Fiscal Distress Accountability and Reporting

HB:ddm

cc: Dr. Tom Kimbrell, Commissioner of Education  
Mr. Tony Wood, Deputy Commissioner of Education  
Mr. Jeremy Lasiter, General Counsel  
Mr. William J. Goff, Assistant Commissioner  
Senator Linda Chesterfield  
Representative Darrin Williams  
Mr. William Vasquez, School Board President

**Pulaski County Special School District**  
**LEA # 6003**  
**Pulaski County**

**Fiscal Distress Indicators and Additional Concerns:**

Material state or federal audit exceptions or violations

<b>District Profile:</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>
<b>Superintendent</b>	<b>James R. Sharp</b>	<b>James R. Sharp</b>	<b>James R. Sharp</b>	<b>Rob McGill</b>
4 QTR ADM	17,918	17,254	17,133	16,989
Assessment	1,859,218,890	2,060,170,537	2,320,282,041	2,302,878,392
Total Mills	40.70	40.70	40.70	40.70
Total Debt Bond/Non Bond	75,354,593	77,752,660	156,832,320	152,055,788
Per Pupil Expenditures	8,638	9,476	9,779	10,783
Personnel-Non-Fed Certified FTE	1,470.65	1,425.68	1,427.96	1,313.96
Personnel-Non-Fed Certified Clsrm FTE	1,316.06	1,298.28	1,288.98	1,211.27
Avg Salary-Non-Fed Cert Clsrm FTE	45,508	48,426	48,906	53,334
Avg Salary-Non-Fed Cert FTE	46,861	50,121	51,539	55,927
Net Legal Balance (Excl Cat & QZAB)	7,331,320	8,282,420	8,335,082	7,852,237





# ARKANSAS DEPARTMENT OF EDUCATION

Dr. Tom W. Kimbrell  
Commissioner

June 10, 2010

**State Board  
of Education**

Dr. Naacaman Williams  
Springdale  
Chair

Jim Cooper  
Melbourne  
Vice Chair

Sherry Burrow  
Jonesboro

Brenda Gullett  
Fayetteville

Sam Ledbetter  
Little Rock

Alice Mahony  
El Dorado

Dr. Ben Mays  
Clinton

Toyce Newton  
Crossett

Mr. Rob McGill, Acting Superintendent  
Pulaski County Special School District  
P.O. Box 8601  
Little Rock, Arkansas 72216

Mr. Tim Clark, President  
Board of Directors  
Pulaski County Special School District  
P.O. Box 8601  
Little Rock, Arkansas 72216

Dr. Charles Hopson  
Incoming Superintendent  
Pulaski County Special School District  
P.O. Box 8601  
Little Rock, Arkansas 72216

**Re: Pulaski County Special School District Audit  
(Via Facsimile to Mr. Rob McGill – 490-0483)**

Dear Gentlemen:

On May 14, 2010, the Legislative Joint Auditing Committee reviewed an Investigative Report dated April 28, 2010, issued by the Arkansas Division of Legislative Audit (DLA). This report was a review of transactions of the Pulaski County Special School District (PCSSD) inclusive of the period March 1, 2004 through February 19, 2010.

The report revealed a "lack of proper management fiscal oversight responsibility and safeguards to prevent, and timely detect, misappropriation of funds and potential waste and abuse of District assets." Numerous examples of reimbursing members of the PCSSD Board of Directors (Board) and former superintendent for unallowable and undocumented expenses give credence to the report's contention that PCSSD's administrative staff and the Board did not "demonstrate a 'tone at the top' promoting commitment to financial prudence and consistency with policies and procedures."

The criminal case involving a former PCSSD employee who misappropriated \$439,745 in district funds is also troubling. Examples of district personnel not following district policies pertaining to travel, purchasing, and overtime may have resulted in further waste and abuse of school district funds.

The Arkansas Department of Education (ADE) has also reviewed PCSSD's financial audit for the year ending June 30, 2009, dated May 28, 2010. There were

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five significant deficiencies disclosed during the audit that are all considered to be material weaknesses. Two of these deficiencies were also noted in the previous year's audit:

- The District has not segregated payroll duties among employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliable payroll preparation and authorization.
- Controls not in place to approve and document the funding source that employees are paid from.

The other three deficiencies listed in the financial audit for the year ending June 30, 2009 were:

- An investigation by the Division of Legislative Audit revealed that an employee in the District's Maintenance Department misappropriated approximately \$440,000 in non-federal funds between March 1, 2004 and May 19, 2009. As the District's Mechanical Systems Supervisor, James Diemer had the authority to order items under \$2,500 with no additional supervisory approval necessary. Lack of management oversight and internal controls related to the approval of these items for payment allowed Mr. Diemer to personally acquire items paid for by the District, which were later sold or traded for a personal profit.

On January 21, 2010, Mr. Diemer waived indictment and entered a guilty plea to the charge of theft of property from a governmental entity and is scheduled to be sentenced at a hearing in June, 2010. Initially, Mr. Diemer was placed on administrative leave without pay. After pleading guilty to theft of property, his employment was terminated. Additionally, the Director of Purchasing and the Director of Support Services (who were responsible for a significant portion of the management oversight and internal controls related to the acquisition and payment for these items) retired from District employment in August and September 2009, respectively.

- The District issued blanket purchase orders exceeding the District policy of \$1,000 per vendor, per month.
- Travel request forms are not consistently fully completed before submission for reimbursement, with several not including all required approval signatures.

Fiscal distress indicators and criteria are explained in Ark. Code Ann. § 6-20-1904 and the Arkansas Department of Education Rules Identifying and Governing the Arkansas Fiscal Assessment and Accountability Program. "Material state or federal audit exceptions or violations" and "[m]aterial failure to comply with state law governing purchasing or bid requirements" are two indicators that existed during the period covered in the above mentioned audit reports.

According to Ark. Code Ann. § 6-20-1905, the ADE shall provide notice identifying a district as being in fiscal distress on or before March 30 of each year. The ADE may provide this notice "at any time after March 30 if the department discovers that a fiscal condition of a school district negatively impacts the continuation of educational services by the school district."

Although the audit findings and deficiencies listed in these two reports are extremely serious violations of the administration and Board's fiduciary responsibilities pertaining to public funds, the ADE has no evidence at this time that these violations have "negatively impacted the continuation of educational services" by PCSSD. However, you are hereby notified that pursuant to Ark. Code Ann. § 6-20-1905, should all indicators of fiscal distress not be corrected by January 1, 2011, the ADE may identify PCSSD as a district in fiscal distress.

The Arkansas State Board of Education could subsequently classify PCSSD as being in fiscal distress. The success of PCSSD's corrective actions prior to January 2011 will certainly be a factor in the decision of whether to identify and classify PCSSD as a district in fiscal distress. Under Arkansas law, a school district may only remain in fiscal distress for two years. Pursuant to Ark. Code Ann. § 6-20-1909, the ADE may take the following actions to address school districts in fiscal distress:

- Require the superintendent to relinquish all administrative authority with respect to the school district;
- Appoint an individual in place of the superintendent to administratively operate the school district under the supervision and approval of the Commissioner of Education and to compensate nondepartment agents operating the school district from school district funding;
- Call for the temporary suspension of the local school board of directors;
- Require the school district to operate without a local school board of directors under the supervision of the local superintendent or an individual or panel appointed by the commissioner;
- Place the administration of the school district over to the former board of directors or to a newly elected school board of directors; or
- Take any other action allowed by law that is deemed necessary to assist a school district in removing criteria of fiscal distress.

I strongly recommend that PCSSD's administration and Board work together with urgency to rectify these issues. The ADE will closely monitor the efforts of PCSSD in that regard. I thank you in advance for your prompt attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tom W. Kimbrell', written over a horizontal line.

Tom W. Kimbrell, Ed.D.  
Commissioner

cc: Mr. Danny Gilliland  
Ms. Sandra Sawyer  
Ms. Mildred Tatum  
Mr. William Vasquez  
Ms. Gwen Williams  
Mr. Charlie Wood



# ARKANSAS DEPARTMENT OF EDUCATION

Dr. Tom W. Kimbrell  
*Commissioner*

September 8, 2010

**State Board  
of Education**

Dr. Naccaman Williams  
*Springdale  
Chair*

Jim Cooper  
*Melbourne  
Vice Chair*

Sherry Burrow  
*Jonesboro*

Brenda Gullett  
*Fayetteville*

Sam Ledbetter  
*Little Rock*

Alice Mahony  
*El Dorado*

Dr. Ben Mays  
*Clinton*

Toyce Newton  
*Crossett*

Vicki Saviers  
*Little Rock*

Dr. Charles Hopson, Superintendent  
Pulaski County Special School District  
P.O. Box 8601  
Little Rock, AR 72216

Dear Dr. Hopson:

Pursuant to Ark. Code Ann. § 6-20-1904 (b) (1), this letter is to provide notice the Pulaski County Special School District (District) has been identified by the Arkansas Department of Education (ADE) as a school district which has experienced two (2) or more indicators of fiscal distress in one (1) school year determined to be at a nonmaterial level, but that without intervention could place the district in fiscal distress. These nonmaterial indicators include:

- State or federal audit exceptions or violations.
- Failure to comply with state law governing purchasing or bid requirements

Although the ADE currently deems these indicators as nonmaterial, the ADE may revise and deem these indicators to be material on the basis of future review and investigation. Evidence of these indicators having existed in one school year is provided in the Investigative Report prepared by the Arkansas Division of Legislative Audit and presented to the Legislative Joint Auditing Committee May 14, 2010. Specific findings in that report include:

- Overpayment of former superintendent James Sharpe's employment contract.
- Payment of unallowable travel expenses for former superintendent James Sharpe and members of the school board.
- Blanket purchases for small order purchases frequently exceeded \$1,000 per vendor monthly limit.
- Business purpose of goods purchased was not always documented.
- Excessive use of "emergency" purchase orders without documentation to support the nature of the emergency.
- Overtime compensation without adequate supporting documentation and authorization.
- Overpayments to vendors were not accounted for properly and refunds were not always requested.
- Inadequate documentation and overpayments pertaining to employee expense reimbursements.
- Failure to comply with district policy and state law pertaining to competitive bidding and purchasing of goods and services.
- Numerous internal control deficiencies which contributed to the misappropriation of District funds as well as potential waste and abuse of District resources. In particular, the administrative staff and board did not:

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- o Exercise proper management or fiscal oversight responsibility or provide safeguards to prevent and timely detect misappropriation of funds and potential waste and abuse of District assets.
- o Follow established District policies and procedures.
- o Establish a "tone at the top" that demonstrated to personnel the necessity of standards and fiscal prudence.

According to Ark. Code Ann. §6-20-1904, the District's board of directors shall place on the agenda for the next regularly scheduled meeting of the board of directors a discussion of the notice of nonmaterial indicators of fiscal distress. Please provide me with copies of the minutes within thirty days of this board meeting.

Included in this mailing is a copy of the ADE's rules on Identifying and Governing the Arkansas Fiscal Assessment and Accountability Program. This document outlines the identification and classification of Fiscal Distress and Early Intervention. Additional information may be found in Arkansas Code Ann. § 6-20-1901 et seq.

The ADE will provide technical support and assistance as the District develops a plan to correct each nonmaterial indicator. Please contact Hazel Burnett in the Fiscal Distress office at 501-682-5124 with any questions, comments, and/or requests for assistance.

Please retain this notice in the District's audit file.

Sincerely,

  
William J. Goff, CPA  
Assistant Commissioner  
Fiscal and Administrative Services

WJG:ddm

cc: Dr. Tom Kimbrell, Commissioner of Education  
Mr. Tony Wood, Deputy Commissioner  
Mr. Jeremy Lasiter, General Counsel  
Ms. Hazel Burnett ✓  
Senator Tracey Steele  
Representative Darrin Williams  
Mr. Tim A. Clark, School Board President  
Mr. Danny R. Gililand  
Ms. Mildred C. Tatum  
Ms. Sandra Sawyer  
Mr. William A. (Bill) Vasquez  
Ms. Gwendolyn J. Williams  
Mr. Charlie W. Wood



# PULASKI COUNTY SPECIAL SCHOOL DISTRICT EARLY FISCAL DISTRESS PLAN / 2010-2011

**DISTRICT:** Pulaski County Special School District

**LEA #:** 6003000

**DATE OF SUBMISSION:** October 13, 2010.

**PURPOSE:** This corrective action plan documents responsibility for addressing early fiscal distress indicators and describes progress towards addressing the audit findings.

**REGULATORY REFERENCE:** Government Audit Standards

**GOALS TO ADDRESS ARE EARLY FISCAL DISTRESS INDICATORS: (A) Internal Controls and (B) Risk Management**

## ACTION PLAN APPROACH (MAJOR MILESTONES): ACCOUNTING AND HUMAN RESOURCE DEPARTMENT

ACTIVITIES TO ACHIEVE GOAL(S)	Activity Begin Date	Responsible Person(s)	Documentation for Audit Files	Current Status/Date*
<p><b>Corrective Action:</b> Payroll preparation duties should be segregated within the payroll department.</p> <p><b>A. Internal Control</b></p> <ol style="list-style-type: none"> <li>1. Segregation of Duties : Authorization, Recording keeping, Custody (ARC)               <ol style="list-style-type: none"> <li>a. Authorization to Employ and Pay (Human Resources (HR))                   <ol style="list-style-type: none"> <li>i. Recommendation to hire forms are submitted to HR;</li> <li>ii. Employee hire form is used by HR staff to set-up pay rate for each new and or existing employee;</li> </ol> </li> </ol> </li> </ol>	Oct. 2010	<p>CFO and Director of Accounting/Auditing;</p> <p>Human Resource Staff;</p> <p style="padding-left: 40px;">Building Administrators, Supervisors, and Managers, and School Bookkeeper</p>	<p>APSCN (Arkansas Public School Computer Network) reports and other electronic reports will be on file in the Accounting Department</p>	Status = U / Oct. 2010

# PULASKI COUNTY SPECIAL SCHOOL DISTRICT EARLY FISCAL DISTRESS PLAN / 2010-2011

ACTIVITIES TO ACHIEVE GOAL(S)	Activity Begin Date	Responsible Person(s)	Documentation for Audit Files	Current Status/Date*
b. Timekeeping (Bookkeeper) i. Bookkeeper collects and summarizes time data for each pay period;	Oct. 2010	School Bookkeeper	Electronic and paper reports on file in the Accounting Department	Status = U / Oct. 2010
c. Supervision of Pay (Building Administrators, Supervisors, and Managers) i. Each supervisor signs the required documents to verify and approve their employees' time data for each pay period;	Oct. 2010	Building Administrators, Supervisors, and Managers,	Coding forms completed and maintained in employees files	Status = U / Oct. 2010
d. Payroll Processing (Payroll and Accounting Department) i. Printed payroll edit reports will be verified against budget allocations; ii. Time entry data will be segregated among Payroll Specialists I; iii. Each pre-calculation report will be verified by alternate payroll specialist who did not	Oct. 2010	Director of Accounting/Auditing and Payroll ;	Payroll edit reports; Pre-calculation report(s); Final pre-calculation report(s);	Status = U / Oct. 2010

\*Status Legend: NS= Not Started; U= Underway; C=Completed



# **PULASKI COUNTY SPECIAL SCHOOL DISTRICT EARLY FISCAL DISTRESS PLAN / 2010-2011**

ACTIVITIES TO ACHIEVE GOAL(S)	Activity Begin Date	Responsible Person(s)	Documentation for Audit Files	Current Status/Date*
<p>originally enter time data;</p> <p>iv. Each payroll specialist will indicate the report verification by affixing their initials;</p> <p>v. The final pre-calculation report will be review by the Payroll Specialists II before final calculation is completed;</p> <p>vi. All source documents (i.e. Final pre-calculation reports, time data documents, final calculation reports, etc.) will be filed in the Accounting Department.</p>		<p>Director of Accounting/Auditing and Payroll ;</p>	<p>Payroll edit reports; Pre-calculation report(s); Final pre-calculation report(s);</p>	
<p>e. Check Distribution (Courier, Building Administrators, Supervisors,)</p> <p>i. Check distribution verifications will conducted twice annually at various work sites throughout the district.</p>	<p>Oct. 2010</p>	<p>Courier, Building Administrators, CFO and Accounting Staff;</p>	<p>Signature forms</p>	<p>Status = U / Oct. 2010</p>

\*Status Legend: NS= Not Started; U= Underway; C=Completed

# **PULASKI COUNTY SPECIAL SCHOOL DISTRICT EARLY FISCAL DISTRESS PLAN / 2010-2011**

ACTIVITIES TO ACHIEVE GOAL(S)	Activity Begin Date	Responsible Person(s)	Documentation for Audit Files	Current Status/Date*
<b>B. Internal Controls</b>  1. The funding source that employees are paid from should be approved and documented in the employee files.	Oct. 2010	Human Resource Staff;	Employee Files; Appropriate hire form and contract(s) as related to position of employment;	Status = U / Oct. 2010

**Note: This Corrective Action plan will be kept on file in the Business Office and amended as needed. The plan will serve as documentation to address Early Fiscal Distress indicators.**

## **APPROVAL AND CONCURRANCES OF EARLY DISTRESS PLAN**

Dr. Charles Hopson, Superintendent

# PULASKI COUNTY SPECIAL SCHOOL DISTRICT EARLY FISCAL DISTRESS PLAN / 2010-2011

DISTRICT: Pulaski County Special School District

LEA #: 6003000

DATE OF SUBMISSION: October 13, 2010.

PURPOSE: This corrective action plan documents responsibility for addressing early fiscal distress indicators and describes progress towards addressing the audit findings.

REGULATORY REFERENCE: Government Audit Standards

GOALS TO ADDRESS ARE EARLY FISCAL DISTRESS INDICATORS: (A) Internal Controls and (B) Risk Management

ACTION PLAN APPROACH (MAJOR MILESTONES): PURCHASING DEPARTMENT

ACTIVITIES TO ACHIEVE GOAL(S)	Activity Begin Date	Responsible Person(s)	Documentation for Audit Files	Current Status/Date*
<p><b>A. Internal Controls</b></p> <p>1. <b>Finding:</b> Blanket purchases for small order purchases frequently exceeded \$1,000 per vendor monthly limit.</p> <p><b>Solution:</b> Blanket purchase orders can no longer be accepted.</p> <p>Confirming purchase orders are assigned to the requestor by the Purchasing Department prior to a purchasing transaction. The requestor has 48 hours to submit an on-line purchase requisition and must reference the Confirming Purchase Order number on the Purchase Requisition. This is for reconciling purposes and internal control.</p> <p>This procedure gives Purchasing the ability to monitor vendor and requestor transactions on a daily basis.</p>	Sept./ Oct. 2010	Purchasing Director and Staff;	PCSSD Purchasing Policies	<p>Status = C / Oct. 2010</p> <p>Reg. 016 Blanket Purchase Orders - deleted by the school board September 14, 2010.</p> <p>Reg. 008 Confirming Purchase Orders - changes approved by School Board October 13, 2010.</p>

\*Status Legend: NS= Not Started; U= Underway; C=Completed

# PULASKI COUNTY SPECIAL SCHOOL DISTRICT EARLY FISCAL DISTRESS PLAN / 2010-2011

DISTRICT: Pulaski County Special School District

LEA #: 6003000

DATE OF SUBMISSION: October 13, 2010.

**PURPOSE:** This corrective action plan documents responsibility for addressing early fiscal distress indicators and describes progress towards addressing the audit findings.

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**GOALS TO ADDRESS ARE EARLY FISCAL DISTRESS INDICATORS: (A) Internal Controls and (B) Risk Management**

**ACTION PLAN APPROACH (MAJOR MILESTONES): PURCHASING DEPARTMENT**

ACTIVITIES TO ACHIEVE GOAL(S)	Activity Begin Date	Responsible Person(s)	Documentation for Audit Files	Current Status/Date*
<p><b>B. Internal Controls</b></p> <p>2. <b>Finding:</b> Excessive use of "emergency" purchase orders without documentation to support the nature of the emergency.</p> <p><b>Solution:</b> Reg. 008 Confirming PO's has been modified to EXCLUDE the use of confirming PO's for emergency purposes by a requestor without the approved authority of the Purchasing Department.</p> <p>Whenever an "emergency" occurs, a letter will be obtained and signed by the Superintendent. This letter will be attached as backup documentation. All other pertinent information will be included.</p>	Oct. 2010	Purchasing Director and Staff;	Confirming PO number and supporting documentation	Status = C / Oct. 2010 Reg. 008 Confirming PO's has been modified to EXCLUDE the use of confirming PO's for emergency purposes by a requestor without the approved authority of the Purchasing Department.



# PULASKI COUNTY SPECIAL SCHOOL DISTRICT EARLY FISCAL DISTRESS PLAN / 2010-2011

**DISTRICT:** Pulaski County Special School District

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**GOALS TO ADDRESS ARE EARLY FISCAL DISTRESS INDICATORS: (A) Internal Controls and (B) Risk Management**

## ACTION PLAN APPROACH (MAJOR MILESTONES): PURCHASING DEPARTMENT

ACTIVITIES TO ACHIEVE GOAL(S)	Activity Begin Date	Responsible Person(s)	Documentation for Audit Files	Current Status/Date*
<b>C. Internal Controls</b>  <b>3. Finding:</b> Failure to comply with district policy and state law pertaining to competitive bidding and purchasing of goods of services.  <b>Solution:</b> (Read #1A above) Internal controls are in place that strengthens PCSSD Purchasing Policies and Procedures. Vendor invoices and statements are reviewed by the Director of Purchasing and Accounts Payable personnel.  State contract and/or Tips and Taps contract numbers are included on purchase orders.	Sept./ Oct. 2010	Purchasing Director and Staff/Accounts Payable;	Purchase Orders and Vendor payment documents;	Status = U / Oct. 2010

\*Status Legend: NS= Not Started; U= Underway; C=Completed

# PULASKI COUNTY SPECIAL SCHOOL DISTRICT EARLY FISCAL DISTRESS PLAN / 2010-2011

**DISTRICT:** Pulaski County Special School District

**LEA #:** 6003000

**DATE OF SUBMISSION:** October 13, 2010.

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**GOALS TO ADDRESS ARE EARLY FISCAL DISTRESS INDICATORS: (A) Internal Controls and (B) Risk Management**

**ACTION PLAN APPROACH (MAJOR MILESTONES):** PURCHASING DEPARTMENT

ACTIVITIES TO ACHIEVE GOAL(S)	Activity Begin Date	Responsible Person(s)	Documentation for Audit Files	Current Status/Date*
<p><b>D. Internal Controls</b></p> <p>4. <b>Finding:</b> Numerous changes and deletions to purchasing regulations have been enacted. See #1 above.</p> <p><b>Solution:</b> (Part 4-A)</p> <ul style="list-style-type: none"> <li>Purchases that qualify as a fixed asset are monitored on a daily basis by our Fixed Asset Specialist. Purchasing information is entered into the fixed asset system and an asset number is assigned, thereafter, the item is tagged. Fixed asset audits are being performed throughout the year.</li> <li>Maintenance and Transportation purchases of "Shop Stock" and "Truck Stock" are monitored by the Purchasing Department. Shop and Truck stock inventories are being maintained and monitored by Purchasing Department.</li> </ul>	Oct. 2010	Purchasing Director, Fixed Asset Specialist and Staff;	PCSSD Purchasing Policies and Procedures;	Status = U / Oct. 2010

\*Status Legend: NS= Not Started; U= Underway; C=Completed

# **PULASKI COUNTY SPECIAL SCHOOL DISTRICT EARLY FISCAL DISTRESS PLAN / 2010-2011**

<p><b>Finding:</b> Follow established District policies and procedures.</p> <p><b>Solution:</b> (Part 4-B)</p> <ul style="list-style-type: none"> <li>• Director of Purchasing reviews all purchase requisitions and purchase orders for adherence to school board policy. Any discrepancies are reported to the CFO.</li> <li>• Purchases that do not conform to school board policy are rejected.</li> <li>• On an as needed basis, the school board attorney, Arkansas Department of Finance and ADE are consulted for advice and direction.</li> </ul>	<p align="center">Oct. 2010</p>	<p align="center">CFO, Purchasing Director and Staff;</p>	<p align="center">PCSSD Purchasing Pcard Policies; PCSSD Fixed Asset inventory documentation;</p>	<p align="center">Status = U / Oct. 2010</p>
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# PULASKI COUNTY SPECIAL SCHOOL DISTRICT EARLY FISCAL DISTRESS PLAN / 2010-2011

**DISTRICT:** Pulaski County Special School District  
LEA #: 6003000

**DATE OF SUBMISSION:** October 13, 2010.

**PURPOSE:** This corrective action plan documents responsibility for addressing early fiscal distress indicators and describes progress towards addressing the audit findings.

**REGULATORY REFERENCE:** Government Audit Standards

**GOALS TO ADDRESS ARE EARLY FISCAL DISTRESS INDICATORS: (A) Internal Controls and (B) Risk Management**

## ACTION PLAN APPROACH (MAJOR MILESTONES): PURCHASING DEPARTMENT

ACTIVITIES TO ACHIEVE GOAL(S)	Activity Begin Date	Responsible Person(s)	Documentation for Audit Files	Current Status/Date*
<b>Recommendation:</b> Establish a "tone at the top" that demonstrates to personnel the necessity of standards, internal control, and fiscal management.  <b>Solution:</b> (Part 4-C) continued <ul style="list-style-type: none"> <li>All purchase requisitions and purchase orders are reviewed by the Director of Purchasing in order to comply with purchasing policies and procedures.</li> <li>All Purchase orders are signed by the Director of Purchasing.</li> </ul>	Oct. 2010  Oct. 2010	Superintendent and PCSSD School Board;  Purchasing Director and Staff;	PCSSD Policies and Procedures;  PCSSD Purchasing Policies, Purchase Requisitions and Purchase Orders;	Status = U / Oct. 2010

**Note:** This Corrective Action plan will be kept on file in the Business Office and amended as needed. The plan will serve as documentation to address Early Fiscal Distress indicators.

## APPROVAL AND CONCURRENCES OF EARLY DISTRESS PLAN

Dr. Charles Hopson, Superintendent

\*Status Legend: NS= Not Started; U= Underway; C=Completed

# PULASKI COUNTY SPECIAL SCHOOL DISTRICT EARLY FISCAL DISTRESS PLAN / 2010-2011

Pulaski County Special School District

LEA #: 6003000

**DATE OF SUBMISSION:** October 13, 2010.

**PURPOSE:** This corrective action plan documents responsibility for addressing early fiscal distress indicators and describes progress towards addressing the audit findings.

**REGULATORY REFERENCE:** Government Audit Standards

**GOALS TO ADDRESS ARE EARLY FISCAL DISTRESS INDICATORS: (A) Professional training for PSCCD employees on Internal Control procedures**

## **ACTION PLAN APPROACH (MAJOR MILESTONES): BUSINESS DIVISION**

<b>ACTIVITIES TO ACHIEVE GOAL(S)</b>	<b>Activity Begin Date</b>	<b>Responsible Person(s)</b>	<b>Documentation for Audit Files</b>	<b>Current Status/Date*</b>
<b>A. Internal Control – Training Sessions</b> 1. Quarterly financial training conducted by the Business Division is required for district bookkeepers, department secretaries and administrative assistants. 2. Monthly zone meetings will be conducted in schools with administrators and bookkeepers to review financial policies, procedures and internal control updates. 3. Review of the PCSSD Early Fiscal Distress Plan will be completed during a regularly scheduled Board meeting. 4. Revisions to the Early Fiscal Distress Plan will be submitted to the PCSSD Board for review during a regularly scheduled Board meeting.	Oct. 2010	CFO, Budget Managers and Business Division Staff	PCSSD Business Procedure Manual;	Status = U / Oct. 2010

**Note:** This Corrective Action plan will be kept on file in the Business Office and amended as needed. The plan will serve as documentation to address Early Fiscal Distress indicators.

## **APPROVAL AND CONCURRENCES OF EARLY DISTRESS PLAN**

\_\_\_\_\_  
Dr. Charles Hopson, Superintendent

# MITCHELL | WILLIAMS

M. Samuel Jones, III  
Direct Dial: 601-888-8812  
Fax: 601-918-7812  
E-mail: sjones@mwlaw.com

426 West Capitol Avenue, Suite 1800  
Little Rock, Arkansas 72201-3626  
Telephone: 601-888-8800  
Fax: 501-888-8807

April 28, 2011

**VIA HAND DELIVERY AND CERTIFIED MAIL**

**NO. 7007 0710 0002 4482 5683**

**RETURN RECEIPT REQUESTED**

Dr. Tom W. Kimbrell  
Commissioner of Education  
Arkansas Department of Education  
Four Capitol Mall  
Little Rock, AR 72201

Re: Pulaski County Special School District

Dear Dr. Kimbrell:

This Firm represents Pulaski County Special School District ("the District"). The District has received a letter dated March 30, 2011, from Ms. Hazel Burnett of the Arkansas Department of Education notifying the District that it has been identified by the Department as a school district in fiscal distress pursuant to Arkansas Code §6-20-1905. This letter represents the District's Appeal to the Arkansas State Board of Education of the notice of fiscal distress determined by the Department. We respectfully submit that the District should not be classified as a District in fiscal distress because it has thoroughly addressed and remedied to the extent required by law the concerns and deficiencies identified in the Investigative Report Update #2 (the Update) of the legislative joint auditing committee dated April 1, 2011. This Update is referenced in the Department's March 30, 2011 letter notifying the District of the recommendation that it be placed in fiscal distress.

Below we set out in shorthand fashion the District's resolution of the items identified in the Update. The points follow the order of the Update. The particulars, including important time lines, dates of resolution, narratives describing the means and manner of resolution of the audit concerns and exceptions and supporting documents begin at Tab A of the preliminary appendix ("Appendix") accompanying this letter.

Pursuant to permission received from Ms. Phyllis Stewart as documented in an email to undersigned counsel dated April 26, 2011 and attached to this letter as Exhibit 1, the District may submit a replacement Appendix, or corrections and supplements, perhaps including a Table of Contents, by May 3 as the actual Appendix to be included for this appeal.

**I. Acting Superintendent (Update p. 4)**

- **Recommendation A** has been accepted and completed. Specifically, the acting superintendent's W-2 for 2010 included taxable fuel costs of \$2,422.00. (For particulars see Appendix at Tab A including McGill's 2010 W-2.)

**II. Superintendent** (Update at page 4)

- **Recommendation B** was followed and completed. The concerns regarding payroll records have been remedied and an appropriate addendum has been executed to the superintendent's contract. (For particulars see Appendix at Tab B including payroll records for Dr. Hopson and addendum to superintendent contract approved at PCSSD Board meeting on April 12, 2011.)

**III. Superintendent** (Update at page 5)

- **Recommendation C** was followed and completed. The District has included \$20,386.00 as additional income on IRS form W-2 for 2010 as moving expenses. Further, an addendum to the superintendent's contract was approved by the Board on January 25, 2011 to comply with the applicable statutes and Update recommendations. (See Appendix at Tab C.)
- Dr. Hopson reimbursed the District \$484.88 for undocumented relocation expense on February 3, 2011. (See Appendix at Tab C.)
- Undocumented airfare. Superintendent was asked by a Board member to visit the PCSSD regarding possible candidacy for the superintendent position. Documentation includes: Minutes of Board meeting dated April 20, 2010 and related information. Further, the Board has amended District policy BBAA which addresses Board Member Authority. Specifically, language was added to the policy stating that: "No individual Board member or group of Board members may financially obligate the District for any reason unless authorized by the Board in a legally held Board meeting and with the majority vote." This policy was enacted on April 27, 2011. (see Appendix at Tab C for additional documents and details)
- Cellular telephone. Dr. Hopson has reimbursed the District \$660.00 for cellular telephone and data card paid by personal check on April 28, 2011. (For particulars of this transaction and the correction see Appendix at Tab C.)
- Undocumented credit card charges. While continuing to dispute his liability or responsibility for these charges, nevertheless, Dr. Hopson wrote a personal check to the District for \$517.00, the full amount, on March 31, 2011. (For further particulars of this transaction see Appendix at Tab C.)



- Meals. Dr. Hopson reimbursed the District \$79.00 on April 1, 2011. (For particulars of this transaction see Appendix at Tab C.)
- Additional per diem for meals. In addition to the \$79.00 referenced above, Dr. Hopson wrote the District a personal check for \$140.00 on April 1, 2011 covering both the \$79.00 item and the \$61.00 item. (For particulars of these transactions see Appendix at Tab C.)

**IV. Board Member Training Hours (Update at page 6)**

- **Recommendation D** was accepted and implemented. First, PCSSD Board Member Minutes dated December 20, 2010 reflect that the Board President verified that all Board members were in compliance with required number of training hours. Second, a motion was passed to suspend all out-of-state travel unless 30-day prior approval was obtained by both School Board members and District employees. (For further particulars, see Appendix at Tab D.)

**V. Board Related Expenses (Update at page 6)**

- **Recommendation E, F and G** were accepted and implemented.
- The District obtained reimbursement from Director Tatum of \$116.00 for mileage reimbursement overpayment and an improper travel advance on February 1, 2011.
- Director Williams reimbursed the District a total of \$1,225.00 for reimbursement due for mileage reimbursement overpayment, improper travel advances and cellular telephone service of \$1,223.00 for a net overpayment of \$2.00. These reimbursements occurred between March 18, 2011 and April 12, 2011.
- Director Clark reimbursed the District \$15.00 for improper expense reimbursement on February 21, 2010.
- Director Gilliland reimbursed the District \$6.00 for improper expense reimbursement on December 13, 2010.
- The District has committed to legislative audit that it will continually review and substantiate all mileage forms submitted for reimbursement. (For additional particulars regarding recommendations E, F and G and the District's compliance with them, please see Appendix at Tab E, F and G.)

**VI. Employee Travel Reimbursement and Expenses (Update at page 7)**

**Recommendation H** has been accepted and implemented.

- o At its Board meeting of September 14, 2010, the District Board of Directors revised its travel reimbursement policy and now reimburses employee travel expenses on a per diem basis for meals. This policy is now set out in the PCSSD Business Procedures Manual Memo No. 07:03. This was prepared on September 15, 2010.
- o The Business Procedures Manual was further revised regarding out-of-district travel on October 1, 2010 via Memo No. 07:01 at page 4, last paragraph. (For additional particulars regarding implementation of Recommendation H, please see Appendix at Tab H.)

**VII. Consultant Contract Expenses** (Update at pp. 7-8)

**Recommendations contained in Section I** were accepted and implemented.

- o The Chief Technology Officer (CTO) reimbursed the District \$13.00 by personal check dated December 14, 2010 for questioned expenses.
- o The Human Resources Consultant (HR) reimbursed the District \$2,604.00 by personal check dated December 14, 2010 for questioned mileage reimbursement.
- o The CTO reimbursed the District \$311.00 for disallowed moving expenses by personal check dated April 1, 2011.
- o The District included \$5,899.00 as moving expense from the CTO's revised IRS Form W-2 C.
- o The CTO's leave balance was adjusted to 18 days annually, then charged with 11 days to cover the 10 days noted at page 7 of the Update. (See Appendix at Tab I for additional documentation including CTO's adjusted leave and adjusted balance, Board Policies GCB, GCB-R and GCB-R1 and the cabinet level non-licensed salary schedule.)

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**VIII. Overview of Purchasing Procedures for Goods and Services** (Update at page 8)

- o The District accepted and has implemented **Recommendation J**. On September 14, 2010, the Board adopted a policy to discontinue allowing vendors to pick up checks and forbidding employees from picking up checks for vendors.

- Purchasing Regulation No. 008 implemented a new purchasing system. Purchase orders must be obtained prior to purchase, and vendors must include the purchase order number on the invoice at the time of purchase.
- On January 12, 2011, the Business Procedures Manual Policy on Accounts Payable Check Distribution was amended by Memo No. 05:13. This provides that checks will not be returned to the person requesting the check or invoice or invoice payment but will be mailed directly to the payee from the accounts payable office. Special handling of a check requires approval from the CFO or her designee if required.
- For additional details concerning compliance with Recommendation J, please see documents accumulated in Tab J including Board Minutes of September 14, 2010 at page 3, Purchasing Regulation No. 008 and Memo No. 05:13.

IX. Bids (Update pp. 8-9)

- The Board has accepted the recommendation contained in K. Beginning April 19, 2011, the Board adopted a new procedure whereby the Purchasing Director, CFO or designee reports on the bid name, bid number, low bidder name, and low bid amount, and makes a recommendations to the Board for award of bid or not. The details of this report/recommendation will become a part of Board Minutes going forward.

X. Maintenance Department (Update page 9)

- The recommendation contained in L is being followed. On September 14, 2010, the District Board approved an order and tracking system which will also be used by Maintenance Department personnel to provide accountability for purchases. Further, the District no longer allows property other than District property to be stored at the Maintenance facilities. (For additional documents supporting this response, please see the Appendix at Tab L for documents including page 3 of the Board Minutes of September 14, 2010 and Purchasing Regulation No. 008 created September 14, 2010.)

XI. Division of Equity and Pupil Services (Update at page 9)

- The District has accepted the recommendations contained in M. On April 19, 2011, the Board adopted a policy that disallows the use of gift cards or other cash equivalencies to purchase student supplies and materials.

- For documents supporting this response, please see Appendix at Tab M to include the Board Agenda of April 19, 2010, and newly enacted Board Policy JPA.

**XII. Schedule and School Buses (Update at page 9)**

- The District is complying with **Recommendation N**. The Board Minutes of December 14, 2010 at page 3 provide that any changes that affect students, faculty and staff and/or obligate the District financially must comply with Code and PACT negotiated contract. (For documents reflecting this commitment, see Appendix, Tab N, including pages 8 and 9 of PACT negotiated contracts and page 3 of Board Minutes of December 14, 2010.)

**XIII. Fixed Assets (Update at 9-10)**

- The recommendations contained in **O** are being followed.
- The District adopted Policy EEBA (School-Owned Vehicles) on April 19, 2011. This forbids District vehicles from being used by employees to commute to and from work. The Policy further provides that the Board will provide the superintendent with transportation and authorizes District expenditures for purchases and rental arrangements to include all costs and maintenance, insurance, licenses and all other operating costs. Additionally, employees are required to maintain vehicle usage records for personal use of District vehicles to comply with IRS regulations as regards this amended policy.
- The District has developed a new procedure regarding fixed assets to provide proper accounting for all assets. (See Appendix O.)
- (For further details regarding Recommendation O compliance, please see Appendix at Tab O to include Policy EEBA as well as documents reflecting the District's vehicles and real property.)

**XIV. Inventory Control (Update at page 10)**

- The District has adopted the recommendations contained in Item P.
- Security cameras were installed effective April of 2011 to monitor warehouse activity, assist in safeguarding District assets and to help strengthen internal controls.
- On April 19, 2011, the Board adopted Policy DID as amended which directs that Warehouse operations use APSCN to record the quantity and cost of items as well



as requiring the maintenance of operational cameras to help promote inventory control.

- Effective January, 2011, fixed asset procedures were implemented by the Purchasing Department to help provide that all inventory is properly accounted for.
- Under the revised procedures, fixed assets are regarded as those items that have a total unit cost exceeding \$1,000.00 including freight and taxes. Four-part purchase order sets with function code 67000 are stamped "fixed asset # required contact Fixed Asset Specialist on receipt of items" by the Purchasing Director.
- The purchase order has supporting documentation, is scanned into a shared folder titled "Inventory Corey" by the Purchasing Director. He'll save using the purchase order number and the location site name. The purchasing order creates an email to the fixed asset specialist and a copy of the purchase order and supporting documentation is forwarded. All scanned documentation is maintained.
- Using this information, monthly reconciliations are performed by the Fixed Asset Specialist and the Director of Accounting. The Fixed Asset Specialist creates the fixed asset tag and forwards to the additional requestor via the District's in-house courier system using special fixed asset orange folders. Follow up is performed by the fixed asset specialist by contacting the bookkeeper or the requestor to provide that the tag is properly applied. The scanning process reduces retrieval time.
- For documents supporting and explaining compliance with recommendation P, please see Appendix at Tab P particularly including digital photographs.

XV. Cellular Telephones (Update at page 10)

- The District has adopted the recommendation contained in Item Q. It recently determined that the charges of \$3,884.00 occurred between August of 2009 through September of 2010. All of these charges turn out to be "roaming charges" and were billed at an additional charge by the provider, Verizon. A portion of the charges represent a "package" for texting or the sending or receiving of images but not for individual accumulated charges for texting or images.

- After January of 2010, a new plan also provided by Verizon eliminated roaming charges. The new plan also eliminated the texting, sending and receiving of images as additional charges.
- Individual charges range from a few cents to \$800.00 for one employee. Now that they have been identified, the current and former employees will be charged for reimbursement. It may be problematic to collect these charges from certain retired employees.

**XVI. Overpayments to Newly Hired Employees (Update at page 11)**

- The District has carried out **Recommendation R**.
- Employee Number 1, after his allowable leave time was adjusted, turned in a leave form for 11 days to cover the period July 1 through 16, 2010. The form was turned in on March 17, 2011, and he was manually charged with 11 days of leave on March 31, 2011. His employment commencement date was not modified.
- Leave dates were negotiated and then awarded for the commencement of employment on April 1, 2011. These leave dates were awarded on March 29, 2011. This was a result of assigning this employee to the new cabinet level non-licensed staff classification schedule which the Board of Directors approved on March 8, 2011.
- The superintendent's brother's start date was changed from September 3, 2010 to September 7, 2010 resulting in one day of overpayment. This amount, \$357.77, was deducted from the employee's paycheck on March 25, 2011. The Human Resources Director discovered in December of 2010 that this employee had been inadvertently placed on an incorrect pay scale at the time of hire resulting in an incorrect level of pay. The Human Resources Director instructed the Payroll Specialist to reduce this employee's salary by \$1,182.00 which is being recouped at the rate of \$168.87 for each of the remaining seven pay periods. (For further details and documents explaining these adjustments, please see Appendix at Tab R including Board Policies GCBP and GCBP-R1 which were approved on March 8, 2011.)

**XVII. Overtime Compensation (Update at page 11)**

- The District has implemented **Recommendation S**.
- An additional staff allocation was approved for the Accounting Department by the Board of Directors during its March, 2011 meeting. The position will be filled,

pending ADE approval, by July 1, 2011 in an effort to help prevent unnecessary overtime, promote segregation of job duties and to monitor payroll disbursements.

- o (The District began implementing the Early Fiscal Distress Plan in October of 2010. This Plan addresses segregation of duties in the Payroll and Benefit area.)

**XVIII. Grant Writer (Update at page 11)**

- o **Recommendation T.** The District collected \$1,564.00 from the Grant Writer on April 4, 2011.
- o This employee position has been eliminated by the District.

**XIX. Dream**

- o The District is honoring **Recommendation U.** On April 28, 2011 the District intensified its efforts to collect reimbursement by filing a Complaint and issuing summons to obtain an actual circuit court judgment. (See Appendix at Tab U.)
- o Collection efforts will now proceed in the traditional fashion of execution and garnishment as necessary.
- o While the actual judgment may not be available for submission at the time that Tab U to the Appendix is prepared, the agreement to withhold execution of judgment is included in Tab U. A copy of the complaint is included and actual judgment once entered will supplement this submission.

**XX. Foreign Travel (Update at page 12)**

- o **Recommendation V.**
  - o The District has now been reimbursed \$3,424.00 from UCAIC which occurred on March 15, 2011.
  - o The District was reimbursed \$978.00 from China Travel Services on November 10, 2010.
- 
- o This completes all reimbursements for foreign travel. (For documentation reporting this response, please see Appendix at Tab V including check reimbursement.)

**XXI. Outstanding Checks (Update at pages 12-13)**

- **Recommendation W** has been followed. The District's Business Procedures Manual now includes a "stale checks" policy which became effective January 12, 2011. This policy states that no check issued by the District shall be payable unless presented for payment within 90 days of issuance. Any check older than 90 days must be submitted to Accounts Payable Department for reissuance if warranted.
- For documents further explaining this procedure, please see Appendix at Tab W including copies of appropriate business procedures manual pages and Memo No. 05:12 effective January 20, 2011.

**XXII. Manual Checks (Update at page 13)**

- **Recommendation X** has been implemented.
- The District approved Business Procedures Manual Memo 05:14 for Payroll and now follows APSCN's process to issue manual payroll checks.
- For documentation supporting this response, please see Appendix at Tab X, including Business Procedure Memo 05:14 effective January 20, 2011.

**XXIII. Arkansas Financial Accounting Handbook (Update at page 13)**

- The District has implemented the **recommendations in Y**.
- The District continues to monitor expenditure checks for proper and consistent coding.
- The Department of Legislative Audit staff have randomly reviewed checks issued in December, 2010 and January, 2011 determining the expenditures reviewed were properly coded. (See Update 2 at page 13)
- For additional documents supporting this response, please see Appendix at Tab Y.

**XIV. Internal Control Deficiencies (Update at page 13)**

- The District is honoring **Recommendation Z**.
- The District is practicing sound internal control policies; it is compliant with applicable Code and IRS regulations and monitoring all accounting phases for adherence to established controls and procedures.

Dr. Tom W. Kimbrell  
April 28, 2011  
Page 11

- o The Board of Directors has enhanced its knowledge and awareness of fiscal oversight, accountability and fiduciary responsibility and together with District management strives to demonstrate to District personnel the need for following standards and practicing fiscal prudence.
- o For additional documents supporting this response, please see Appendix at Tab Z.

It is the District's understanding that the hearing for this Appeal will be heard by the State Board on May 16, 2011. Please advise if this understanding is incorrect.

Thank you for your consideration in this matter. Please feel free to contact me for any clarification, comments or to pose further questions.

Cordially yours,

MITCHELL, WILLIAMS, SELIG,  
GATES & WOODYARD, P.L.L.C.

By

  
M. Samuel Jones, III

MSJ:cw

Enclosures

cc: Mr. Tony Wood  
Ms. Hazel Burnett  
Mr. Jeremy Lasiter  
Mr. William J. Goff  
Ms. Phyllis Stewart  
Mr. Charles Hopson  
Mr. William A. (Bill) Vasquez

## PULASKI COUNTY SPECIAL SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2008

**A. SUMMARY OF AUDITOR'S RESULTS**

1. Our report expresses an unqualified opinion on the basic financial statements of Pulaski County Special School District under the regulatory basis of accounting.
2. Three significant deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. All three are also considered to be material weaknesses.
3. No instances of non-compliance material to the financial statement of Pulaski County Special School District were disclosed during the audit.
4. There was one significant deficiency during the audit of the major federal award programs, which we also consider to be a material weakness.
5. Our report on compliance for the major federal awards programs for Pulaski County Special School District expresses a qualified opinion.
6. There was one audit finding relative to the major federal award programs.
7. The programs tested as major programs included: Local Educational Agencies - Title I Grants - CFDA No. 84.010, Child Nutrition Cluster - CFDA No. 10.553 and 10.555 and Medical Assistance Program - CFDA No. 93.778.
8. The threshold for distinguishing type A and B programs was \$494,625.
9. Pulaski County Special School District was determined to be a high-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT****2008-1**

*Criteria:* Bank statements should be reconciled timely.

*Condition:* Controls not in place to reconcile the bank statements in a timely manner.

*Context:* As a result of cash testing, we requested bank reconciliations that were not immediately available because they had not yet been prepared or approved.

*Effect:* The increased time between the month end and the reconciliation procedures increases the opportunity for undiscovered error, misstatements, or unrecorded information.

*Cause:* The lack of controls in place related to specific deadlines for the reconciliations to be prepared.

*Recommendation:* The District should implement a policy requiring the bank statements to be reconciled and approved prior to the end of the month they were received.



**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2008**

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)**

**2008-1 (continued)**

*Views of responsible officials and planned corrective actions:* We concur with the recommendation.

**2008-2**

*Criteria:* The funding source that employees are paid from should be approved and documented in the employee files.

*Condition:* Controls not in place to approve and document the funding source that employees are paid from.

*Context:* As a result of testing controls related to payroll transactions, it was noted that the funding source for employees was not consistently documented in the respective files.

*Effect:* The lack of funding source documentation can lead to improper coding of employee salaries to unallowed funding sources which can potentially lead to questioned cost related to payroll.

*Cause:* The lack of controls in place requiring a funding recommendation form be consistently maintained within employee files.

*Recommendation:* The District should implement a policy that requires an approved funding source form to be maintained in employee files indicating the fund and program that the employee is to be paid from.

*Views of responsible officials and planned corrective actions:* We concur with the recommendation.

**2008-3**

*Criteria:* Payroll preparation duties should be segregated within the payroll department to enhance the design of the internal control process to ensure that payroll is accurately prepared.

*Condition:* The District has not segregated payroll duties among employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliable payroll preparation and authorization

*Context:* Inquiry of employees and management during documentation of internal controls.

*Effect:* Payroll preparation duties are not distributed among the District's employees to sufficiently reduce the risk that potential fraud or an error will not be prevented or detected.

*Cause:* Cost/benefit implications hinder the District's ability to segregate the payroll preparation duties among employees.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2008**

**C. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)**

**2008-3 (continued)**

*Recommendation:* To achieve effective internal control over payroll, accounting duties should be distributed among appropriate employees.

*Views of responsible officials and planned corrective actions:* We concur with the recommendation.

**C. FINDINGS - FEDERAL AWARDS AUDIT AND QUESTIONED COSTS**

**2008-4**

*Program:* CFDA #93.778 - Medical Assistance Program (ARMAC):  
Passed-through Arkansas Department of Education  
Audit period - year ended June 30, 2008

*Criteria:* The annual roster submitted to ARMAC should include employees paid only out of state and local funding that meet the ARMAC requirements.

*Condition:* The 07/08 annual roster submitted to ARMAC improperly included employees paid out of federal funding.

*Context:* As a result of testing controls related to payroll transactions for federal programs, we examined payroll files and recommendation forms for ARMAC reimbursed employees to determine whether the employees being included on the roster were paid out of state and local funding.

*Questioned Costs:* Total questioned cost were \$34,634.

*Effect:* ARMAC funding requires that the salaries submitted on the annual roster were expended out of state and local funding. The District included employees on the 07/08 roster that were paid out of federal funding, which created unallowed expenditures under the federal programs. This is a questioned cost because it violates the federal reimbursement policy set forth in the Code of Federal Regulations (42 CFR 433.51 (a) and (c)).

*Cause:* The lack of controls in place requiring a funding recommendation form be consistently maintained within employee files and a lack of understanding of the ARMAC requirements.

*Recommendation:* The auditors recommend that the District adhere to the Code of Federal Regulations set out for ARMAC reimbursement which requires that all employees submitted on the annual roster be 100% paid out of the state share of public, non-federal funds.

*Views of responsible officials and planned corrective actions:* The District was unaware of this regulation; however, the District has notified the Arkansas Department of Education (ADE) of this misunderstanding and has reimbursed the program for any amounts received from allocations against federal salaries. Policies have been implemented to ensure that only non-federally funded salaries are reported for reimbursement in the future.



**PULASKI COUNTY SPECIAL SCHOOL DISTRICT****SCHEDULE OF FINDINGS AND QUESTIONED COSTS****YEAR ENDED JUNE 30, 2008****PRIOR YEAR FINDINGS AND QUESTIONED COSTS****2007-1**

*Criteria:* Revenues receivable and expenditures payable should be a complete representation of obligations due to and from the District at year end.

*Condition:* The revenues receivable and expenditures payable were not fully accrued at year end.

*Context:* As a result of testing receivables and payables, we examined subsequent receipts and payments to determine proper inclusion at year end.

*Effect:* Accruals were not properly accounted for at year end.

*Cause:* Controls not in place to properly accrue revenues receivable and expenditures payable at year end in accordance with the Regulatory Basis of Accounting.

*Current Status:* A policy was instituted to assign appropriate accounting personnel to these duties, and was properly accounted for during the year ending June 30, 2008.

**2007-2**

*Criteria:* Property tax revenues should be stated in accordance with the Arkansas Department of Education (ADE) guidelines.

*Conditions:* The property tax revenues were not stated in accordance with ADE at year end.

*Context:* As a result of testing property tax revenue, we examined the 40% pullback calculations published by ADE to determine the proper balance for the District at year end.

*Effect:* Property tax revenue was not stated in accordance with ADE at year end.

*Cause:* Controls not in place to adjust property tax revenues to the amount allowed in current year revenues under ADE guidelines.

*Current Status:* A policy was instituted to assign accounting personnel with the appropriate knowledge and skill to these duties, and was properly accounted for during the year ending June 30, 2008.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT****SCHEDULE OF FINDINGS ON COMPLIANCE WITH STATUTES REQUIRED BY  
ARKANSAS DEPARTMENT OF EDUCATION****YEAR ENDED JUNE 30, 2008****FINDINGS - COMPLIANCE**

Ark-2008 - Statute 6-21-304: Manner of Making Purchases

Criteria: In each instance in which the estimated purchase price shall exceed or equal ten thousand dollars (\$10,000), the commodity shall be procured by soliciting bids.

Finding: The District issued multiple "blanket purchase orders" that exceeded the minimum required bidding amount, for which no bids were received.

District's response: The District will begin bidding all purchases that exceed the minimum bidding requirements as set forth in the Arkansas State Statutes.

## PULASKI COUNTY SPECIAL SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

## A. SUMMARY OF AUDITOR'S RESULTS

1. Our report expresses an unqualified opinion on the basic financial statements of Pulaski County Special School District under the regulatory basis of accounting.
2. Five significant deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. All five are also considered to be material weaknesses.
3. No instances of non-compliance material to the financial statements of Pulaski County Special School District were disclosed during the audit.
4. There were no significant deficiencies identified during the audit of the major federal award programs.
5. Our report on compliance for the major federal awards programs for Pulaski County Special School District expresses an unqualified opinion.
6. There were no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133 relative to the major federal award programs.
7. The programs tested as major programs included: Title VIB - Special Education Grants to States - CFDA 84.027, Title I Part A - Grants to Local Educational Agencies - CFDA 84.010, Title II Part A - Improved Teacher Quality State Grants - CFDA 84.367.
8. The threshold for distinguishing type A and B programs was \$529,720.
9. Pulaski County Special School District was determined to be a high-risk auditee.

## B. FINANCIAL STATEMENT FINDINGS

2009-1

*Criteria:* Payroll preparation duties should be segregated within the payroll department to enhance the design of the internal control process to ensure that payroll is accurately prepared.

*Condition:* The District has not segregated payroll duties among employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliable payroll preparation and authorization.

*Context:* Inquiry of employees and management during documentation of internal controls.

*Effect:* Payroll preparation duties are not distributed among the District's employees to sufficiently reduce the risk that potential fraud or an error will not be prevented or detected.

*Cause:* Cost/benefit implications hinder the District's ability to segregate the payroll preparation duties among employees.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2009**

**B. FINANCIAL STATEMENT FINDINGS (continued)**

**2009-1 (continued)**

*Previous Recommendation (2008-3):* To achieve effective internal control over payroll, accounting duties should be distributed among appropriate employees.

*Current Recommendation:* The District should continue to monitor this area to ensure that payroll functions are properly segregated.

*Views of responsible officials and planned corrective actions:* We concur with the auditor recommendation. See current status of prior year finding 2008-3.

**2009-2**

*Criteria:* Internal control and management oversight should be established to prevent dishonest, illegal or unethical acts.

*Condition:* An investigation by the Division of Legislative Audit revealed that an employee in the District's Maintenance Department misappropriated approximately \$440,000 in non-federal funds between March 1, 2004 and May 19, 2009. As the District's Mechanical Systems Supervisor, James Diemer had the authority to order items under \$2,500 with no additional supervisory approval necessary. Lack of management oversight and internal controls related to the approval of these items for payment allowed Mr. Diemer to personally acquire items paid for by the District, which were later sold or traded for a personal profit.

On January 21, 2010, Mr. Diemer waived indictment and entered a guilty plea to the charge of theft of property from a governmental entity and is scheduled to be sentenced at a hearing in June, 2010. Initially, Mr. Diemer was placed on administrative leave without pay. However, after pleading guilty to theft of property, his employment was terminated. Additionally, the Director of Purchasing and the Director of Support Services (who were responsible for a significant portion of the management oversight and internal controls related to the acquisition and payment for these items) retired from District employment in August and September 2009, respectively.

*Context:* Review of the Division of Legislative Audit Investigative Report (Report ID SD 398 09 dated April 28, 2010), inquiry of management, and inquiry of the auditors that conducted the investigation.

*Effect:* Unauthorized transactions occurred.

*Cause:* The lack of internal controls and adequate management oversight resulted in the improper transactions.

*Recommendation:* Policies, procedures, and internal controls should be established to prevent or detect errors and/or irregularities.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2009**

**B. FINANCIAL STATEMENT FINDINGS (continued)**

**2009-2 (continued)**

*Views of responsible officials and planned corrective actions:* The District has updated the Business Procedures policies to ensure purchases are legitimate, received, and used for District purposes. The District concurs with the recommendation and is committed to re-establishing proper levels of management oversight and internal controls in this area.

**2009-3**

*Criteria:* The funding source that employees are paid from should be approved and documented in the employee files.

*Condition:* Controls not in place to approve and document the funding source that employees are paid from.

*Context:* As a result of testing controls related to payroll transactions, it was noted that the funding source for employees was not consistently documented in the respective files.

*Effect:* The lack of funding source documentation can lead to improper coding of employee salaries to unallowed funding sources which can potentially lead to questioned cost related to payroll.

*Cause:* The lack of controls in place requiring a funding recommendation form be consistently maintained within employee files.

*Previous Recommendation (2008-2):* The District should implement a policy that requires an approved funding source form to be maintained in employee files indicating the fund and program that the employee is to be paid from. See current status in finding 2008-2.

*Current Recommendation:* The District should continue monitoring this process to ensure that the records are accurate and complete.

*Views of responsible officials and planned corrective actions:* We concur with the auditor recommendation.

**2009-4**

*Criteria:* The District's published policy for the use of blanket purchase orders requires that their use be limited to \$1,000 per month to each vendor

*Condition:* The District issued blanket purchase orders exceeding the District policy of \$1,000 per vendor, per month.

*Context:* As a result of sampled disbursements tested, it was noted that blanket purchase orders exceeded allowable amounts.

*Effect:* The risk of improper bidding, fraud, or theft is increased with the lack of controls to prevent the business manual policies from being followed.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT****SCHEDULE OF FINDINGS AND QUESTIONED COSTS****YEAR ENDED JUNE 30, 2009****B. FINANCIAL STATEMENT FINDINGS (continued)****2009-4 (continued)**

*Cause:* Controls were disregarded for the proper use of blanket purchase orders.

*Recommendation:* The District should enforce it's policy of the monthly limit per vendor on blanket purchase orders or take steps to modify the current policy.

*Views of responsible officials and planned corrective actions:* We concur with the auditor recommendation. Additionally, revised purchasing policies will be presented to the Board for approval whereby the blanket purchase order option will be eliminated.

**2009-5**

*Criteria:* Travel request and reimbursement forms should include the proper supporting documentation and approvals in accordance with board policy.

*Condition:* Travel request forms are not consistently fully completed before submission for reimbursement, with several not including all required approval signatures.

*Context:* Review of travel requests during disbursement testing to ensure that proper support is included and the disbursements are being approved in an accurate and timely manner.

*Effect:* In instances where supporting documentation was not provided with the reimbursement forms, it was unable to be determined if the disbursements were allowable and in accordance with the intended use. In instances where the forms lacked the proper approvals, the risk of improper use of travel funds is enhanced.

*Cause:* Controls are not being consistently followed to ensure that all approvals are received and supporting documentation is provided for travel reimbursements and advances.

*Recommendation:* To achieve effective internal control over travel advances and reimbursements, the District should ensure that the board policies are being consistently followed and enforced.

*Views of responsible officials and planned corrective actions:* Subsequent to year end, the District adopted a new board policy that utilizes per-diem rates by city for meals and incidentals which will reduce the need to provide detailed supporting documentation for individual travel transactions. Additional care will be taken to determine that travel reimbursement forms are properly completed and approved prior to issuing the reimbursement.

**C. PRIOR YEAR FINDINGS AND QUESTIONED COSTS****2008-1**

*Criteria:* Bank statements should be reconciled timely.

*Condition:* Controls not in place to reconcile the bank statements in a timely manner.



**PULASKI COUNTY SPECIAL SCHOOL DISTRICT****SCHEDULE OF FINDINGS AND QUESTIONED COSTS****YEAR ENDED JUNE 30, 2009****C. PRIOR YEAR FINDINGS AND QUESTIONED COSTS****2008-1 (continued)**

*Context:* As a result of cash testing, we requested bank reconciliations that were not immediately available because they had not yet been prepared or approved.

*Effect:* The increased time between the month end and the reconciliation procedures increases the opportunity for undiscovered error, misstatements, or unrecorded information.

*Cause:* The lack of controls in place related to specific deadlines for the reconciliations to be prepared.

*Previous Recommendation:* The District should implement a policy requiring the bank statements to be reconciled and approved prior to the end of the month they were received.

*Current status:* The statements are currently being reconciled on a timely basis.

**2008-2**

*Criteria:* The funding source that employees are paid from should be approved and documented in the employee files.

*Condition:* Controls not in place to approve and document the funding source that employees are paid from.

*Context:* As a result of testing controls related to payroll transactions, it was noted that the funding source for employees was not consistently documented in the respective files.

*Effect:* The lack of funding source documentation can lead to improper coding of employee salaries to unallowed funding sources which can potentially lead to questioned cost related to payroll.

*Cause:* The lack of controls in place requiring a funding recommendation form be consistently maintained within employee files.

*Previous Recommendation:* The District should implement a policy that requires an approved funding source form to be maintained in employee files indicating the fund and program that the employee is to be paid from.

*Current status:* The District implemented new forms, policies and filing procedures during the current year in order to provide a clearer understanding of the funding sources and enhanced ability to review for accuracy. The District also provided listings of employees to each school Principal in order for them to check the current funding source and review for accuracy. All changes noted by Principals were changed by the District. However, it was noted during the audit for June 30, 2009 that forms remain incomplete and recommend forms are not consistently being maintained in the files. Finding is reflected as 2009-3 in the current year's findings. Additionally, management is developing processes for utilizing electronic recommendation forms. The Division Manager will complete these forms to include the funding source prior to advertising for a position.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT****SCHEDULE OF FINDINGS AND QUESTIONED COSTS****YEAR ENDED JUNE 30, 2009****C. PRIOR YEAR FINDINGS AND QUESTIONED COSTS (continued)****2008-3**

*Criteria:* Payroll preparation duties should be segregated within the payroll department to enhance the design of the internal control process to ensure that payroll is accurately prepared.

*Condition:* The District has not segregated payroll duties among employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliable payroll preparation and authorization

*Context:* Inquiry of employees and management during documentation of internal controls.

*Cause:* Cost/benefit implications hinder the District's ability to segregate the payroll preparation duties among employees.

*Recommendation:* To achieve effective internal control over payroll, accounting duties should be distributed among appropriate employees.

*Current status:* This control is still considered a deficiency in the current year. The client has attempted to hire 4 different employees to comply with the segregation of duties; however, the turnover in that position has resulted in the District being unable to fully implement desired segregation of duties in this area. Additionally safeguards have been put in place to offset risks arising from these issues. Pre-calculation reports are being reviewed each pay period to verify the accuracy of payroll totals, with additional review being performed by Accounting Department personnel, who are independent of the Payroll Department.

**2008-4**

*Program:* CFDA #93.778 - Medical Assistance Program (ARMAC):  
Passed-through Arkansas Department of Education  
Audit period - year ended June 30, 2008

*Criteria:* The annual roster submitted to ARMAC should include employees paid only out of state and local funding that meet the ARMAC requirements.

*Condition:* The 07/08 annual roster submitted to ARMAC improperly included employees paid out of federal funding.

*Context:* As a result of testing controls related to payroll transactions for federal programs, we examined payroll files and recommendation forms for ARMAC reimbursed employees to determine whether the employees being included on the roster were paid out of state and local funding.

*Questioned Costs:* Total questioned cost were \$34,634.



**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2009**

**C. PRIOR YEAR FINDINGS AND QUESTIONED COSTS (continued)**

**2008-4 (continued)**

*Effect:* ARMAC funding requires that the salaries submitted on the annual roster were expended out of state and local funding. The District included employees on the 07/08 roster that were paid out of federal funding, which created unallowed expenditures under the federal programs. This is a questioned cost because it violates the federal reimbursement policy set forth in the Code of Federal Regulations (42 CFR 433.51 (a) and (c)).

*Cause:* The lack of controls in place requiring a funding recommendation form be consistently maintained within employee files and a lack of understanding of the ARMAC requirements.

*Recommendation:* The auditors recommend that the District adhere to the Code of Federal Regulations set out for ARMAC reimbursement which requires that all employees submitted on the annual roster be 100% paid out of the state share of public, non-federal funds.

*Current status:* The District has corrected their procedures and have only requested reimbursement for employees paid out of the state share of public, non-federal funds.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT****SCHEDULE OF FINDINGS ON COMPLIANCE WITH STATUTES REQUIRED BY  
ARKANSAS DEPARTMENT OF EDUCATION****YEAR ENDED JUNE 30, 2009****FINDINGS****Ark-2009 - Statute 6-21-304: Manner of Making Purchases**

*Criteria:* In each instance in which the estimated purchase price shall exceed or equal ten thousand dollars (\$10,000), the commodity shall be procured by soliciting bids. "Emergency" purchase orders should not be utilized for routine operating items.

*Finding:* The District issued multiple "blanket purchase orders" that exceeded the minimum required bidding amount, for which no bids were received and the District utilized "emergency" purchase orders for routine operating items.

*Recommendation:* The District should adhere to the state statutes as well as board policies related to purchasing and bidding.

*District's response:* The District will begin bidding all purchases that exceed the minimum bidding requirements as set forth in the Arkansas State Statutes and follow the District policy for issuing "emergency" purchase orders.

*Views of responsible officials and planned corrective actions:* The District will enhance it's oversight of these bidding procedures by enforcing the State policy. Changes have been made in management personnel in this area to ensure the District's compliance with state statutes in the future. Additionally, purchasing policies will be revised to eliminate the option to use blanket purchase orders.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2010**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. Our report expresses an adverse opinion based on generally accepted accounting principles and an unqualified opinion based on regulatory basis of accounting on the basic financial statements of Pulaski County Special School District.
2. Four material weaknesses were disclosed during the audit of the financial statements and are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of non-compliance material to the financial statements of Pulaski County Special School District were disclosed during the audit.
4. There was one significant deficiency identified during the audit of the major federal award programs.
5. Our report on compliance for the major federal awards programs for Pulaski County Special School District expresses an unqualified opinion.
6. There was one audit finding required to be reported in accordance with Section 510(a) of OMB Circular A-133 relative to the major federal award programs.
7. The programs tested as major programs included:
  - Title I, Part A - Grant to Local Educational Agencies - CFDA 84.010
  - Title I, Part A - Grants to Local Educational Agencies, ARRA - CFDA 84.389
  - Title VI - Part B - Special Education Grants to States - CFDA 84.027
  - Title VI - Part B - Special Education Grants to States, ARRA - CFDA 84.391
  - State Fiscal Stabilization Funds, ARRA - CFDA 84.394
  - Vocational Education - Basic Grants to States - CFDA 84.048
8. The threshold for distinguishing type A and B programs was \$842,649.
9. Pulaski County Special School District was determined to be a high-risk auditee.

**B. FINANCIAL STATEMENT FINDINGS**

**2010-1**

*Criteria:* Bank statements should be reconciled timely.

*Condition:* Controls are not in place to reconcile the bank statements in a timely manner.

*Context:* As a result of cash testing, we requested bank reconciliations that were not immediately available because they had not yet been prepared or approved.

*Effect:* The increased time between the month end and the reconciliation procedures increases the opportunity for undiscovered error, misstatements, or unrecorded information.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2010**

**B. FINANCIAL STATEMENT FINDINGS**

**2010-1 (continued)**

*Cause:* The lack of controls in place related to specific deadlines for the reconciliations to be prepared.

*Recommendation:* The District should implement a policy requiring the bank statements to be reconciled and approved prior to the end of the month they were received.

*Views of responsible officials:* The District has recently converted to the Arkansas Public School Computer Network and new requirements have been issued that require all bank accounts be balanced by the 10<sup>th</sup> of the month. The District will comply with these new requirements.

**2010-2**

*Criteria:* Purchasing duties should be segregated within the department to enhance the design of the internal control process to ensure that purchasing, approval, and recording are segregated.

*Condition:* The District has not segregated duties among employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliable purchasing, approving and recording.

*Context:* Inquiry of employees and management during documentation of internal controls.

*Effect:* Purchasing, approving and recording of fixed assets are not distributed among the District's employees to sufficiently reduce the risk that potential fraud or an error will not be prevented or detected.

*Cause:* Cost/benefit implications hinder the District's ability to segregate the purchasing duties among employees as well as turnover in purchasing positions during the current year.

*Recommendation:* To achieve effective internal control over purchasing, accounting duties should be distributed among appropriate employees.

*Views of responsible officials:* A Purchasing Director has been hired to oversee all purchases using District Funds. Fixed asset purchases are reviewed by the Budget Manager and approved by the CFO. The year-end procedures require a balancing of all Fixed Asset account codes to Fixed Asset additions in the fixed asset system.

**2010-3**

*Criteria:* The District's published policy for the use of blanket purchase orders requires that their use be limited to \$1,000 per month to each vendor

*Condition:* The District issued blanket purchase orders exceeding the District policy of \$1,000 per vendor, per month.

*Context:* As a result of sampled disbursements tested, it was noted that blanket purchase orders exceeded allowable amounts.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2010**

**B. FINANCIAL STATEMENT FINDINGS**

**2010-3 (continued)**

*Effect:* The risk of improper bidding, fraud, or theft is increased with the lack of controls to prevent the business manual policies from being followed.

*Cause:* Controls were disregarded for the proper use of blanket purchase orders.

*Recommendation:* The District should enforce its policy of the monthly limit per vendor on blanket purchase orders or take steps to modify the current policy.

*View of responsible officials:* The use of blanket purchase orders has been eliminated.

**2010-4**

*Criteria:* Duties should be segregated within the accounting department to enhance the design of the internal control process to ensure that receipt of funds, reconciling of bank statements, recording of deposits within the general ledger, and depositing of funds into the bank are segregated.

*Condition:* The District has not segregated duties among employees to provide reasonable assurance about the achievement of the entity's objectives with regard to receipt of funding.

*Context:* Inquiry of employees and management during documentation of internal controls.

*Effect:* Authorization, recording, and reconciling of funding among the District's employees to sufficiently reduce the risk that potential fraud or an error will not be prevented or detected.

*Cause:* Duties were not segregated among employees in the accounting department during turnover that occurred in the current year.

*Recommendation:* To achieve effective internal control, accounting duties should be distributed among appropriate employees.

*Views of responsible officials:* We were aware of the lack of segregation of duties, but we were forced to work in this manner due to the illness of the Director of Accounting and Auditing. We have since resolved this issue with an Acting Director of Accounting and Auditing and a Temporary accountant until a more permanent solution is available. The duties in the accounting department have been segregated among four individuals in the accounting department. The Accountant or Secretary to the Director of Accounting and Auditing receipts all deposits. The Director of Accounting and Auditing will only receipt deposits when no one else is available. Another Accountant records the deposits in the general ledger. The Director of Accounting and Auditing deposits the funds and reconciled the bank account.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2010**

**C. QUESTIONED COSTS:**

**2010-5**

**ARRA - Title 1 - CFDA # 84.389**

*Criteria:* The funding source that employees are paid from should be approved and documented in the employee files.

*Condition:* Controls not in place to approve and document the funding source that employees are paid from.

*Context:* As a result of testing controls related to payroll transactions, it was noted that the funding source for employees was not consistently documented in the respective files.

*Effect:* The lack of funding source documentation lead to improper coding of employee salaries to the program. Based on the sample selected, there were three employees noted that were supposed to be charged to a general fund program code that were actually charged to ARRA - Title 1. Through inquiry and further testing, it was found that a total of seven employees with salaries totaling \$46,743 were improperly charged to the program.

*Cause:* The lack of controls in place requiring a funding recommendation form be consistently maintained within employee files.

*Recommendation:* The District should ensure that the policy that requires an approved funding source form to be maintained in employee files should be enforced and monitored on a consistent basis.

*View of responsible officials:* The salaries charged to the program were properly adjusted to the general fund during audit fieldwork.

**D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**2009-1**

*Criteria:* Payroll preparation duties should be segregated within the payroll department to enhance the design of the internal control process to ensure that payroll is accurately prepared.

*Condition:* The District has not segregated payroll duties among employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliable payroll preparation and authorization.

*Context:* Inquiry of employees and management during documentation of internal controls.

*Effect:* Payroll preparation duties are not distributed among the District's employees to sufficiently reduce the risk that potential fraud or an error will not be prevented or detected.

*Cause:* Cost/benefit implications hinder the District's ability to segregate the payroll preparation duties among employees.



**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2010**

**D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**2009-1 (continued)**

*Previous recommendation:* To achieve effective internal control over payroll, accounting duties should be distributed among appropriate employees. The District should continue to monitor this area to ensure that payroll functions are properly segregated.

*Current Status:* The District continues to monitor these functions and with new employees have been able to better segregate the human resource and payroll functions.

**2009-2**

*Criteria:* Internal control and management oversight should be established to prevent dishonest, illegal or unethical acts.

*Condition:* An investigation by the Division of Legislative Audit revealed that an employee in the District's Maintenance Department misappropriated approximately \$440,000 in non-federal funds between March 1, 2004 and May 19, 2009. As the District's Mechanical Systems Supervisor, James Diemer had the authority to order items under \$2,500 with no additional supervisory approval necessary. Lack of management oversight and internal controls related to the approval of these items for payment allowed Mr. Diemer to personally acquire items paid for by the District, which were later sold or traded for a personal profit.

On January 21, 2010, Mr. Diemer waived indictment and entered a guilty plea to the charge of theft of property from a governmental entity and is scheduled to be sentenced at a hearing in June, 2010. Initially, Mr. Diemer was placed on administrative leave without pay. However, after pleading guilty to theft of property, his employment was terminated. Additionally, the Director of Purchasing and the Director of Support Services (who were responsible for a significant portion of the management oversight and internal controls related to the acquisition and payment for these items) retired from District employment in August and September 2009, respectively.

*Context:* Review of the Division of Legislative Audit Investigative Report (Report ID SD 398 09 dated April 28, 2010), inquiry of management, and inquiry of the auditors that conducted the investigation.

*Effect:* Unauthorized transactions occurred.

*Cause:* The lack of internal controls and adequate management oversight resulted in the improper transactions.

*Previous recommendation:* Policies, procedures, and internal controls should be established to prevent or detect errors and/or irregularities.

*Current status:* The District has updated the Business Procedures policies to ensure purchases are legitimate, received, and used for District purposes. The District continues to be committed to re-establishing proper levels of management oversight and internal controls in this area. See current year finding 2010-2.

**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2010**

**D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**2009-3**

*Criteria:* The funding source that employees are paid from should be approved and documented in the employee files.

*Condition:* Controls not in place to approve and document the funding source that employees are paid from.

*Context:* As a result of testing controls related to payroll transactions, it was noted that the funding source for employees was not consistently documented in the respective files.

*Effect:* The lack of funding source documentation can lead to improper coding of employee salaries to unallowed funding sources which can potentially lead to questioned cost related to payroll.

*Cause:* The lack of controls in place requiring a funding recommendation form be consistently maintained within employee files.

*Previous Recommendation:* The District should implement a policy that requires an approved funding source form to be maintained in employee files indicating the fund and program that the employee is to be paid from. The District should continue monitoring this process to ensure that the records are accurate and complete.

*Current status:* See current year finding 2010-5.

**2009-4**

*Criteria:* The District's published policy for the use of blanket purchase orders requires that their use be limited to \$1,000 per month to each vendor

*Condition:* The District issued blanket purchase orders exceeding the District policy of \$1,000 per vendor, per month.

*Context:* As a result of sampled disbursements tested, it was noted that blanket purchase orders exceeded allowable amounts.

*Effect:* The risk of improper bidding, fraud, or theft is increased with the lack of controls to prevent the business manual policies from being followed.

*Cause:* Controls were disregarded for the proper use of blanket purchase orders.

*Previous recommendation:* The District should enforce it's policy of the monthly limit per vendor on blanket purchase orders or take steps to modify the current policy.

*Current status:* See current year finding 2010-3



**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2010**

**D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**2009-5**

*Criteria:* Travel request and reimbursement forms should include the proper supporting documentation and approvals in accordance with board policy.

*Condition:* Travel request forms are not consistently fully completed before submission for reimbursement, with several not including all required approval signatures.

*Context:* Review of travel requests during disbursement testing to ensure that proper support is included and the disbursements are being approved in an accurate and timely manner.

*Effect:* In instances where supporting documentation was not provided with the reimbursement forms, it was unable to be determined if the disbursements were allowable and in accordance with the intended use. In instances where the forms lacked the proper approvals, the risk of improper use of travel funds is enhanced.

*Cause:* Controls are not being consistently followed to ensure that all approvals are received and supporting documentation is provided for travel reimbursements and advances.

*Previous recommendation:* To achieve effective internal control over travel advances and reimbursements, the District should ensure that the board policies are being consistently followed and enforced.

*Current status:* Subsequent to year end, the District adopted a new board policy that utilizes per-diem rates by city for meals and incidentals which will reduce the need to provide detailed supporting documentation for individual travel transactions. Additional care is now taken to determine that travel reimbursement forms are properly completed and approved prior to issuing the reimbursement.

# Investigative Report

## Legislative Joint Auditing Committee

May 14, 2010

# Review of Selected Transactions

## Pulaski County Special School District

### INTRODUCTION

This report is issued pursuant to a request by the Commissioner of Arkansas Department of Education (ADE) and the Pulaski County Special School District (District) Board of Directors (Board) for the Division of Legislative Audit (DLA) to conduct a limited scope review of selected District transactions and activities. Specifically, ADE is interested in the financial settlement to which Mr. James Sharpe, former District Superintendent, was entitled. The Board also expressed concerns relating to certain financial operations of, and compliance with policies by, the District. These concerns as well as issues District personnel revealed to DLA staff are discussed in this report.

### HIGHLIGHTS OF REPORT

- Financial settlement of **\$269,520 initially paid** to Superintendent James Sharpe upon resignation from the District conflicted with **Board approved terms and amount of \$185,000**. Sharpe reimbursed the **overpayment of \$72,918** calculated by the District. District personnel indicated Sharpe received additional salary and benefits **overpayments totaling \$17,203** during his tenure. In addition, Sharpe was reimbursed for, or charged on District credit card, **unallowable, undocumented expenses totaling \$7,836**.
- Unallowable and questioned travel expenses totaling \$7,692** paid to Board members. These expenses include overnight stay in a Little Rock hotel, Broadway play in New York, and gratuities.
- A Maintenance Shop employee **misappropriated District funds totaling \$439,745**. Internal control **deficiencies** and **lack of oversight** by District management contributed to this matter not being detected. Specifically, numerous purchase orders and invoices were approved using a **"rubber stamp."**
- Potential waste and abuse of District resources** due to excessive use of emergency purchase orders and overtime compensation to employees in the Maintenance Department.
- District **overpaid a vendor \$11,975**. Director of Purchasing allowed vendor to repay District in installments and maintained this agreement **"off-the-books."**
- Administrative staff and the Board did not exercise proper management fiscal oversight responsibility nor demonstrate a **"tone at the top"** promoting commitment to financial prudence and consistency with policies and procedures.

ARKANSAS DIVISION OF LEGISLATIVE AUDIT  
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Report ID: IR SD 398 09 Report Date: April 28, 2010



## OBJECTIVES

Objectives in conducting this investigative review were:

- Analyze pertinent contracts, including employment contracts and separation agreements, of certain District personnel;
- Verify methodology the District used to calculate financial settlement to Sharpe upon his resignation;
- Review selected financial transactions, including travel reimbursements, payments other than salary to selected employees, and credit card transactions;
- Ascertain if the District adhered to purchasing, travel, cellular telephone, and credit card usage policies;
- Determine if the District acted in accordance with Arkansas Code Annotated (Code) relating to solicitation of bids for certain purchases;
- Review selected purchases of goods and services to determine propriety;
- Determine validity of assertions by District personnel; and
- Assess internal controls relating to the purchasing and disbursement processes for adequacy.

## SCOPE AND METHODOLOGY

Consisting of several components, this review was conducted inclusive of the period March 1, 2004 through February 19, 2010. Pertinent District accounting records, including accounts payable invoices, employment contracts, credit card statements and supporting documentation, and travel expense reports were examined. District operating and financial policies were also reviewed. In addition, appropriate personnel were interviewed and internal controls were assessed for adequacy. Information contained on computers of certain personnel was analyzed as were selected electronic mail and shared computer files.

Pertinent District personnel identified in this report are reflected in **Exhibit I** by name, position, and tenure.

Time periods of review for various components are provided below by subject and date.

- Superintendent:
  - Separation of service payment: March 2009.
  - Employment contract: July 1, 2005 through March 11, 2009.
  - Travel expenses: July 1, 2006 through March 11, 2009.
- Expenses relating to Board members: July 1, 2006 through March 3, 2009.

### Exhibit I

Pulaski County Special School District (District) Pertinent District Personnel Identified in Report As of March 11, 2009		
Name	Position	Tenure
James Sharpe	Superintendent	February 2006 - March 2009
Larry O'Briant	Chief Financial Officer	December 2005 - March 2009
James Warren	Executive Director of Support Services	August 2001 - September 2009
Sinclair Winburn	Director of Purchasing	January 2007 - August 2009
James Diemer	Mechanical Systems Supervisor	August 1983 - (Note 1)

Note 1: As of report date, Diemer was on administrative leave without pay. His employment was terminated May 2010.

Source: District records

- Administration expenses: July 1, 2006 through March 3, 2009.
- Purchasing procedures and compliance with bid laws: September 29, 2006 through June 30, 2009.
- Unauthorized purchases: March 1, 2004 through May 19, 2009.
- Overtime payments: July 2006 through May 2009.
- Vendor overpayment: November 30, 2006 through May 28, 2009.
- Other disbursements: July 2008 through January 2009.
- Federal Aid Assistance: September 1, 2005 through July 31, 2006.
- Receipts not deposited - Jacksonville High School Activity Fund: August 1, 2009 through February 19, 2010.
- Daisy Bates Elementary - Parent Teacher Association: August 17, 2007 through March 12, 2009.
- Other issues: March 2009 through May 2009.

The methodology used in conducting this review was developed uniquely to address the stated objectives; therefore, this review was more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

## BACKGROUND

Pulaski County Special School District is one of three public school districts in Pulaski County, Arkansas; others are the Little Rock and North Little Rock School Districts.

The District was established in 1927 by a legislative act joining thirty-eight independent school districts into a "special" school district. Currently, the second largest district in the state after the Little Rock School District, the District is among the 500 largest school districts in the United States.

The District contains 729 square miles and includes all areas of the county - incorporated and unincorporated (see **Schedule 1 on page 22**) - excluding areas within the city limits of Little Rock, Cammack Village, and North Little Rock.

The District encompasses nearly 3 million square feet of education and support service buildings, occupying more than 750 acres throughout Pulaski County. Presently, the District operates 39 educational facilities, including 8 high schools, 6 middle schools, 24 elementary schools, and a pre-kindergarten school as listed in **Schedule 1 on page 22**.

Students from Alexander, Cabot (some areas), College Station, Gravel Ridge, Ironton, Jacksonville, Little Rock, Mabelvale, Maumelle, McAlmont, North Little Rock, Scott, Sherwood, Sweet Home, Woodson, and Wrightsville are enrolled in the District.

Enrollment was approximately 17,615 students for the 2008-09 school year and the District employed 2,698 full- and part-time employees, including 128 administrators, 1,341 teachers, 943 support staff, and 286 bus drivers. Salaries and benefits of certain administrators for the 2008-09 school year are shown in **Schedule 2 on page 23**.

A financial audit of the District is performed annually by a local private CPA firm.

The District is governed by a seven member Board elected, by zone, to four-year terms. Board members, listed in **Exhibit II** as of June 30, 2009, serve without compensation.

### Exhibit II

Pulaski County Special School District (District) Board Members As of June 30, 2009		
Zone	Board Member/Position	Years Served
3	Tim Clark, President	1
6	William Vasquez, Vice President	2
7	Gwen Williams, Secretary	13
1	Mildred Tatum	26
5	Danny Gililand	3
4	Charlie Wood	3
2	Shana Chaplin	2

Source: District records

## RESULTS OF REVIEW

The financial settlement of \$269,520<sup>1</sup> initially paid to Superintendent James Sharpe upon resignation from the District conflicted with Board approved agreed-upon terms and amount of \$185,000.<sup>1</sup> When informed of the overpayment, Sharpe reimbursed \$72,918, which was calculated by District personnel.

Subsequently, Acting Superintendent Rob McGill requested District personnel recalculate Sharpe's compensation for services to the District from July 2005 through March 2009. District calculations reflected an additional overpayment totaling \$17,203 to Sharpe during his tenure. This civil matter is pending resolution in the Circuit Court of Pulaski County.

This review identified unallowable and questioned expenses of \$7,836 incurred by Sharpe for travel and other purposes. In addition, review of cash advances to Board members for travel costs revealed additional unallowable and questioned expenses of \$3,677.

Analysis of selected disbursements indicated instances in which adequate supporting documentation was not available and purchases were not for District purposes. Numerous deficiencies in District purchasing procedures were discovered as well as instances of noncompliance with Code relating to the bid process.

Unauthorized purchases of goods totaling \$439,745 were made by a Maintenance Department employee during the period March 1, 2004 through May 19, 2009. Subsequently, this employee waived indictment and entered a plea of guilty to theft of property from a government entity which received federal funds, a violation of Title 18, United States Code, Section 666.

Another example of management oversight inadequacy was approval of possible excessive overtime. Thirty-one employees in the Maintenance Department were compensated for overtime totaling \$193,279 during the period July 2006 through May 2009. However, project, number of hours worked, and services performed

were not provided on timesheets in several instances.

An overpayment of \$11,975 to a vendor in November 2006 was not fully reimbursed until May 28, 2009.

Absence of proper management oversight and internal controls relating to the purchasing process contributed to possible misuse and the misappropriation of District funds.

The District provided documentation indicating activity fund collections totaling \$31,536 were not deposited in the Jacksonville High School Activity Fund bank account. This criminal matter is pending resolution in the Circuit Court of Pulaski County.

The Board also expressed concerns relating to certain financial operations of, and compliance with policies by, the District. In addition, District personnel revealed issues of concern to DLA staff during interviews. Because these issues were beyond the scope of this review, DLA staff did not verify or otherwise substantiate these assertions. However, DLA staff provided Acting Superintendent Rob McGill a summary of issues and concerns revealed.

District management and the Board are responsible for properly communicating values and behavioral standards to personnel through policy statements, codes of conduct, and example. This review and interviews with pertinent District personnel revealed numerous internal control deficiencies.

Results of this review are discussed, as follows, by topic. The responses to the report provided by the Acting Superintendent, former Superintendent, and Board Members are presented in the **Appendix on pages A-1 through A-14.**

### **Superintendent's Separation Payment**

Sharpe was hired as Superintendent on February 8, 2006, after serving as interim Superintendent since November 15, 2005, and resigned from District employment on March 11, 2009.

A Separation Agreement, Covenant Not to Sue and Release (Agreement) between the District and Sharpe indicated March 18, 2009 as date

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<sup>1</sup>These amounts are gross compensation before any applicable withholdings or adjustments.

executed. However, Sharpe, Board President, and Board Secretary signed the Agreement on March 11, 2009. Terms of the Agreement stipulated contract buyout of \$185,000, less applicable employee payroll tax withholdings. This amount also included any required Arkansas Teacher Retirement System (ATRS) contributions and payment for accrued and unused sick and annual leave days, but with a maximum amount of \$185,000.

According to District personnel, Sharpe requested payment of the contract "buy-out" from the Chief Financial Officer (CFO) on March 12, 2009. Although the CFO had no documentation for, nor directive to issue, such payment, he obtained a copy of the Agreement and, after consultation with the Director of Accounting and Auditing and a payroll department employee, calculated a final "buy-out" amount due Sharpe.

After reviewing Sharpe's employment contract and contract "buy-out" payments to previous Superintendents, which included payment for unused leave, District personnel concluded Sharpe was entitled to payment of unused leave and severance pay in addition to the \$185,000 approved in the Agreement and by the Board.

Subsequently, a payroll check totaling \$185,747, dated March 13, 2009, was issued to Sharpe as illustrated in **Exhibit III**. The gross amount of \$269,520 included:

- \$185,000 per Agreement;
- \$44,832 for 61 accrued sick leave days;
- \$33,073 for 45 accrued annual leave days; and
- \$6,615 for severance pay.

### Exhibit III

Pulaski County Special School District (District)  
Analysis of Separation Payment to  
James Sharpe, Superintendent  
Resignation Date March 11, 2009

	Amounts		
	Board Approved	Paid	Overpaid
Amount per Separation Agreement	\$ 185,000	\$ 185,000	
Accrued sick leave		44,832	\$ 44,832
Accrued annual leave		33,073	33,073
Severance pay		6,615	6,615
Subtotals Before Withholdings	185,000	269,520	84,520
Overpayment on 2008-09 year employment contract	(4,636)	(4,636)	
Withholdings (payroll taxes)	(25,285)	(36,887)	(11,602)
Annuities withheld	(42,250)	(42,250)	
<b>Net Amounts Paid/Overpaid</b>	<b>\$ 112,829</b>	<b>\$ 185,747</b>	<b>\$ 72,918</b>
Amounts Repaid From:			
James Sharpe (March 18, 2009)			\$ 51,918
Sharpe's annuity (VALIC) (April 9, 2009)			21,000
<b>Total Amount Repaid</b>			<b>\$ 72,918</b>

Source: District financial records

When informed of this payment to Sharpe, Board members immediately requested repayment of the amount exceeding the authorized separation amount of \$185,000. District personnel calculated, and DLA staff verified, \$72,918, reflected in **Exhibit III on page 5**, as net amount paid Sharpe in error due to unauthorized payment for unused sick and annual leave and severance pay. Sharpe reimbursed the District \$51,918 on March 18, 2009 and approved a \$21,000 reimbursement from his annuity account to the District. The check from the insurance company was received by the District on April 9, 2009.

Although Sharpe, who had attained the age of 65, began receiving retirement benefits from ATRS, he continued his employment with the District which Code allows. According to Ark. Code Ann. § 24-7-502, ATRS members age 65 or older are allowed to apply for benefits without termination of employment. Upon Sharpe's retirement in November 2008, the District was no longer required to pay a retirement contribution of 6% of his salary to ATRS.

According to Sharpe, he informed the Board President and the CFO, at the time, he was not willing to retire unless the District paid the 6% retirement contribution directly to him. Sharpe maintains the Board President indicated that since this would not cost the District additional money, he saw no reason not to pay the retirement contribution amount to Sharpe as part of his salary. The CFO confirmed this assertion by Sharpe.

However, neither formal Board action was taken nor was Sharpe's contract amended to authorize a 6% pay increase.

Board policy provides that individual Board members exercise authority over District affairs only as they vote to take action at a legal meeting of the Board. An individual member, including the president, will have power to speak or act for the Board only when the Board, by a vote, has delegated authority to him. The Board will make its members, the District staff, and the public aware that only the Board acting as a whole has authority to take official action.

In contrast to Sharpe's assertion, District personnel stated Sharpe issued instructions that he be paid, in addition to his salary, the 6%

retirement contribution the District paid on his behalf to ATRS. District personnel complied with these instructions, beginning with November 2008 payroll, through March 11, 2009 when Sharpe resigned.

Acting Superintendent Rob McGill, upon discovering Sharpe was paid the retirement contribution, directed District personnel to recalculate Sharpe's compensation for services to the District from July 2005 through March 2009 to determine if Sharpe was overpaid for the period (see **Exhibit IV on page 7**). Accounting and payroll personnel calculated, and DLA staff verified, an overpayment totaling \$17,203 net of the \$4,636 withheld from Sharpe's separation payment (see **Exhibit IV on page 7**).

The overpayment was due primarily to the unauthorized retirement contribution amount paid directly to Sharpe each pay period, totaling \$13,569. Further, although Sharpe's employment contract provided for monthly payment of health insurance premiums, his health insurance was terminated in July 2006. Sharpe began receiving compensation in lieu of these premiums in January 2007. Board minutes for January 9, 2007 indicated approval of this change, but Sharpe's contract addendum, dated January 10, 2007, and signed by Board President, Secretary, and Sharpe stated the District would pay for health insurance on *behalf* of the Superintendent.

The District sent Sharpe a letter, in August 2009, informing him of the overpayment and requesting reimbursement of \$17,203. As of report date, Sharpe has not responded to this letter.

Subsequently, the District filed a civil suit, on February 26, 2010, seeking reimbursement of \$17,203 from Sharpe for unauthorized compensation. The suit maintains the retirement contribution totaling \$13,569 was paid Sharpe without approval of the Board and contrary to terms of his employment contract. The suit further alleges Sharpe was not entitled to the compensation he received in lieu of payment of health insurance premiums. This civil case is pending resolution in Circuit Court of Pulaski County.

Sharpe's response, made by his legal counsel, to this review is provided in the **Appendix on pages A-4 through A-9**.



## Exhibit IV

Pulaski County Special School District (District)  
Analysis of Employment Contracts/Salary Overpayment  
James Sharpe, Superintendent  
For the Period July 1, 2005 through March 11, 2009

	Years Ended June 30,			July 1, 2008- March 11, 2009	Totals
	2006	2007	2008	(Note 1)	
Contract	\$ 130,563	\$ 168,000	\$ 176,400	\$ 126,412	\$ 601,375
Vehicle allowance	4,375	10,200	10,200	7,454	32,229
<b>Total Contract Amounts</b>	<b>134,938</b>	<b>178,200</b>	<b>186,600</b>	<b>133,866</b>	<b>633,604</b>
<b>Amounts Paid:</b>					
Salary	133,923	164,826	176,400	131,048	606,197
Vehicle allowance	4,375	9,550	10,200	7,454	31,579
Health insurance (Note 2)		858	1,872	1,368	4,098
Extra 6% (Note 3)				13,569	13,569
<b>Total Amounts Paid</b>	<b>138,298</b>	<b>175,234</b>	<b>188,472</b>	<b>153,439</b>	<b>655,443</b>
Total Amounts Over/(Under) Paid	\$ 3,360	\$ (2,966)	\$ 1,872	\$ 19,573	\$ 21,839
2009 overpayment withheld from payment of separation agreement				(4,636)	(4,636)
<b>Total Over/(Under) Payment</b>	<b>\$ 3,360</b>	<b>\$ (2,966)</b>	<b>\$ 1,872</b>	<b>\$ 14,937</b>	<b>\$ 17,203</b>

Note 1: Prorated 244 day contract for 172 days worked

Note 2: District previously paid insurance premiums; later paid directly to Sharpe without Board authorization

Note 3: District previously paid Sharpe's 6% retirement contribution to Arkansas Teacher Retirement System; later paid directly to Sharpe without Board authorization

**Source:** District financial records

### Superintendent's Travel Expenses

District personnel, when traveling for District purposes, are to adhere to policies set by the Board. Although District Board of Education Policies Manual does not set a dollar limit for travel expenses, policy does state "... persons who travel at District expense will exercise the same economy as a prudent person traveling on personal business . . . ." The District Business Procedures Manual details policies regarding out-of-district travel reimbursement for District employees. These policies include:

- A \$25 per diem meal allowance can be claimed for reimbursement without receipts.
- Receipts are required if daily meal costs exceed \$5 for breakfast, \$8 for lunch, and \$12 for dinner.

- Alcoholic beverages are not reimbursable.
- Taxi or limousine fares are to be explained, showing points of travel.
- Names and company affiliation of persons contacted by long distance telephone will be included on expense report.
- Receipts must be provided for any expenditure of \$25 or more.
- Receipt must show amount, date, name of establishment, and itemization of costs incurred.
- Tips for meals cannot exceed 15% of cost of meal.



Based on Ark. Const. art. 14, § 2 which states, in part, "No money or property belonging to the public school fund . . . for the benefit of schools . . . shall ever be used for any other than for the respective purposes to which it belongs," gratuities do not appear to benefit the District and, therefore, are not an allowable expense.

To further support this determination, DLA staff also considered Op. Att'y Gen. no. 1998-277 in which the Attorney General relied on a separate constitutional provision, Ark. Const. art. 12, § 5, to opine that a mayor could not treat tips paid as reimbursable expenses. Op. Att'y Gen. no. 1998 - 277 provides, in part, "It is my conclusion . . . that "tipping" would in all likelihood generally be deemed to accomplish a private purpose as it inures primarily to the benefit of private individuals . . . ."

Sharpe's employment contract stated his *reasonable* expenses incident to his participation in professional activities, such as workshops and seminars, would be reimbursed by the District. The contract limits these reimbursements to \$3,600 per contract year. The contract also stated the District would reimburse the Superintendent for travel expenses incurred in the course of his professional duties.

As District Superintendent and a member of various educator organizations, Sharpe attended numerous conventions for which expenses the District paid. The District issued Sharpe travel advances, net of amount unused, and reimbursements totaling \$4,665 and \$265, respectively. Travel expense forms were submitted as documentation for expenses incurred. In addition, Sharpe charged other expenses totaling \$15,688 to a District credit card he was authorized to use.

**Exhibit V** reflects total travel expenses of \$20,618 paid to or on behalf of Sharpe during the period July 1, 2006 through March 11, 2009. Unallowable expenses include duplicate charges, meals and conference registration for family members, gratuities, and alcoholic beverages. Also included are expenses for meals at local restaurants and taxi fares that were not adequately documented. Unallowable expenses of \$7,836 due the District are based on Ark. Const. art. 14, § 2 and District policies.

DLA staff reviewed all checks, and supporting documentation, issued to Sharpe and U.S. Bank, issuer of District's credit card Sharpe used, for travel expenses during the aforementioned time period. The following unallowable transactions totaling \$7,836 were noted.

#### Exhibit V

**Pulaski County Special School District (District)**  
**Analysis of Superintendent James Sharpe's Travel Expenses**  
**For the Period July 1, 2006 through March 11, 2009**

	<u>Totals</u>	<u>Allowable</u>	<u>Unallowable</u>
Types of Expenses:			
Out-of-District:			
Travel advances (Note 1)	\$ 4,665	\$ 1,716	\$ 2,949
Travel reimbursements	126		126
Credit card charges	14,547	11,066	3,481
In District:			
Travel reimbursements	139		139
Credit card charges	1,141		1,141
Total Travel Expenses	<u>\$ 20,618</u>		
Total Allowable Expenses		<u>\$ 12,782</u>	
<b>Total Unallowable Expenses/Due District</b>			<u><u>\$ 7,836</u></u>

Note 1: Net of Sharpe's reimbursements of unused cash advances

Source: District financial records

- \$277 for out-of-district expenses claimed, and paid to Sharpe, on travel expense form, but also charged to District credit card.
- \$4,688 for unallowable out-of-district expenses, including meals and conference registration for family members, gratuities, and alcoholic beverages.
- \$383 for a rental car to travel to St. Louis, MO for a conference, yet Sharpe received an \$850 monthly vehicle allowance.
- \$64 for fuel purchased en route to St. Louis. However, there was a \$25 charge for fuel on the District credit card utilized by Sharpe at the same location and purchased only a few minutes after the \$64 charge.
- \$1,242 for meals at local restaurants without documentation of individuals in attendance or business purpose.
- \$1,182 for taxi fares for which receipts did not reflect dates nor points of travel.

Sharpe's response to this review is provided in the **Appendix on pages A-4 through A-9.**

#### **Board Member Expenses**

The District expended \$117,620 for Board travel, association fees and dues, mileage reimbursements, meals for Board meetings, and other miscellaneous expenses for the period July 1, 2006 through March 3, 2009. **Exhibit VI** summarizes various Board expenses by type or vendor and amount. Discussed in detail below are Board member expenses relating to cellular telephone and internet services, catering and food for meetings, and travel.

#### ***Cellular Telephone and Internet Services***

The District paid for cellular telephone and internet access services totaling \$6,113, as reflected in **Exhibit VI**, for two Board members during the period July 1, 2006 through February 28, 2009. The policy for Board member expenses was revised in December 2008 and states, in part, "Board members will NOT be

#### **Exhibit VI**

Pulaski County Special School District (District) Summary of Board Expense For the Period July 1, 2006 through March 3, 2009	
Description	Total
Arkansas School Boards Association	\$ 14,831
Board Member travel advances	37,855
Board Member mileage and miscellaneous expenses	2,695
Carlson Wagonlit Travel	8,381
Catering/Meals for Board meetings and workshops (Note 1)	8,544
Cellular telephone and internet access (Note 2)	6,113
Louisiana School Boards Association	930
National Alliance of Black School Educators	3,110
National Black Caucus of School Board Members	285
National School Boards Association	33,610
Texas Association of School Boards	738
TQ Navigant Travel Solution	528
<b>Total Board Member Expenses</b>	<b>\$ 117,620</b>
Note 1: Amount is not all inclusive	
Note 2: Services for Board members Mildred Tatum and Gwen Williams for the period July 1, 2006 through February 28, 2009	

**Source:** District financial records

provided with . . . cell phone . . . internet access . . . computer . . . .”

Prior to this revision, District policy did not address whether cellular telephone and internet access services provided to Board members would be reimbursed to the District.

#### *Catering and Food Expenses for Meetings*

As indicated in **Exhibit VI on page 9**, expenses for food and catering purchases for workshops and Board meetings totaled \$8,544 during the period July 1, 2006 through March 3, 2009. Board policy does not address the purchase of food for meetings nor impose limits on such purchases.

#### *Travel*

The District Business Procedures Manual provides procedures regarding reimbursement for expenses Board members incur in performance of official duties. These procedures indicate Board members will be reimbursed for actual expenses incurred while in travel status and require a receipt for expenses of \$25 or more.

Interviews with Board members and District personnel revealed it was common practice for District to reimburse gratuities. Final expense report forms used by the District reflect meal “tips” to be itemized as allowable expenditures. As previously mentioned on page 8, DLA determined gratuities to be unallowable based on Ark. Const. art. 14, § 2.

To determine if cash advances of \$37,855 to nine Board members for expenses incurred on behalf of the District were appropriate, DLA staff examined available supporting documentation for all checks issued to those individuals during the period July 1, 2006 through March 3, 2009. Illustrated in **Exhibit VII on page 11**, unallowable or undocumented travel expenses of \$7,349 and \$343, respectively, were revealed. These expenses included:

- \$557 for gratuities;
- \$320 for Little Rock hotel room for a Board member who lives in Little Rock;
- \$116 for Board member to attend a Broadway play in New York; and

- \$70 for transportation provided by a valet service.

DLA notified six Board members with questioned or unallowable expenses. Four of six members notified provided responses, which are located in the **Appendix on pages A-10 through A-14**. Three Board members reimbursed the District for the unallowable amounts (\$278) or provided explanation for the questioned expenses (\$70). In addition, two other Board members provided adequate supporting documentation for a portion of their unallowable expenses of \$1,955 and \$1,712.

Unallowable and questioned travel expenses totaling \$3,677 remain due the District as summarized in **Exhibit VII on page 11**.

#### **Administration Expenses**

A cursory review of payments to local hotels and food vendors revealed the District spent approximately \$53,590 for catered meals, administrative workshops, training, and award ceremonies during the period July 1, 2006 through March 3, 2009. The disbursements were reviewed to determine if expenses complied with District policy. The following was revealed:

- District policy does not provide guidelines for provision of food for workshops, training seminars, or award ceremonies, nor impose limits on such purchases.
- District incurred expenses exceeding \$1,000, on at least four occasions, to host training classes outside District facilities.

During review of credit card statements, DLA staff also noted supporting documentation was not retained for some charges. Further, a business purpose could not be determined for other purchases that included:

- Flowers and plants - \$175;
- 10 book bags and 12 luggage tags - \$781;
- Decorative items - \$592; and
- Cellular telephone accessories - \$267.

In addition, the District paid credit card fees totaling \$366 and \$210, respectively, for finance and late payment charges.

## Exhibit VII

**Pulaski County Special School District (District)**  
**Analysis of Board Member**  
**Travel Advances, Improper Transactions, and Amount Due District**  
**For the Period July 1, 2006 through March 3, 2009**

Board Member (Note 1)	Travel Advance (Note 2)	Improper Transactions				Unallowable/ Questioned Amount Potentially Due District (a+b-c-d)
		Unallowable/ Due District (a) (Note 3)	Questioned/ Potentially Due District (b) (Note 4)	Subsequently Provided Documentation/ Explanation (c)	Amount Reimbursed District (d)	
Mildred Tatum	\$ 13,572	\$ 4,613	\$ 130	\$ 1,955		\$ 2,788
Gwen Williams	7,893	476	143			619
Danny Gililand	4,753	149			\$ 149	
Debbie Murphy	2,773	93	70	70	93	
Charlie Wood	2,773	36			36	
Pam Roberts	1,982	1,982		1,712		270
Shana Chaplin	1,982					
Tim Clark	1,400					
James Bolden	727					
<b>Totals</b>	<b>\$ 37,855</b>	<b>\$ 7,349</b>	<b>\$ 343</b>	<b>\$ 3,737</b>	<b>\$ 278</b>	<b>\$ 3,677</b>

Note 1: Of 13 Board members serving during the review period, 9 received advances for District related travel

Note 2: Represents travel advances for both allowable expenses and improper transactions

Note 3: Includes alcohol, gratuities, meals over daily allowance, and undocumented amounts

Note 4: Documentation existed in various forms; however, business purpose was unknown

**Source:** District financial records

### **Overview of Purchasing Procedures for Goods and Services**

The District expended approximately \$43.4 million for goods and services, excluding payroll related expenses, during the 2008-09 school year.

The District purchasing cycle is initiated by an applicable user department employee preparing a requisition, including specifications, for purchase of desired goods or services, which is sent to the Purchasing Department (Purchasing) for ap-

proval. Purchasing personnel review requisition and specifications to determine the proper procurement method. When appropriate, Purchasing personnel solicit, receive, and review quotations, bids, and proposals, as required by Ark. Code Ann. § 6-21-304.

When a bid is required, Purchasing personnel award the contract to the successful bidding vendor. If no bid is required, a purchase order is issued to the vendor. After the applicable user department receives goods or services, Accounts Payable Department is notified to pay the vendor.

The District also allows the use of blanket purchase orders for purchases less than \$2,500. The Blanket Order Policy states "At the discretion of the Purchasing Director, blanket orders may be issued for purchases against term contracts, purchases of items exempt from bidding requirements, and small order purchases." The policy also states "Blanket orders for small order purchases are limited to \$1,000 per month to each vendor."

According to District policy, an emergency purchase is one which if not immediately initiated will endanger human life or health, District property, or the functional capability of the school or department. Although emergency purchases should be kept to a minimum, occasionally an unforeseen situation arises that constitutes an emergency.

Review of District purchasing procedures identified the following:

- Blanket purchases for small order purchases frequently exceeded \$1,000 per vendor monthly limit.
- Business purpose of goods purchased was not always documented.
- Excessive use of "emergency" purchase orders. Routine operating items purchased prior to purchase order being prepared were classified as "emergency," however, documentation to support the nature of the emergency was not provided.

### **Bids**

The Board directed the District utilize competitive bidding by securing formal and informal bids from suppliers and awarding contracts to the lowest responsible bidders meeting specifications. The Board further directed all bids exceeding \$25,000 be submitted to the Board for approval. Exceptions may be made in case of emergencies with Superintendent's approval.

All purchases in excess of \$10,000, but less than \$25,000, may be made by District Purchasing Director after notification, in writing, to all actual or prospective bidders or contractors who make a written request to the District for notification of opportunities to bid. The Purchasing Director is

required to report these purchases quarterly to the Board.

Purchases in excess of \$5,000, but less than \$10,000, may be made by the Purchasing Director after three or more verbal or written informal bids have been obtained.

Purchasing Director may purchase items less than \$5,000 without bids.

### ***Purchases Requiring Bids - September 29, 2006 through June 30, 2008***

DLA staff analyzed six purchases exceeding \$10,000 to determine if District personnel complied with bid laws and policies. While it appears bid laws and District policies were followed for three purchases, the remaining three bids revealed the following:

- DLA staff could not determine if two items, costing \$52,415 and \$105,961, for projects awarded to general contractors complied with District policies and bid laws since Request for Proposal (RFP) did not clearly state contract requirements.
- Bid laws were not followed regarding payments to, and contract with, media communications vendor (Communications Vendor).

An RFP for communication and advertising services could not be located. According to Ark. Code Ann. § 19-11-801(c), political subdivisions of the State may elect not to use competitive bidding for other professional services not listed in Ark. Code Ann. § 19-11-801(b)<sup>2</sup> with a two-thirds vote of the political subdivision's governing body. The District could not provide any Board action to indicate communications services and advertising were approved to be considered professional services and, therefore, not require competitive bidding.

Board meeting minutes dated August 8, 2006, indicated the media contract with Communications

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<sup>2</sup>Competitive bidding shall not be used for the procurement of legal, financial advisory, architectural, engineering, construction management, and land surveying professional consultant services.

Vendor was not to exceed \$60,000 for the period July 1, 2006 through June 30, 2007.

Without obtaining bids, the District paid:

- \$123,103 to Communications Vendor for the aforementioned period which included \$55,000 for retainer fees and \$68,103 for services relating to Board workshop materials, recruitment and retention, advertising, test score campaigns, benchmark charts, and Superintendent media letters.
- \$197,198 to Communications Vendor for the 2007-08 school year which included \$50,000 for retainer fees and \$147,198 for services similar to those provided during the previous school year.

Furthermore, the District could not provide a contract with Communications Vendor. Waste and abuse of District funds may occur when contracting a vendor, but not using the bid process or obtaining an actual contract, both of which Code require.

#### *Purchases Requiring Bids - 2008-09 School Year*

During the 2008-09 school year, twenty-two items were solicited for purchase through the bid process. Four bids were randomly selected for review. Of these bids, three appeared to comply with District bid requirements and specifications listed in RFP. Also, payments did not exceed contract amounts. However, review of one bid for lawn care services revealed the District did not:

- Require vendor to provide monthly inspection reports as required in the RFP.
- Ensure vendor performed services according to schedule provided in the RFP.
- Solicit bids for installation of a sprinkler system costing \$14,995 not included in the RFP.
- Pay the vendor in accordance with contract terms. The vendor was paid \$209,553; however, contract amount was only \$169,000.

Board voted to suspend the rules regarding RFP for lawn care services in August 2009, and awarded the bid to three lawn care vendors who previously responded to RFP.

#### **Maintenance Department**

The Maintenance Department consists of approximately 50 employees and is managed by the Executive Director of Support Services, who oversees an additional 800 support services employees in other areas such as transportation, food services, and warehouse. Responsibilities of Maintenance Department employees include maintaining and managing electrical and mechanical systems and general maintenance of all District facilities.

Interviews with District personnel indicated that Maintenance Department employees were excessively submitting emergency purchase orders and abusing the District "blanket" purchase order policy. In addition, District personnel suggested that several employees in Maintenance Department received overtime pay for work unrelated to District projects.

Common practice of approving an invoice for payment did not include invoice review. As long as an invoice had the supporting cover sheet and proper signatures, it was paid. The former CFO indicated many invoices were paid using the "rubber stamp" method.

Discussed in detail below are situations in which Maintenance Department employees made unauthorized purchases and received overtime compensation without adequate documentation.

#### *Unauthorized Purchases*

A review of email correspondence between Director of Purchasing and Executive Director of Support Services revealed several emails pertaining to the amount of purchases made from Grainger, Inc. (Grainger), an industrial supply business. In addition, email correspondence between Budget Coordinator and Executive Director of Support Services revealed 91% of the plumbing budget for the 2008-09 school year was spent during the first quarter of the school year.

As a result of reviewing aforementioned email correspondence, DLA staff analyzed Grainger invoices for the period November 2008 through March 2009 to determine the individual(s) responsible for purchase of goods and approval of invoices as well as business purpose of items purchased. The majority of purchases were made by Mechanical Systems Supervisor James

Diemer and approved by Executive Director of Support Services.

DLA staff selected 34 items purchased from Grainger for the period July 2008 through March 2009 to observe during an unannounced inventory at the District Maintenance Shop (Shop) on May 12, 2009. Only four of the 34 items were located at the Shop, therefore, District personnel contacted Diemer, who was off work, but invited a District representative and DLA staff to his personal residence to assist in locating the remaining 30 items. Two items were located in a District work truck used by Diemer, who indicated another item on the list had "burned up," however, he could not account for the remaining 27 items. The following day, DLA staff returned to the Shop and discovered seven items on the inventory list had been returned.

Diemer admitted, on May 15, 2009, to DLA staff and an investigator of the Twenty-second Judicial District Prosecuting Attorney's Office he purchased numerous items from Grainger and Allied Supply, Inc. (Allied), a local plumbing and industrial supply company, with District funds. Diemer also acknowledged manipulating the District purchase order system to obtain items and later sell or trade those items for personal gain. Further, Diemer indicated he could order items *without question* provided the purchases were limited to \$2,500 or less.

As a result of the interview with Diemer, DLA staff expanded the scope of invoice review and several law enforcement agencies, including the Federal Bureau of Investigation (FBI), investigated the unauthorized purchases made by Diemer.

A review of purchases from Allied and Grainger revealed Diemer purchased goods ranging in price from \$10 to \$2,400, including a 16 ft. utility trailer, lawn mowers, cordless combination tool kits, generators, 23-drawer tool boxes, and free standing ice makers. Types of items purchased are illustrated in **Exhibit VIII**. Additional review of invoices from vendors utilized by the Maintenance Department revealed Diemer ordered additional questioned items from Little Rock Winnelson (Winnelson), another local plumbing supply store.

Discussions with Allied office staff revealed Diemer primarily used Allied as a pass-through

## Exhibit VIII

**Pulaski County Special School District (District)**  
**Examples of Questioned Items Purchased**  
**From Grainger, Inc., Allied Supply, Inc.,**  
**and Little Rock Winnelson by James Diemer**  
**For the Period March 1, 2004 through May 19, 2009**

### Allied Supply, Inc.

Item Description	Quantity*	Average Cost
Cordless Combination Kit	223	\$ 536
Battery Pack (16-18 volt)	67	182
Generator (gas 5.5 kw)	5	443
Ice Maker (25 & 60 lb)	7	620
Job Site Radio	23	132
Reciprocating Saw & Kits	75	15
Truck Tool Box Chest	4	501

### Grainger, Inc.

Item Description	Quantity*	Average Cost
Cordless Combination Kit	43	\$ 546
Battery	90	87
Generator	3	1,091
Ice Maker	12	837
Accessory Kits (100 piece)	47	49
Job Site Radio	5	98
Truck Tool Box Chest	3	450

### Little Rock Winnelson (Note 1)

Item Description	Quantity*	Average Cost
Cozy Infrared Heater	12	\$ 229
Whirlpool Tub Skirt	1	240
Nickel Faucets	3	147
Nickel Tub Bypass Door	1	725
Chrome Sink Faucets	6	110
60" White Shower	1	421

\* Approximate quantity

Note 1: Items purchased from Winnelson were  
for the period January 1, 2006 - May 19, 2009

**Source:** District financial records and vendor invoices



company to conceal ordering additional items from Grainger.

FBI requested DLA staff identify and summarize purchases Diemer made, for which the District paid, from Grainger and Allied for the period March 1, 2004 through May 19, 2009. DLA staff obtained invoices electronically from Grainger and analyzed items purchased by Diemer for propriety. Allied provided paper invoices which were also scrutinized for appropriateness. Since Winnelson was another vendor frequently used by Diemer, DLA staff obtained paper invoices from this vendor and examined for correctness during the period January 1, 2006 through May 19, 2009. Purchases from these three vendors are illustrated in **Exhibit IX** by vendor, time period, and amount.

Of the \$512,557 purchased from Grainger, Allied, and Winnelson by Diemer, \$439,745 was identified as questioned and unlikely procured for District use.

On January 21, 2010, Diemer waived indictment and entered a plea of guilty to theft of property from a government entity which received federal funds, a violation of Title 18, United States Code, Section 666. Diemer is scheduled to be sentenced at a hearing on June 8, 2010.

The Director of Purchasing and Executive Director of Support Services retired from District employment in August and September 2009, respectively. Initially, Diemer was placed on administrative leave without pay. After pleading guilty to theft of property, Diemer's employment with the District was terminated.

#### Exhibit IX

Pulaski County Special School District (District)  
Purchases from Grainger, Inc., Allied Supply, Inc., and Little Rock Winnelson  
by James Diemer, Mechanical Systems Supervisor  
For the Period March 1, 2004 through May 19, 2009

	Grainger, Inc.		Allied Supply, Inc.		Little Rock Winnelson (Note 1)	
	Amounts Purchased					
Time Period	Total (a)	Questioned (b)	Total (c)	Questioned (d)	Total (e)	Questioned (f)
March 1 - December 31, 2004	\$ 14,727	\$ 13,405	\$ 11,460	\$ 7,613		
Year ended December 31: 2005	22,267	20,618	51,720	42,777		
2006	32,097	31,405	69,076	58,192	\$ 5,147	\$ 966
2007	25,934	25,721	69,372	51,706	3,124	2,325
2008	55,101	54,073	65,655	57,818	13,529	6,858
January 1 - May 19, 2009	25,428	25,236	41,034	38,684	6,886	2,348
Totals	\$ 175,554	\$ 170,458	\$ 308,317	\$ 256,790	\$ 28,686	\$ 12,497

Total Amounts Purchased (a+c+e)	<b>\$ 512,557</b>
Total Questioned Purchases (b+d+f) (Note 2)	<b>\$ 439,745</b>

Note 1: Invoices obtained from this vendor for the period January 1, 2006 through May 19, 2009

Note 2: Questioned amounts calculated using auditor judgement regarding items that appear not to have a business purpose or items in excessive quantities that may have a business purpose

**Source:** District financial records and vendor invoices



## *Overtime*

**Exhibit X on page 17** summarizes the amount of overtime compensation, in excess of \$1,000, received by Maintenance Department employees which totaled \$193,279 during the period July 2006 through May 2009. Adequate documentation itemizing project, number of hours worked, and services performed was not always available.

Interviews with District employees suggested that several employees in the Maintenance Department received overtime pay for work performed at the Shop for projects unrelated to the District as well as at locations other than District property. Evidence to support these allegations could not be obtained, but three employees who received the most overtime compensation worked in positions that normally would not require overtime.

Two of these three employees received overtime compensation of \$34,833 and \$26,568, respectively, as cabinet makers. The other employee, who worked in the paint shop, received \$17,949. Employees with a higher skill level and hourly pay rate received overtime for tasks (e.g., moving furniture) which appeared to be appropriate for less trained and paid personnel. In addition, a roofer and a custodial supply and equipment coordinator received overtime pay of \$10,642 and \$10,417, respectively.

Furthermore, two other employees who received \$5,632 and \$1,726, respectively, for overtime were renting homes owned by the Executive Director of Support Services, who approved overtime hours. The approval of overtime compensation for the aforementioned employees by the Executive Director of Support Services, who received financial gain, could present a potential conflict of interest.

The District may have a situation of waste and abuse of funds because employees with higher pay rates received overtime compensation for performing mundane duties and applicable supporting documentation was not adequate.

### **Vendor Overpayment**

A review of email correspondence between Director of Purchasing and CFO revealed the District overpaid a telephone equipment vendor

(Vendor) \$11,975 on November 30, 2006. The Director of Purchasing agreed to allow Vendor to repay the District in \$500 installments as opposed to an immediate refund of the full amount.

Review by DLA staff revealed Vendor reimbursed the District only \$2,500. Subsequently, invoices submitted by Vendor for work performed at the District were not paid; rather, the invoiced amount was deducted from the amount Vendor owed the District.

Further, the amount due from Vendor was not posted to District records as a receivable; rather repayment by Vendor was kept "off-the-books" by the Director of Purchasing. Consequently, the District paid Vendor an additional \$632 for services provided in July 2008, at which time Vendor still owed the District \$4,700. As of May 28, 2009, the amount of overpayment had been absorbed by invoices submitted by Vendor.

### **Other Disbursements**

A sample of seventeen disbursements for supplies and employee travel reimbursement, for the period July 2008 through January 2009, was randomly selected to determine if adequate supporting documentation was available. The following issues were identified:

- An employee was reimbursed for hotel expense and meals at a conference, however lodging and meals were included in conference fees.
- An employee was provided funds to purchase items for United Way, but receipts were not provided to document actual expenses.

Although the remaining fifteen disbursements were properly documented, four contained inconsistencies regarding required signatures on supporting documents.

### **Federal Aid Assistance**

Interviews with District personnel suggested that Federal aid received by the District for hurricane relief was misused. ADE awarded Emergency Impact Aid to the District for Hurricanes Katrina and Rita Displaced Students for a grant period September 1, 2005 through July 31, 2006.

**Exhibit X**

Pulaski County Special School District (District)  
Overtime Hours Paid to Maintenance Employees  
For the Period July 2006 through May 2009

Maintenance Department	2006-07		2007-08		2008-09		Totals Paid
	Hours	Amounts Paid	Hours	Amounts Paid	Hours	Amounts Paid	
Employee (Note 1)							
1	606.25	\$ 14,282	415.00	\$ 10,510	376.50	\$ 10,041	\$ 34,833
2	633.25	12,888	407.75	8,892	210.00	4,788	26,568
3	362.00	6,664	262.00	5,232	288.50	6,053	17,949
4	81.00	2,183	244.75	5,817	110.50	2,642	10,642
5	152.50	4,706	285.50	5,711			10,417
6			127.25	2,987	173.50	4,341	7,328
7	135.50	3,698	59.00	1,272	73.75	2,244	7,214
8	37.50	1,301	107.00	3,835	38.50	1,415	6,551
9	168.00	3,109	129.75	2,523			5,632
10	166.00	5,205					5,205
11	61.00	2,100	59.00	2,349	16.50	681	5,130
12	35.25	880	57.00	1,592	90.00	2,604	5,076
13	61.50	1,669	95.25	2,769	12.00	378	4,816
14	94.00	2,095	39.50	978	40.75	1,047	4,120
15	37.00	1,128	54.00	1,797	26.50	903	3,828
16	66.50	1,240	12.00	246	96.75	2,228	3,714
17	43.00	1,097	52.00	2,033	5.00	209	3,339
18			29.50	553	143.00	2,781	3,334
19	49.00	1,566	48.00	1,219	21.50	503	3,288
20	36.00	603	65.50	1,174	71.50	1,398	3,175
21	103.00	1,872	46.00	1,249			3,121
22			65.25	1,175	73.00	1,314	2,489
23			87.50	2,183	1.00	27	2,210
24			10.00	390	44.00	1,736	2,126
25	9.00	375			36.50	1,620	1,995
26			49.50	691	58.00	1,035	1,726
27	1.00	28	52.50	1,536	2.00	61	1,625
28	26.50	453	67.75	1,158			1,611
29			20.00	320	68.00	1,133	1,453
30	34.25	1,440					1,440
31	23.00	476	15.00	231	20.00	617	1,324
Total Overtime: Hours	3,022.00		2,963.25		2,097.25		
Paid		\$ 71,058		\$ 70,422		\$ 51,799	\$ 193,279

Note 1: Employees 1 and 2 work in the cabinet shop and Employee 3 works in the paint shop  
Employee 4 is a roofer and Employee 5 was a Custodial Supply and Equipment Coordinator  
Employees 9 and 26 rented homes owned by Executive Director of Support Services

Source: District financial records

During this period, the District received \$844,125 for compensation of personnel, including teacher aides, dealing with these displaced students. The District issued checks totaling \$48,000 to individuals and schools for reimbursement of items purchased for displaced students.

DLA staff review of documentation provided by District personnel revealed questioned purchases by a high school home school counselor and approved by the Assistant Superintendent for Equity and Pupil Services. These purchases were:

- \$311 at Dillard's Department Store for women's undergarments;
- \$464 at Lady Foot Locker for athletic apparel; and
- \$194 at Finish Line for two pairs of athletic shoes.

The District should obtain reimbursement of funds from applicable personnel for the apparent misuse of federal aid.

#### **Jacksonville High School Activity Fund**

District personnel notified DLA staff in January 2010 concerning discrepancies between bank account deposits and activity cash count sheets relating to the Jacksonville High School Activity Fund (Activity Fund). According to District accounting personnel, the Activity Fund Bookkeeper, Rosalind Taylor, was responsible for, and custodian of, Activity Fund money.

To document collection of funds for school activities, District required applicable sponsors complete and sign cash count sheets. These sheets and pertinent funds were remitted to Taylor who provided the sponsor a receipt to corroborate the exchange of funds.

After comparing documentation supporting collection of funds from various activities to Activity Fund bank account deposits, District accounting personnel determined \$23,036 had not been deposited in the Activity Fund during the period August 2009 through January 2010.

In addition, gate receipts and change funds, estimated to total \$8,500, for eight athletic events during September 1, 2009 through January 15,

2010 were not deposited in the Activity Fund bank account.

The District contacted the Jacksonville Police Department to report funds not deposited. Subsequently, Taylor was charged with theft of property by the Sixth Judicial District Prosecuting Attorney on March 30, 2010.

The District placed Taylor on leave without pay awaiting outcome of this criminal matter pending resolution in the Circuit Court of Pulaski County.

#### **Daisy Bates Elementary Parent Teacher Association**

At the request of Acting Superintendent Rob McGill, DLA staff reviewed certain documents pertaining to the Daisy Bates Elementary Parent Teacher Association (Daisy Bates PTA). Daisy Bates Principal expressed concern due to telephone calls regarding unpaid PTA bills.

DLA staff reviewed bank statements and available supporting documentation for expenditures for the period August 17, 2007 through March 12, 2009. The following items were noted:

- Checks, totaling \$2,408, issued without adequate supporting documentation;
- Cash expenditures totaling \$1,716;
- Check issued to "Cash" for \$500 without supporting documentation;
- Checks, totaling \$265, issued for donations to individuals; and
- Multiple checks with only one signature.

DLA staff also noted receipts for funds collected were not maintained by Daisy Bates PTA.

Two internal audits were conducted by Arkansas PTA audit committee members for the periods July 1, 2007 through June 30, 2008 and July 1, 2008 through March 31, 2009, respectively. While findings in the internal audit reports include checks written for cash, checks written to individuals for donations, and checks with only one signature, the following issues were also addressed. The Daisy Bates PTA did not have an approved budget, meeting minutes indicating

its board's approval of amounts expended, or financial fidelity bonding insurance. The internal audit report for the period July 1, 2008 through March 31, 2009 also disclosed outstanding invoices that had not been paid.

According to Arkansas PTA President, state and national dues collected by Daisy Bates PTA have not been remitted to Arkansas PTA.

In addition, the Principal provided an unsigned letter, purportedly from the Principal, instructing the bank in which PTA maintained a bank account that the PTA Treasurer, a teacher at Daisy Bates, would be the sole signatory on the bank account. This fabricated letter was in direct opposition to a letter to the same bank the Principal indicated he wrote and signed removing the PTA Treasurer and listing the PTA President and Vice President as co-signatories.

Currently, according to the Principal, Daisy Bates PTA is not an active organization. One company is still owed for outstanding invoices and state and national dues have not been remitted to Arkansas PTA.

### **Other Issues**

Other than the matters previously discussed in this report, the Board also expressed concerns relating to certain financial operations of, and compliance with policies by, the District. In addition, District personnel revealed issues of concern to DLA staff during interviews. While these issues were beyond the scope of this review, DLA staff provided Acting Superintendent Rob McGill a summary of issues and concerns revealed during the period March through May 2009. DLA staff did not verify or otherwise substantiate the following assertions.

- Desegregation funds were used for purposes other than designated programs and were being "saved" for use in another school year.
- Board members received goods and services from the District and District personnel for matters unrelated to the District.
- Executive Director of Support Services used District employees and vendors for purposes not related to District projects.

- Security measures over the food warehouse were careless. According to District personnel, surveillance cameras located in the frozen food area had been broken for several years.
- District equipment could be "checked out" by employees for personal use.
- Maintenance Department did not address work order requests timely.
- Employees were allowed to commute to work in District vehicles without the District reporting the value of this fringe benefit to Internal Revenue Service (IRS) on an IRS form W-2 or 1099 - Misc.
- Numerous instances of upper management being out of the office without cause.
- Numerous support service staff were tardy to work. These employees were also allowed leave time without reporting it on timesheets.
- Fundraiser proceeds were not properly recorded or tracked.

### **Internal Control Deficiencies**

Internal control is a process consisting of five interrelated components – control environment, risk assessment, information and communication, control activities, and monitoring. Management is responsible for adopting sound policies and establishing and maintaining internal control that will ensure the achievement of the entity's objectives. The control environment sets the tone of an organization, which influences control consciousness of its employees, and is the foundation for all other components of internal control, providing discipline and structure.

While gaining an understanding of the District's internal control components as related to issues discussed in this report and reviewing selected records, certain transactions and events that appeared to compromise the District's commitment to integrity and ethical values came to the attention of DLA staff.

District management is responsible for properly communicating values and behavioral standards to personnel through policy statements, codes of conduct, and example.

This review and interviews with pertinent District personnel revealed numerous internal control deficiencies, which contributed to the misappropriation of District funds as well as potential waste and abuse of District resources. In particular, these deficiencies include Administrative staff and the Board not:

- Exercising proper management fiscal oversight responsibility or providing safeguards to prevent and timely detect misappropriation of funds and potential waste and abuse of District assets.
- Following established District policies and procedures.
- Establishing a “tone at the top” that demonstrated to personnel the necessity of standards and fiscal prudence.

District travel policies and procedures were not followed, including:

- Expenses were not always documented.
- Unallowable expenses including alcoholic beverages, gratuities, Broadway play tickets, and meals for family members were reimbursed/paid.
- Business purpose/attendees were not documented for in-district meal expenditures.
- Hotel and meal expenses reimbursed, although these charges were included in conference fees.
- Taxi fares were paid without points of travel included.
- Receipts were not always included for meals in excess of per diem.

District purchasing policies and procedures were not followed, including:

- Department Directors/supervisors did not adequately examine supporting documentation for goods and services purchased.
- Business purpose for goods purchased was not always documented.
- Blanket purchases for small order purchases frequently exceeded \$1,000 per vendor monthly limit.

- Excessive use of “emergency” purchase orders.
- Approval on numerous purchase orders and invoices was in the form of a “rubber stamp.”
- Purchasing laws pertaining to solicitation of bids were not always followed.
- An overpayment to a vendor was not accounted for properly nor was a refund requested.

District weaknesses concerning overtime compensation included:

- Supporting documentation did not always contain project, number of hours worked, and services performed.
- Using more highly skilled and paid employees to perform routine tasks.

## RECOMMENDATIONS

To reduce the risk of future misappropriation of funds, the Board should, in conjunction with Administrative staff, establish and practice sound internal control policies and comply with applicable Code.

Specifically, the District should:

- Exercise proper fiscal oversight responsibilities.
- Strengthen procedures to ensure disbursements comply with District policies and procedures.
- Expand purchasing policies to ensure all purchases are legitimate, received, and used for District purposes.
- Develop a comprehensive policy regarding District food purchases. This policy should establish specific guidelines regarding proper and allowable disbursements and require documentation of business purpose and individuals in attendance.
- Require detailed supporting documentation be submitted and retained for all disbursements.

- Periodically evaluate RFPs to ensure vendors adhere to contract terms.
- Provide accounting/purchasing personnel instruction necessary to properly perform work duties.
- Ascertain compliance with District ethics and conflict of interest policies as well as those provided by Code.
- Review and revise Business Procedures Manual, where applicable.
- Discontinue the practice of cash advance for out-of-district travel.
- Ensure travel expenses for Board members and District personnel reflect actual expenses incurred by applicable parties, are for District purposes, and adhere to District policy.
- Establish monitoring procedures to ensure compliance with District policy and internal controls.

Further, individual Board members should refrain from obligating the District, formally or informally, without full Board approval recorded in minutes of meetings.

To enhance overall attitude of the District, management and the Board should strive to demonstrate values and behavioral standards to personnel through example and policy statements.

## CONCLUSION

As provided in **Exhibit III on page 5**, the District initially paid a financial settlement of \$269,520 to Superintendent James Sharpe upon resignation from the District. This payment conflicted with Board approved terms and amount of \$185,000. Therefore, Sharpe reimbursed \$72,918 which was calculated by District personnel.

Sharpe also received salary/benefits overpayments totaling \$17,203 for the period July 1, 2005 through March 11, 2009 (see **Exhibit IV on page 7**). This civil matter is pending resolution in the Circuit Court of Pulaski County. In addition, Sharpe was reimbursed for, or charged on District credit card, unallowable, undocumented ex-

penses totaling \$7,836 as shown in **Exhibit V on page 8**.

In addition, review of cash advances to Board members for travel costs revealed additional unallowable and questioned expenses of \$3,677 (see **Exhibit VII on page 11**).

District Mechanical Systems Supervisor James Diemer misappropriated \$439,745 by purchasing items, for which the District paid, from three vendors for personal gain (see **Exhibit IX on page 15**). On January 21, 2010, Diemer waived indictment and entered a plea of guilty to theft of property from a government entity which received federal funds. Diemer is scheduled to be sentenced at a hearing on June 8, 2010.

Thirty-one employees in the Maintenance Department were compensated for overtime totaling \$193,279 during the period July 2006 through May 2009 as presented in **Exhibit X on page 17**. Management approval of possible excessive overtime could result in waste and abuse of District funds.

Also, an overpayment of \$11,975 to a vendor in November 2006 was not fully reimbursed until May 28, 2009.

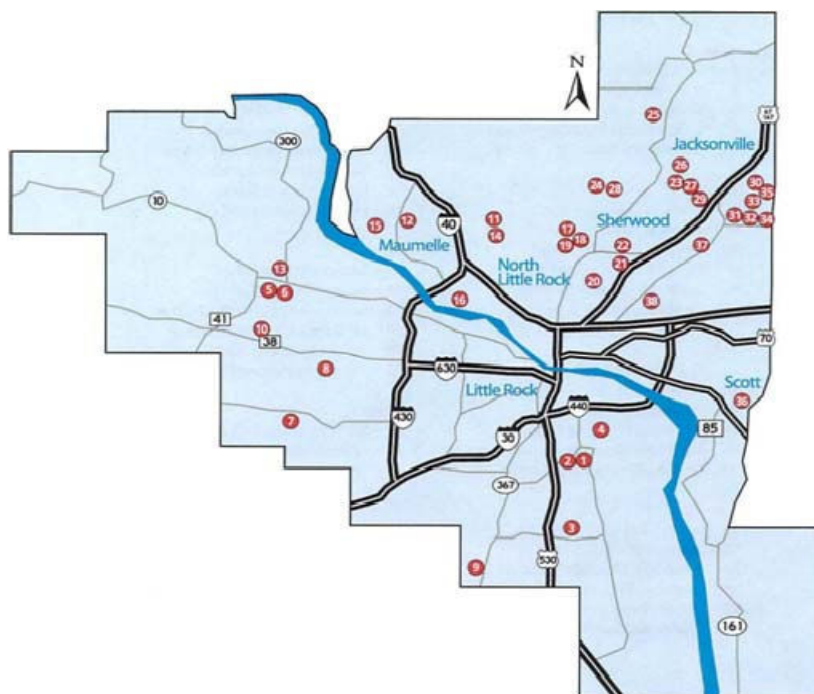
The District provided documentation indicating activity fund collections totaling \$31,536 were not deposited in the Jacksonville High School Activity Fund bank account. Bookkeeper Rosalind Taylor was charged with theft of property which is pending resolution in the Circuit Court of Pulaski County.

This review and interviews with pertinent District personnel revealed numerous internal control deficiencies, particularly lack of proper management fiscal oversight responsibility and safeguards to prevent and timely detect misappropriation of funds and potential waste and abuse of District assets. District management and the Board are responsible for establishing a "tone at the top" that demonstrates to personnel the necessity of standards and fiscal prudence.

This report has been forwarded to Federal Bureau of Investigation, Sixth Judicial District Prosecuting Attorney, Twenty-second Judicial District Prosecuting Attorney, Arkansas Department of Education, Arkansas Governmental Bonding Board, and Pulaski County Sheriff's Office.

## Schedule 1

### Pulaski County Special School District School Locations by Zone As of June 30, 2009



#### Zone 1

- 1 Mills University Studies High School
- 2 Fuller Middle School
- 3 Bates Elementary School
- 4 College Station Elementary School and Learning Academy (Note 1)

#### Zone 2

- 5 Robinson High School
- 6 Robinson Middle School
- 7 Lawson Elementary School
- 8 Baker Elementary School
- 9 Landmark Elementary School
- 10 Chenal Elementary School

#### Zone 3

- 11 Oak Grove High School
- 12 Maumelle High School
- 13 Robinson Elementary School
- 14 Oak Grove Elementary School
- 15 Pine Forest Elementary School
- 16 Crystal Hill Elementary School

#### Zone 4

- 17 Sylvan Hills High School
- 18 Sylvan Hills Middle School
- 19 Sylvan Hills Elementary School
- 20 Sherwood Elementary School
- 21 Clinton Elementary School
- 22 Oakbrooke Elementary School

#### Zone 5

- 23 North Pulaski High School
- 24 Northwood Middle School
- 25 Bayou Meto Elementary School
- 26 Arnold Drive Elementary School
- 27 Tolleson Elementary School
- 28 Cato Elementary School
- 29 Dupree Elementary School

#### Zone 6

- 30 Jacksonville High School
- 31 Jacksonville Middle School- Girls
- 32 Jacksonville Middle School- Boys
- 33 Jacksonville Elementary School
- 34 Taylor Elementary School
- 35 Pinewood Elementary School

#### Zone 7

- 36 Scott Elementary School
- 37 Adkins Pre-K Center
- 38 Harris Elementary School

**Note 1:** Two separate schools on the same campus, which results in a total of 39 schools

## Schedule 2

### Pulaski County Special School District (District) Salaries and Benefits of Certain Administrators For the 2008-09 School Year

Position	Hire Date	Resignation Date	Salary (Note 1)	Benefits
Superintendent (Note 2)	2/8/06	3/11/09	\$ 148,803	\$ 29,452
Acting Superintendent	3/11/09		44,690	9,875
Deputy Superintendent	5/10/06	6/30/09	95,873	21,859
Assistant Superintendent for Equity and Pupil Services	3/14/07		113,154	26,979
Assistant Superintendent for Human Resources	7/1/06		114,192	27,264
Chief Financial Officer (05-09)	12/6/05	3/20/09	80,740	18,868
Acting Chief Financial Officer	3/30/09	6/9/09	2,019	
Chief Financial Officer (09-Current)	6/10/09		6,506	1,936
Director of Federal Programs	7/1/07	3/29/09	93,918	21,493
Director of Secondary Education	7/1/06		103,401	16,849
Director of Elementary Education	7/1/06		101,837	23,081
Executive Director of Support Services	8/24/01	9/16/09	109,002	26,251
Acting Executive Director of Support Services	5/7/09		2,089	
Director of Community Affairs	7/1/07	6/30/09	57,804	15,573
Director of Accountability	10/11/99		90,181	22,459
Director of Human Resources	7/17/06		77,398	19,819
Director of Special Education	7/7/06		91,474	22,695
Director of Workforce Education	9/26/05		74,345	18,459
Director of Counseling	7/11/07		78,891	19,894
Director of Educational Technology	1/12/00		91,830	20,919
Acting Director of Educational Technology	7/1/09			
Director of Management Information Systems	5/12/99		90,073	20,818
Director of Accounting and Auditing	12/24/86		84,372	14,555
Director of Purchasing	1/2/07	8/11/09	69,812	18,127
Director of Transportation	4/25/95		99,749	24,785
Director of Child Nutrition (79-08)	7/1/79	1/18/08		
Director of Child Nutrition (08-Current)	8/4/08		51,494	15,927
Director of Plant Planning	8/26/87		96,191	23,693

Note 1: Salary includes vehicle allowance, if applicable

Note 2: Includes supplemental payment for insurance and retirement contribution, but does not include Superintendent contract buy-out of \$185,000

**Source:** District financial records



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# **APPENDIX**

**Pulaski County Special School District  
Responses to Report  
Acting Superintendent, Former Superintendent, and Board of Directors**

**Pulaski County Special School District  
Response to Report  
Acting Superintendent - Robert McGill**



Robert E. McGill, Acting Superintendent

May 10, 2010

Pulaski County Special School District's Management Response to Legislative Audit Findings

It is important to note for the time period investigated there have been many personnel changes to include replacement of Superintendent, Chief Financial Officer, Deputy Superintendent, Executive Director of Support Services, and the Director of Purchasing. In response to the Investigative Report of the Pulaski County Special School District (PCSSD), the following actions have been implemented or plan to be taken:

- PCSSD management will remain in consultation with the District's legal counsel in efforts to resolve the Superintendent's separation overpayment. The District has filed a civil suit seeking reimbursement of \$17,203 from Sharpe for unauthorized compensation.
- The PCSSD School Board approved a travel policy that aligns with the Federal rates by city for per diem on meals during business travel. The Board also approved a policy that increased the number of allowed conferences for Board members to three per year. Policy revisions are being developed to outline rules and guidelines for in-state and out-of-state travel procedures. District management for the past year has enforced the policies as listed in the District's Business Procedure Manual and Board policy. For example, the District no longer accepts hand written receipts by the individual requesting reimbursement.
- The PCSSD School Board adopted a policy which states that Board members are not permitted to have paid mobile services or internet services and these services are no longer provided by the District.
- District management has adopted sound accounting policies and established internal control that will initiate, authorize, record, process and report transactions consistent with management's assertions embodied in the District's Business Procedure Policy Manual and will safeguard PCSSD's assets with a concentrated focus on review of:
  - Administrative Expenses;
  - Maintenance Purchasing Procedures;
  - Bid Procedures; and
  - Other Disbursements.
- District management replaced the Director of Purchasing. Bid awards and tabulation charts are placed in the Board agenda book for review and approval by the Board. Strict adherence to state law and Board policy is followed for bid procedures. District management has implemented quarterly training for School Bookkeepers to address financial duties and responsibilities, procurement processes, payroll requirements and implications of audit findings. District management has designed a process for on-site financial auditing in conjunction with scheduled academic school-based audits. District Accountants monitor expenditures on a continuous basis to detect fraud and abuse in compliance with proper procedures. Lawn care vendor contract was terminated.

*Continued on page A-2*

**Pulaski County Special School District  
Response to Report  
Acting Superintendent - Robert McGill**

*Continued from page A-1*

- District management has employed a Director of Public Information and Policy to oversee District communication, media coverage, advertisement and event planning for the organization. As of April 30, 2010, the agreement with Communications Vendor and the previous Superintendent was terminated.
- District management has replaced the Executive Director of Support Services and Mr. James Diemer has been terminated. The new Executive Director has developed internal procedures to ensure District policies and procedures are followed. Effective July 1, 2009, Maintenance work orders are now generated through School Dude which tracks repairs and preventive maintenance requests by building. All invoices for purchased parts and materials are attached to a School Dude form to validate the expenditure. The Building Administrator is responsible for verifying that work orders are completed. A tool room has been organized to account for District purchased inventory where tools are signed in and out based upon need. District Budget managers have been trained to identify suspicious purchase and/or procurement activities. Such as, if multiple purchases of like items are requested in a short time period the request for purchase is flagged and investigated. All Purchase Orders are now signed and stamped signatures are no longer allowed. District management is now utilizing state contracts for purchasing as the need arises.
- District management now provides monthly financial reports for all expenditures and revenues on the District's website. These reports include:
  - Current fiscal year budget;
  - Revenue Reports by fund;
  - Expenditure Reports by fund; and
  - Vendor Payments.
- District management conducts budget workshops with the Board and Administrators to outline financial requirements and internal control procedures.
- The District employed a Federal Budget Manager in the Business Division to provide oversight and maintain financial records to substantiate the Federal expenditures submitted for payment. This person also serves as a contact person for responding to ADE, Federal authorities and local employees who may need assistance with Federal reporting and expenditure requirements. The Federal Budget Manager receives on-going training to remain abreast of rules and regulations governing Federal funds, as well as, ensuring compliance.
- The vendor overpayment to telephone equipment vendor has been reconciled. District management will transition all financial data to the Arkansas Public School Computer Network (APSCN) system effective July 1, 2010. This will offer a more transparent system of financial accountability. District employees are in on-going training in preparation for the move. To achieve effective internal control over financial reporting, accounting duties will be distributed among appropriate employees.
- District management will address overpayments by properly monitoring accounts payable and properly monitoring the APSCN vendor payment reports.
- District management will adopt and adhere to policies related to overtime. The Executive Director of Support Services and the District's Payroll Specialist II completed an internal audit of maintenance personnel overtime. Time cards and work logs were reviewed. The audit revealed that some employees were not accurately reporting the overtime hours. Payroll hours were adjusted to correct discrepancies.

*Continued on page A-3*

**Pulaski County Special School District  
Response to Report  
Acting Superintendent - Robert McGill**

*Continued from page A-2*

- District management requested an internal audit by the Arkansas Parent Teacher Association (PTA) with regard to the matter of mismanagement of PTA funds. The matter will be handled by the Arkansas PTA.
- Desegregation funds are being expended properly for the 2009-2010 school year. The Chief Financial Officer conducted an analysis to determine where all expenditures were allocated in the fiscal 2010 budget. Desegregation expenditures are currently being tracked separately by fund within the Operation budget.
- Security measures have been increased at the Warehouse to include repairing the surveillance cameras.
- Employees can no longer use District vehicles for personal use, to include, driving from home to work. The exception to this is the anticipation of inclement weather days for identified employees.
- The Executive Director of Support Services meets with Maintenance staff each morning to assign work orders for the day. This process provides accountability and oversight. These procedures have helped to improve timeliness of personnel reporting to work and response time to work orders.
- District Accountants now require school Bookkeepers to make daily deposits for Activity funds. The Activity funds are accounted for by fundraiser and monthly activity fund balances are reported in the Board Agenda book. Activity funds may not carry over more than \$4.00 per student to the next fiscal year without Board approval at the June meeting.

Response to Recommendations:

- For the past year, the District has exercised proper fiscal oversight responsibilities.
- Utilizing the APSCN system will strengthen District procedures and strictly adhere to all District policies and state/federal guidelines.
- District management updated Business Procedure policies in July 2009 to ensure purchases were legitimate, received, and used for District purposes.
- District management will update policies regarding District food purchases as recommended in this report.
- Throughout the 2009-2010 school year District management has required detailed supporting documentation be submitted and retained for all disbursements for employees and Board members. Travel advances have been discontinued for employees.
- District management has retrained accounting personnel through APSCN.
- PCSSD Accountant currently conducts financial audits where procedural or non-compliance violations occur. Beginning the 2010-11 school year, on-site financial audits will be completed at each school.
- Board policy for travel has been updated to utilize the Federal per diem rate by city for meals and incidentals.

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**Pulaski County Special School District  
Response to Report  
Former Superintendent - James Sharpe**

**MELVA HARMON**  
ATTORNEY AT LAW

STEPHENS BUILDING  
111 CENTER STREET  
SUITE 1200  
LITTLE ROCK, AR 72201

April 26, 2010

PHONE: 501-372-1133  
FAX: 501-688-8477  
RES. PHONE: 501-227-6845

By fax to: 683-8605 and  
First class mail

Ms. Kim Williams, CPA, CFE  
Deputy Legislative Auditor  
Arkansas Legislative Joint  
Auditing Committee  
172 State Capitol  
Little Rock, AR 72201

Re: James Sharpe

Dear Ms. Williams:

Thank you and members of your staff for meeting with me on April 2, 2010. I have a better understanding of the issues you raise in your letter to Mr. Sharpe of March 19, 2010 and have some additional information in response to your letter.

**The Alleged \$13,569.00 Overpayment**

Mr. Sharpe told me his recollection is that the six percent contribution which the School District stopped paying to the Arkansas Teacher Retirement System after he began drawing retirement benefits from ATRS was paid into an IRS Section 457(b) deferred compensation plan that he had with VALIC. I am enclosing a portion of his quarterly statement for the quarter ending March 31, 2010, account number 8111214, which shows the plan contract date was September 26, 2006. Mr. Sharpe turned 65 on August 7, 2006. He opened the section 457 account in anticipation of deferring taxes on retirement income including funds previously paid to the ATRS. He is not sure when he actually became eligible to receive teacher retirement because of both age and years of service requirements or if all of the six percent was deposited with VALIC since he does not have those records available to him at this time. He has requested records from VALIC, but has not yet received them.

I am also enclosing a copy of the check Mr. Sharpe received with his severance pay which shows a contribution from the District to his "VALIC 457B" Plan account. The six percent contribution was not paid directly to Mr. Sharpe as part of his salary. This was simply a change of the six percent contribution the District owed him under his employment contract from one retirement fund to another retirement account.

**Pulaski County Special School District  
Response to Report  
Former Superintendent - James Sharpe**

*Continued from page A-4*

This change was made at least with the approval of the School Board President as explained in the statement of Larry O'Briant. He does not know whether the Board President acted on his own or had the approval of the other members of the Board.

Mr. Sharpe continues to dispute that he received an overpayment when contributions ceased being made on his behalf to the ATRS.

**The Payment to Mr. Sharpe for Health Insurance Coverage**

As discussed in my previous letter, Mr. Sharpe became eligible for Medicare coverage when he turned 65 on August 7, 2006. He then purchased a Medicare supplemental policy from Blue Cross and Blue Shield.

I am enclosing portions of some of his bank statements from Simmons First Bank which show drafts on his account from "ARK BCBS MED D and for other premiums. The earliest statement he found so far looking back at his old statements is October 3, 2006. Also enclosed are statements dated November 3, 2006, December 3, 2009 and March 3, 2010 as representative samples. The larger deduction is for his wife's health insurance. His wife had received dependant coverage under his coverage with the school district. When his medical insurance was not longer provided by the District, it was necessary to also purchase insurance for his wife. I believe the other two drafts are for Mr. Sharpe's coverage.

It is Mr. Sharpe's contention that this change was approved in Executive Session at the Board Meeting of January, 2007 as explained in my previous letter. Mr. Sharpe continues to dispute that he received an overpayment from the District when they paid him directly \$156.00 per month for health insurance.

Mr. Sharpe contacted Blue Cross for additional records, but has not yet received them.

**Alleged Overpayment for Travel Related Expenses**

Mr. Sharpe continues to believe that the out of district travel procedures memo dated March 1, 2001 you furnished did not apply to the superintendent since the superintendent reported directly to the School Board. This is what he was told when he became superintendent. He also recently spoke with Larry O'Briant about this issue and was told in essence that Mr. O'Briant had not applied the per diem to the superintendent.

As previously discussed, the memo states for example that travel on district business must be authorized in advance by either the employee's immediate supervisor or appropriate assistant superintendent. The memo also says the out-of-district final expense report must be approved by the employee's immediate supervisor and appropriate assistant superintendent.

This language indicates to me that the memo was to apply only to employees below the superintendent level. Mr. Sharpe contends that his employment contracts, the Board Policy DKC, and any applicable law govern his travel expenses.



**Pulaski County Special School District  
Response to Report  
Former Superintendent - James Sharpe**

*Continued from page A-5*

I previously furnished copies of his 2006 contract which states in summary that reasonable expenses including travel expenses related to attending meetings, seminars and workshops will be reimbursed by the District. Board policy DKC states in part that "[p]ersons who travel at District expense will exercise the same economy as a prudent person traveling on personal business and will differentiate between expenditures for business and those for personal convenience." As you know, Article 14, section 2 of the Arkansas Constitution states that "no money or property belonging to the public school fund, or to this State for the benefit of school or universities, shall ever be used for any other than the respective purposes to which it belongs"

Mr. Sharpe denies that he knowingly used any school funds improperly, but after considering the items you listed in the draft of your letter dated March 19, 2010, Mr. Sharpe is willing to repay the District any sums he received which have the appearance of a personal expense as well as some other expenses discussed below. He is willing to voluntarily reimburse the District for the following expenses listed in your letter:

1. For the November, 2006 Orlando conference, the \$277.00 which was inadvertently listed twice on the expense report and charged on the credit card.
2. For any registration fee, the District paid on his spouse
3. The \$30.00 charge for alcoholic beverages for the 2007 Minneapolis conference or any other alcoholic beverage charge you found. As previously mentioned he never intended to charge for alcoholic beverages and always tried to be billed separately for such charges.
4. Although he disagrees that he may not charge for certain miscellaneous items such as newspapers, etc. when he is out of town on business, he is willing to reimburse the District for the charges you listed as miscellaneous in your letter.
5. Although he disagrees with your staff's opinion that he should have flown or used his own automobile to travel to St. Louis rather than rent a car, he agrees to reimburse the District for this expense plus the \$64.00 charge for gasoline for the rental car since this might be construed as an expense incurred in part for his personal convenience. He should be given credit, however, for the round trip cost of an airline ticket between Little Rock and St. Louis.

He continues to dispute some of the items listed in your letter as being reimbursable:

1. He contends the telephone calls he made from his hotel room while away were appropriate because he did not have adequate cell phone reception.
2. Because tips/gratuities are considered a legitimate business expense by the IRS and were considered by the District to be a legitimate business expense, he does not agree to reimburse the District for those charges.
3. I understand the amounts you list for undocumented transportation were for cab fare while he was away for educational conferences. It is also my understanding that he did turn in receipts for the cab fare, but the issue is that he failed to state on the receipt that he traveled from

*Continued on page A-7*



**Pulaski County Special School District  
Response to Report  
Former Superintendent - James Sharpe**

*Continued from page A-6*

the airport to the hotel or from the hotel to somewhere else and so forth. I did not find that the IRS requires this level of documentation on a taxi or limousine receipt. Further if he was out of town for a legitimate business purpose and did not have his personal vehicle, he was required to use some means of transportation so he continues to dispute that he should reimburse the District for this item.

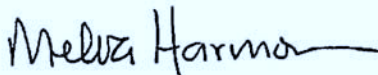
4. Your letter lists \$3,077.00 for "meals without receipts/over daily allowance". Mr. Sharpe continues to dispute that he should reimburse the District for this amount, but he would like to resolve this issue if possible. I did not look at the individual receipts, but I understand in general that there is no dispute that he turned in receipts and credit card charges for meals when he was out of town. Instead the issues are whether the \$25.00 per diem applies and that he did not list the names on the receipts for individual with whom he shared meals. For the reasons we gave earlier we dispute the \$25.00 per diem applies. Mr. Sharpe also told me that board members were present at some of these conferences, and he paid for their meals on occasion. Also if his wife or a family member accompanied him on a trip, his practice was to pay for their meals separately along with alcoholic beverages. If you know of situations that show he treated his wife's meals as a District expense, he will reimburse the District for any of those charges. Otherwise, I request that you look at this expense again and perhaps send us a more detailed explanation of why particular charges are considered inappropriate.

5. For the reasons discussed in my earlier letter, Mr. Sharpe does not think he must eat a meal included in the registration fee rather than eat at a restaurant either when it is more appropriate for his diet or to discuss business with board members or other superintendents.

Finally I understand that you no longer consider the \$1,586.00 for lunches purchased inside the District to require reimbursement.

Again, thank you. We would like to resolve this if possible or at least as much as we can. I think I discussed each item that you listed in your letter, but if I did not, please let me know. Also, if you have additional questions or seek certain records that you believe might be important for the report, please let me know. I also request that you send us a final draft report before the May meeting to see if there are other issues on which we can agree. I do not think I will be able to get additional information from either VALIC or Blue Cross by the end of the week, but I will try if you think it is important and will let me know what you need.

Sincerely,



Melva Harmon

Enclosures  
Cc: James Sharpe

**Pulaski County Special School District  
Follow-Up Response to Report  
Former Superintendent - James Sharpe**

STEPHENS BUILDING  
111 CENTER STREET  
SUITE 1200  
LITTLE ROCK, AR 72201

MELVA HARMON  
ATTORNEY AT LAW

May 3, 2010

RECEIVED  
10 MAY -5 PH 2:00  
DIVISION OF  
LEGISLATIVE AUDIT

PHONE: 501-372-1133  
FAX: 501-688-8477  
RES. PHONE: 501-227-6845

By fax to: 683-8605 and  
First class mail

Ms. Kim Williams, CPA, CFE  
Deputy Legislative Auditor  
Arkansas Legislative Joint  
Auditing Committee  
172 State Capitol  
Little Rock, AR 72201

Re: James Sharpe

Dear Ms. Williams:

I am writing to correct some mistakes or misunderstandings in my April 26, 2010 letter.

**The Alleged \$13,569.00 Overpayment**

After I received Beverly Thwing's email on April 29, 2010, Mr. Sharpe spoke with Connie Laster at the School District to verify that he received the six percent in his paycheck that was previously paid to the Arkansas Teacher Retirement System. With the following exceptions, this is correct. Ms. Laster stated that:

For check 1275116, \$250 was paid to a section 403(a) Met Life account and \$250.00 was paid to the section 457(b) VALIC account;

For check 1278449, \$500.00 was paid to a section 403(a) account and \$250.00 was paid to the section 457(b) account;

For check 21281783, \$500.00 was paid to a section 403(a) account and \$250.00 was paid to the section 457(b) account.

These deductions are recorded as "Other" in the printout attached to the email.

He is still waiting for documents from VALIC and Blue Cross/Blue Shield.

*Continued on page A-9*

**Pulaski County Special School District  
Follow-Up Response to Report  
Former Superintendent - James Sharpe**

*Continued from page A-8*

As explained previously, Mr. Sharpe still contends that this money was part of his total compensation package. He did not receive any additional money nor did he do anything improper. The six percent contribution was just paid to him in a different form than previously. As Board President Wood stated, it did not cost the District any additional money. This was also approved by the board president and with full knowledge of the chief financial officer who instructed business office staff to make the changes.

**Business Lunches Purchased Inside the District:**

On page 4 of my April 26<sup>th</sup> letter I stated it was my understanding that you no longer questioned whether \$1586.00 spent for in-district lunches was appropriately documented. I apologize, but I misunderstood the phone conversation. I now understand that you have revised that figure, but you still contend that some of the charges for these meals on the expense reports were not properly documented. Since I have not seen the receipts which were turned in, we are willing to discuss this further when we look at the receipts for meals eaten during out-of-district travel.

Although the School District agreed to release Mr. Sharpe from all potential claims when he resigned in March, 2009, he is still willing to pay for those expenses discussed in my letter of April 26, 2010 because he feels an ethical obligation to reimburse the District for any expense that might be construed by someone as a personal expense. By doing so, he does not waive any defense he may have that the School District released him from any and all claims when he resigned. If you will let me know the proper procedure to pay for the items he agreed to pay in my April 26<sup>th</sup> letter, Mr. Sharpe will write a check for that amount.

In conclusion, I want to emphasize that all of the policies and practices regarding travel and expense reimbursement were in place before Mr. Sharpe became superintendent. Whenever he turned in an expense report, no one from the business office to the chief financial officer to the District's independent auditors ever questioned his documentation of business expenses.

Thank you for discussing these issues with us prior to their submission to the Joint Legislative Auditing Committee.

Sincerely,



Melva Harmon

Cc: James Sharpe



**Pulaski County Special School District  
Response to Report  
Board of Director Member - Mildred Tatum**

March 25, 2010

Mrs. Kim Williams  
Deputy Legislative Auditor  
Division of Legislative Audit  
Arkansas Joint Legislative Committee  
Little Rock, Arkansas 72201

RECEIVED  
10 MAR 29 AM 7:38  
DIVISION OF  
LEGISLATIVE AUDIT

Dear Ms. Williams:

I recently received a certified letter from your office dated March 18, 2010. I shall briefly offer this written response and will be available by phone if you have any additional questions. It is my intent to start by addressing specifics within your letter and offer responses as such.

In November 2007, I did attend the National Association of Black School Educators Conference in Nashville, Tennessee, and was issued a travel advance in the amount stated in your correspondence. However, as customary, upon my return I submitted a final out of district expense form as required to the superintendent's secretary. Board members have been instructed by the superintendent and business office that upon our return from conferences, we are to submit our reports to the Superintendent's secretary. She then, is responsible for forwarding those reports to the Superintendent and the Chief Financial Officer. The report for the NABSE conference trip was appropriately submitted to the district in a timely manner.

From your review, I hope your office has reached the following conclusion. I have, as a normal procedure submitted out of district final reports from conferences attended in a fashion consistent with board policy. My attendance at the NABSE conference in 2007 would not have been the exception.

As I address the other items you listed in your audit, please be aware that the district had at that time not imposed any restrictions on reimbursing board members for the items or services in question being purchased or rented at conferences. Additionally, the Superintendent is responsible for pre-approving all conferences board members attend and the related expenses. Further, upon the submission of the final out of district expense forms, the Superintendent nor Chief Financial Officers for the district have ever indicated, nor brought to my attention that any of the claimed expenses were not allowable under law. As a matter of record, none of the expense claims were ever denied.

Over the last several years, in my official capacity as board member and as an officer for several national organizations, I have traveled to Orlando Florida, San

*Continued on page A-11*

**Pulaski County Special School District  
Response to Report  
Board of Director Member - Mildred Tatum**

*Continued from page A-10*

Francisco California, New York City, New Orleans Louisiana, and Atlanta Georgia. However, the Superintendent of the district allowed and approved not only the trips but all of the items you listed including meals, travel, and wheel chair and luggage expenses. Upon my return, all receipts were turned in to the Superintendent's office as required for the expenses incurred during those conferences.

According to one of our past Chief Financial Officers, our books are audited yearly by the State. I am concerned that no one from the State has ever brought this to the attention of the Acting Superintendent concerning what is and what is not considered an allowable expense for board members who attend conferences. He is our chief executive officer and is responsible for disseminating this type of information to the board members individually and collectively. Had I been adequately informed, it would not have been my practice to spend outside of the guidelines allowed by law, even for items such as wheelchair rentals, tipping luggage handlers, and/or food service providers.

Ms. Williams, I appreciate your thoroughness and diligence in reviewing the operation and expenses of the district. I however, have complied with the requirements of my position by always turning in my receipts in a timely manner, and sought the Superintendents approval before attending these conferences, and always been accessible for him to review any questionable expenses. In my 27 years as board member, that has never happened once.

If I can be of further assistance, please feel free to call me at my home phone, (501) 897-4842.

Sincerely,

Mildred C. Tatum  
Board Member  
Pulaski County Special School District

C: Michelle Atchley

**Pulaski County Special School District  
Response to Report  
Board of Director Member - Gwendolyn Williams**

March 25, 2010

Kim Williams  
Deputy Legislative Auditor  
Legislative Joint Auditing Committee  
172 State Capitol  
Little Rock, AR 72201-1099

RECEIVED  
10 APR -2 PM 2:44  
DIVISION OF  
LEGISLATIVE AUDIT

Dear Mrs. Williams,

This letter is in response to the certified letter that I received from you regarding travel expenses. Per our conversation on the phone with Michelle Atchley, I respectfully submit to you and the committee that even though I did travel to the conferences listed I however was not aware that I was not to use any of the advance travel expenses on gratuities. There was also a mention of a miscellaneous charge which I do not know what that is.

I would also like to know what undocumented transportation that you are referring to. In the 13 years as a Board member I have always tried to make sure that I have spent the taxpayers money wisely. I was never informed by any of our Superintendents or Fiscal officers that I was not use any of my travel expenses for gratuity. Whenever I have returned from a trip I have always tried to return to the District unspent money.

Now that I am aware of this I will certainly not use in travel for gratuity. In respect to owing the District I feel this is in error, due to the fact that I was never inform of this and the fact that I have always reimbursed the District of any unspent funds and I have always reimbursed the District after returning from a Conference. As I have said before all my advance travel was approved by the Superintendent and the CFO.

If any money is to be paid back then we maybe should be asking one of them to reimburse the District, because it seems that it was their error.

Respectfully Submitted  
Gwendolyn Williams  
PCSSD Board Member, Zone 7

CC: Michelle Atchley  
Staff Auditor



Pulaski County Special School District  
Response to Report  
Board of Director Member - Danny Gililland

*Danny Gililland*

1037 Lantrip Road  
Sherwood, Arkansas 72120  
501 834-0286 Phone 501 834-9197 Fax  
[pcssdzone5@msn.com](mailto:pcssdzone5@msn.com) E-mail

RECEIVED  
10 MAR 31 PM 3:27  
DIVISION OF  
LEGISLATIVE AUDIT

March 30, 2010

Ms. Kim Williams  
Legislative Joint Auditing Committee  
172 State Capitol  
Little Rock, AR 72201-1099

Dear Ms. Williams,

I am in receipt of your certified letter dated March 18, 2010. I have sent a check to Ms. Farver at the PCSSD, dated March 30, 2010 in the amount of \$149.00 to reimburse the district for the expenses that your committee recommended be reimbursed or found to be unallowable.

I was unaware that state law did not allow gratuity and was only turning in expenses that our district **expense report form** asked for, which included in **other expenses**, tips. Also, since the airport parking expense is "questionable," I would rather just pay it, than cause any problems!

It was simply an oversight on my part for the \$14 alcoholic beverage being left on my expense report. I am aware that "adult beverages" are not a reimburseable expense.

If you should need anything further from me, please do not hesitate to give me a call.

Sincerely,

  
Danny Gililland

ENCLOSURE

CC: Robert McGill, PCSSD Acting Superintendent  
Anita Farver, PCSSD Chief Financial Officer

**Pulaski County Special School District  
Response to Report  
Board of Director Member - Debbie Murphy**

Ms. Kim Williams  
Deputy Legislative Auditor  
172 State Capitol  
Little Rock, AR 72201-1099

Dear Ms. Williams,

During my service as a board member of the Pulaski County Special School District, policies explaining member expense rules and regulations were not provided in writing or verbally. Upon being notified by Legislative Audit that expenses paid to me as a board member were not within the legislative guidelines, I fully reimbursed all expenses totaling \$93.00 promptly including per diem expenses paid to me by the school district. I appreciate the help and guidance of Legislative Audit in bringing this information to my attention for final resolution.

Debbie Murphy





# Investigative Report Update

Legislative Joint Auditing Committee

December 15, 2010

## Review of Selected Transactions

### Pulaski County Special School District

#### INTRODUCTION

As indicated in the Division of Legislative Audit (DLA) Investigative Report – Review of Selected Transactions – Pulaski County Special School District (Prior Report), dated April 28, 2010 inclusive of the period March 1, 2004 through February 19, 2010, numerous internal control deficiencies were identified at the Pulaski County Special School District (District). In addition, the Prior Report disclosed that District funds were misappropriated by a maintenance shop employee and unallowable and questioned travel expenses were incurred by District Board of Directors (Board) and former Superintendent James Sharpe.

#### HIGHLIGHTS OF REPORT

- Employment contract for Superintendent Hopson included **salary of \$205,000**; purchase, and business/personal use, of a **vehicle costing \$35,480** and unlimited use of District fuel credit cards; one-third of **cost to reinstate to ATRS of \$56,357**; **moving/relocation allowance of \$25,000**; **insurance benefits at a monthly cost of \$1,426**; and technology and community/civic activities **allowances of \$3,600 and \$2,400**, respectively.
- **Salaries and benefits for certain administrators are budgeted to increase by \$550,138 and \$162,777**, respectively, in the 2010-11 school year from the previous school year.
- **Unallowable travel expenses and cellular telephone usage fees totaling \$1,360** paid to, or on behalf of, Board members. **Board-related expenses totaled \$176,054** including boardroom renovations, laptop computers, travel costs, and association dues. Another **\$15,852 was spent to purchase iPads** for Board and Cabinet members.
- District **received \$20.5 million in desegregation funds and expended \$16.2 million** in the 2009-10 school year.
- Review of certain consultant contracts indicated two individuals, who are or will become District employees, were placed on contract for services and **paid over \$78,000 prior to employment** which appears to be to pay them above the salary level for the positions they hold or will assume.
- District **expended \$961,329 for legal services**, including fees for union disputes and ongoing desegregation case.
- At the direction of the Superintendent, the District's **bell schedule was changed** resulting in the purchase of 39 used school buses at a **cost of \$760,500** as well as hiring 35 additional part-time bus drivers.
- Three new employees were **paid a total of \$9,741 for days not worked**.
- Examples of the District's **spending patterns, totaling over \$3.2 million**, are provided in **Schedule 3 on page 38**.
- Matters disclosed and **pending in the Prior Report, and status thereof, are discussed on pages 33 and 34**.
- The District is **due or potentially due \$66,807** from various Board members, employees, and vendors.

ARKANSAS DIVISION OF LEGISLATIVE AUDIT

172 State Capitol, Little Rock, AR 72201

Phone: 501-683-8600 Fax: 501-683-8605

[www.arklegaudit.gov](http://www.arklegaudit.gov)

Report ID: IR SD 398 10 Report Date: December 6, 2010



Following presentation of the Prior Report on May 14, 2010, the Legislative Joint Auditing Committee (LJAC) requested DLA staff to determine and report corrective measures the District implemented regarding Prior Report findings. In addition, LJAC requested, at its June 11, 2010 meeting, DLA staff to prepare a follow-up report relating to selected transactions and activities of the District subsequent to the time periods of review for various components of the Prior Report.

## OBJECTIVES

Objectives in conducting the investigative review were:

- Review pertinent contracts of selected District personnel and consultants.
- Examine selected financial transactions, including moving and travel expense reimbursements; payments other than salary to selected employees; credit card transactions; and other employee expenses/reimbursements.
- Ascertain increases in salaries and benefits of certain administrators for the 2010-11 school year from the previous year.
- Determine membership of the District's Cabinet and analyze Cabinet policies and expenses.
- Determine amount of Board-related expenses.
- Pertaining to Board members:
  - Determine number of training hours required and received.
  - Analyze selected expenses.
  - Review events surrounding an agreement with a Board member's relative.
- Review District purchasing, travel, cellular telephone, credit card usage, and other pertinent policies and ascertain if the District adhered to these policies.
- Provide information relating to negotiations between the District and a teachers' union.

- Ascertain sources and uses of desegregation funds.
- Ascertain amount and purpose of legal fees paid by the District.
- Review selected purchases of goods and services to determine propriety.
- Determine if the District acted in accordance with Arkansas Code Annotated (Code) relating to solicitation of bids for certain purchases.
- Analyze compensation payments for propriety.
- Determine status of an internal review involving the District's Grant Writer.
- Verify amount due the District from a vendor.
- Review selected accounting practices for sufficiency.
- Assess internal controls for adequacy.
- Determine status of matters included in Prior Report.

## SCOPE AND METHODOLOGY

This review was conducted primarily for the period March 1, 2009 through November 30, 2010. Pertinent Board and District policies and District accounting records, including general ledger, credit card statements and supporting documentation, employment contracts, and travel expense reports were reviewed. Applicable Code and Internal Revenue Service (IRS) regulations were reviewed. Appropriate personnel were interviewed and internal controls were assessed for adequacy.

The methodology used in conducting this review was developed uniquely to address the stated objectives; therefore, this review was more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller of the United States.

Time periods of review for various components are provided below by subject and date.

- Acting Superintendent:
  - Employment contracts: March 11, 2009 through June 30, 2010.
  - Travel-related and other expenses: March 11, 2009 through June 30, 2010.
- Superintendent:
  - Employment contract: July 1, 2010 through June 30, 2011.
  - Travel expenses: April through November 15, 2010.
  - Consultant expenses: May through November 15, 2010.
  - Moving and relocation expenses: May through November 2010.
- Administrators' salaries and benefits:
  - Amounts paid 2009-10 school year.
  - Amounts budgeted 2010-11 school year.
- Superintendent's Cabinet: 2010-11 school year.
- Board-related matters:
  - Board member training hours: January 1, 2007 through December 31, 2009.
  - Board-related expenses: March 4, 2009 through June 30, 2010.
  - Boardroom expenses: October 13, 2009 through September 2010.
  - Mileage reimbursements and travel and miscellaneous expenses relating to Board members: February 26, 2009 through August 31, 2010.
  - Ethics issue: February 17, 2010.
- Employee travel reimbursements/expenses: March 4, 2009 through June 30, 2010 (credit card charges) and October 15, 2010.
- Union representation: July 1, 2009 through October 12, 2010.
- Desegregation funds: July 1, 2009 through June 30, 2010.
- Consultants' contracts and expenses: June through November 7, 2010.
- Legal fees: July 2009 through October 2010.
- Purchasing procedures and compliance with bid laws: July 1, 2009 through November 20, 2010.
  - Maintenance Department: October through November 22, 2010.
  - Division of Equity and Pupil Services: 2009-10 school year.
  - Bell schedule and school buses: August 16 through November 30, 2010.
  - Fixed assets: June 30 through October 15, 2010.
  - Inventory control: November 22, 2010.
  - Cellular telephones: July 17 through September 10, 2010.
- Overpayments to newly hired employees: July 1 through September 15, 2010.
- Overtime compensation: 2009-10 school year.
- Grant Writer: July 1, 2009 through August 3, 2010.
- Dedicating Resources to Excel All Minds (DREAM): August 2008 through November 30, 2010.
- Foreign travel: October 28 through November 30, 2010.
- Outstanding checks: September 30, 2010 (accounts payable checks) and June 30, 2010 (payroll checks).
- Expenditure coding: July 1, 2009 through November 30, 2010.
- Spending practices: July 16, 2009 through November 30, 2010.
- Matters disclosed in Prior Report: April 28 through November 30, 2010.

## BACKGROUND

One of three public school districts in Pulaski County, the District encompasses the territory outside the Little Rock, Cammack Village, and North Little Rock city limits and includes the cities of Jacksonville, Maumelle, and Sherwood. The District contains 729 square miles, includes nearly 3 million square feet of education and support service buildings, and occupies more than 750 acres throughout Pulaski County. An act of the Arkansas legislature combined 38 independent school districts to establish the District in 1927.

The District is governed by a seven-member Board elected, by zone, to four-year terms. Board members, illustrated in **Exhibit I** as of June 30, 2010, serve without compensation.

The District currently operates 39 schools, including 7 high schools, 7 middle schools, 24 elementary schools, and a pre-kindergarten school. Enrollment was approximately 17,501 students, including 673 students in Pre-K, as of October 1, 2010 and **Exhibit II** reflects enrollment history. Also, depicted in **Exhibit II** is race composition of the 16,828 students in elementary and secondary grades at October 1, 2010.

The District converted its accounting system to the Arkansas Public School Computer Network (APSCN), effective July 1, 2010.

A financial audit of the District is performed annually by a Little Rock CPA firm.

## RESULTS OF REVIEW

Review of contracts for Acting Superintendent Robert McGill disclosed he was allowed use of District fuel credit cards for both business and personal purposes. However, McGill did not maintain records to document personal use.

The employment contract for Superintendent Charles Hopson included use of a District vehicle and fuel credit cards for both business and personal purposes. Although the contract stipulated Hopson maintain records for personal use, these were not kept.

Hopson's contract also contained clauses for services as a consultant prior to hire date, moving and relocation expenses of \$25,000, health and other types of insurance premiums not allowed by Code nor certain IRS regulations, and

### Exhibit I

#### Pulaski County Special School District (District) District Board Members As of June 30, 2010

Zone	Board Member/Position	Years Served
3	Tim Clark, President	2
6	William Vasquez, Vice President	3
7	Gwen Williams, Secretary	14
1	Mildred Tatum	27
4	Charlie Wood	4
5	Danny Gililand	4
2	Sandra Sawyer	1

**Note 1:** As result of Board election held September 21, 2010, incumbents in Zones 4 and 5 replaced by Gloria Lawrence and Tom Stuthard, respectively

**Source:** District records

reimbursement of \$56,357 for a portion of his cost to reinstate to Arkansas Teachers Retirement System (ATRS).

Salaries and benefits for certain administrators are budgeted to increase by \$550,138 and \$162,777, respectively, in the 2010-11 school year from the previous school year.

Several Board members received training hours in excess of the number required. The District spent over \$176,000 for Board-related expenses, including boardroom renovations. In addition, Board members received unallowed reimbursements and use of a cellular telephone totaling \$1,360, which is due the District.

Although the Board voted to withdraw recognition of the teachers' and support staff unions as bargaining agents for these groups of employees, a court ruled this action was not legal. Subsequently, the Board reinstated recognition of the unions.

The District received \$20.5 million in desegregation funds of which \$16.2 million was expended in the 2009-10 school year.

Review of certain consultant contracts indicated two individuals, who are or will become District employees, were placed on contract for services

prior to employment which appears to be to pay them above the salary level for the positions they hold or will assume.

The District expended \$961,329 for legal services, including fees for union disputes and an ongoing desegregation case.

The Prior Report disclosed numerous deficiencies in the District purchasing process. Although this review indicated improvements in purchasing practices, the District continued to have issues in that supporting documentation was not available for all disbursements; accounts payable checks were occasionally held for pick up by, or hand-delivered to, vendors; and some Maintenance Department purchases were not tracked properly.

At the direction of the Superintendent, the District's bell schedule was changed resulting in the purchase of 39 used school buses at a cost of \$760,500 as well as hiring 35 additional part-time bus drivers.

Review of the District's fixed assets records and Warehouse inventory reports revealed several instances for which asset information was not accurate and inventory items were not adequately tracked. In addition, security measures at the Warehouse were not sufficient.

Three new employees were paid a total of \$9,741 for days not worked.

An internal review conducted by District personnel disclosed that the District's Grant Writer had misused District supplies. In addition, this employee received mileage reimbursement for travel unrelated to District business on District time.

DREAM, a vendor which provided before and after school programs, owes the District \$21,791 for meals and snacks provided by the District.

The District did not code all expenditures consistently or in accordance with ADE's accounting manual. In addition, the District did not timely void stale outstanding checks.

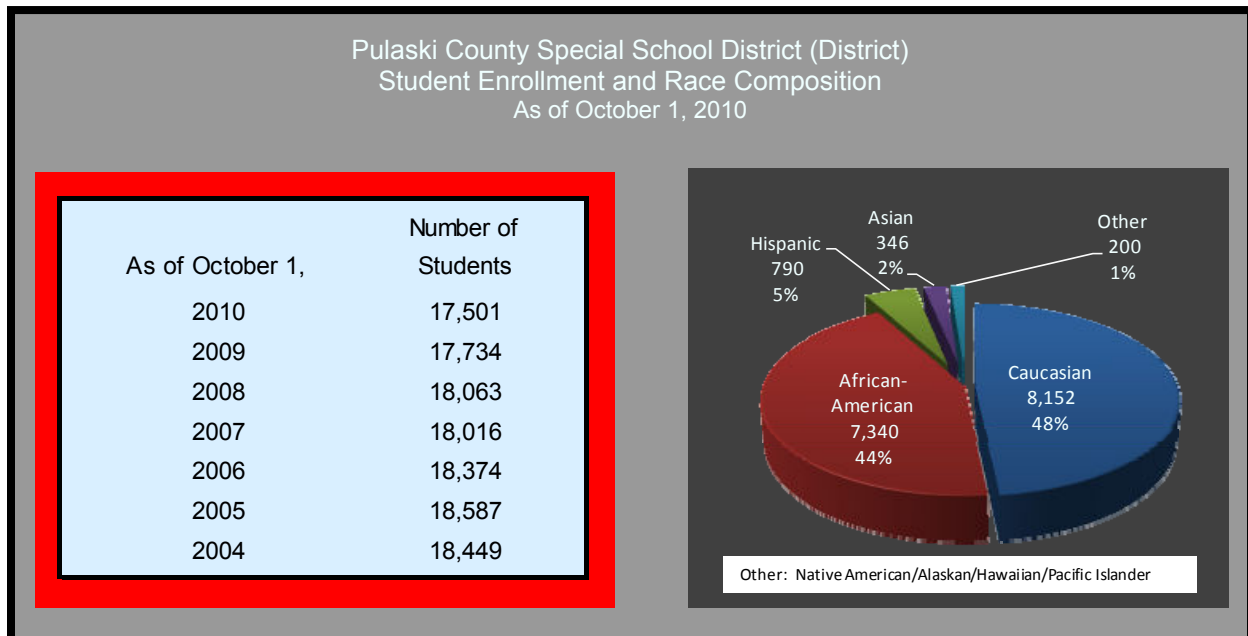
Examples of the District's spending patterns, totaling over \$3.2 million, are provided in **Schedule 3 on page 38.**

Matters disclosed and pending in the Prior Report, and the status thereof, are discussed on **pages 33 and 34.**

The District is due or potentially due \$66,807 from various Board members, employees, and vendors.

Results of this review are discussed, as follows, by topic and recommendations, if applicable. Response to the report provided by the Superintendent is presented in the **Appendix on pages A-1 through A-3.**

## Exhibit II



Source: District enrollment records



## **Acting Superintendent**

### *Contracts*

Robert McGill, a District elementary school principal, was hired as Acting Superintendent for the period March 11, 2009 through September 11, 2009. Terms of this contract included:

- Annual salary of \$144,000.
- Annual accrued leave<sup>1</sup> of 15 days and 21 days vacation leave per year. Upon separation from the District, any unused annual accrued or vacation leave paid at prevailing daily rate of pay.
- Membership fees and reasonable incidental expenses incurred, up to \$400 per month, for participation in community and civic activities.
- \$500 per month vehicle allowance for use of personally-owned vehicle.
- Two gasoline credit cards to purchase gasoline for his vehicle for professional and reasonable personal use.

Subsequently, the Board issued McGill a contract as Acting Superintendent for the period July 1, 2009 through June 30, 2010. Terms of the 2009 -10 contract included:

- Annual salary of \$150,000.
- Annual accrued leave of 15 days and 21 days vacation leave per year. Upon separation from the District, any unused annual accrued or vacation leave paid at prevailing daily rate of pay.
- Membership fees and reasonable incidental expenses incurred, up to \$400 per month, for participation in community and civic activities.
- Cost of annual physical examination paid by District.
- Two gasoline credit cards to purchase gasoline for his vehicle for professional and reasonable personal use.

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<sup>1</sup>Accrued leave replaced sick leave and may be used for any time off with or without an excuse.

The contract for McGill did not include a communications and technology allowance nor provide him a District-owned vehicle.

Review of a fuel credit card used by McGill revealed charges totaling \$3,424 for the period July 1, 2009 through June 30, 2010. Neither the District nor McGill maintained records to determine business versus personal use.

McGill subsequently accepted a position outside the District, effective July 1, 2010. After review of contract terms, consultation with District legal representatives, and Board approval, District paid McGill \$40,866 (gross amount of \$87,602) for 142.5 accrued leave days at a daily pay rate of \$614.75 on June 30, 2010.

### *Reimbursements/Expenses*

The District reimbursed Acting Superintendent Rob McGill \$265 for Arkansas Association of Educational Administrators (AAEA) dues on June 5, 2009. Proper documentation was available to support this reimbursement.

DLA staff review of District credit card purchases for the period March 4, 2009 through June 30, 2010 disclosed charges by, or on behalf of, McGill as follows:

- \$1,838 for expenses at T+L Conference in Denver, Colorado. Included were gratuities totaling \$35 for which McGill reimbursed the District.
- \$1,207 for expenses for trip to Lawrence, Massachusetts.
- \$405 for AAEA dues the District paid after McGill announced his resignation, which he reimbursed on December 3, 2010, and \$7 other miscellaneous expenses.

Appropriate receipts were provided as documentation for each of the charges.

### **Recommendation A**

The District should determine dollar value of fuel purchased for nonbusiness use and either obtain reimbursement from McGill or report this as income on his IRS Form W-2 for 2010.

The District should also ensure expenses paid for employees are District purposes.

## **Superintendent**

### *Contract*

The Board voted, on April 15, 2010, to hire Dr. Charles Hopson, Deputy Superintendent of Portland Public Schools in Portland, Oregon, as District Superintendent for the period July 1, 2010 (effective date) through June 30, 2013. Terms of the contract are summarized below:

- Annual salary of \$205,000.
- Premiums for health insurance, including dental coverage, and the same benefits for the Superintendent's spouse and dependent children.
- Life insurance premiums for policy coverage equal to one year's salary.
- Disability insurance premiums, up to \$1,000 annually, to be reimbursed to the Superintendent.
- Annual accrued leave of 12 days and 21 days vacation leave per year.
- Prior to effective contract date, Board may retain Hopson as a consultant at daily pay rate of \$840 (salary divided by 244 days).
- Reasonable expenses for travel, meals, and lodging while Hopson serves as consultant paid by District.
- Membership fees and reasonable incidental expenses incurred, up to \$2,400 per year, for participation in community and civic activities paid by District. Expenses incurred, excluding association and civic organization dues, will be reimbursed by the District.
- Cost of annual physical examination paid by District.
- Full-size, late model vehicle, mutually agreeable to the Board and Superintendent, to be provided by District including expense of all maintenance costs and insurance. Superintendent shall be permitted to use automobile for business and personal use, without restriction, and shall pay state and federal income taxes on personal use as required by law.

- Gasoline credit cards, for which the District will pay charges, issued to Superintendent to provide gasoline for professional and personal use.
- Moving and relocation stipend of \$25,000, with expenses up to \$20,000 requiring receipts as documentation. At its discretion, the District may allow the Superintendent to document his moving and relocation expenses by using a District-provided debit or credit card to charge such expenses.
- The District will reimburse the Superintendent his monthly member contribution to ATRS. Further, Superintendent will be reimbursed for an amount equal to one-third of his cost to reinstate service in ATRS previously forfeited.
- Communications and technology allowance of \$300 per month paid by District. The Superintendent shall provide his own cellular telephone and the cost of his District-related computer and technology needs outside the office.

Ark. Code Ann. § 6-17-1117(c)(1) states, in part, "A school district shall provide the employer-provided health insurance benefits for all full-time . . . employees and pay the same employer contribution rate for each eligible employee . . . ." In addition, Op. Att'y Gen. no. 2007-239 indicated legislative intent behind Ark. Code Ann. § 6-17-1117 was for a school district to contribute a set dollar amount, with the same applying to each employee.

According to IRS Publication 15-B Employer's Tax Guide to Fringe Benefits, the cost of life insurance premiums paid on behalf of a key employee, for which Hopson meets the definition, is required to be reported as income on the employee's IRS Form W-2. Further, the cost of other fringe benefits, not offered to all employees, should be considered income and reported as such on that employee's IRS Form W-2.

The District paid the following fringe benefits, totaling \$6,590, on behalf of Hopson during the period July 1 through November 15, 2010, which represents nine pay periods.

- \$3,620 for health and dental insurance premiums.
- \$1,829 for life insurance premiums.



- \$1,141 for disability insurance premiums. This was \$141 more than authorized in Hopson's contract.

The District paid all of Hopson's monthly health and dental insurance premiums of \$804, which equates to a contribution rate of \$508 more than the rate of \$296 for other employees. Therefore, of the \$3,620 the District paid on behalf of Hopson, \$2,288 was paid in conflict with Code and is due the District.

The District purchased for \$35,480 a 2010 Buick LaCrosse automobile for Hopson's District and personal use. This automobile was fully equipped including leather interior, power sunroof, OnStar® turn-by-turn navigation system, and chrome-plated wheels.

Review of a fuel credit card used by Hopson disclosed charges totaling \$1,202 for the period July 1, 2010 through October 4, 2010 which included fuel totaling \$196 purchased in Alabama, Florida, Mississippi, and Tennessee and \$160 (9 washes at an average cost of \$17.78 each) for car washes. Further, records were not maintained to determine business versus personal use of the automobile for compliance with IRS regulations.

After consulting with ATRS, the District did not reimburse Hopson for his monthly retirement contributions. In addition, the District has not reimbursed Hopson for any costs associated with his reinstatement to ATRS. According to information obtained from District personnel, the amount the District will reimburse is approximately \$56,357, or \$18,786 a year for three years.

In addition to the \$300 monthly technology allowance included in Hopson's contract, the District pays \$134 for Hopson's monthly cellular telephone service, which includes a Blackberry telephone and Intelligent Mobile Hotspot. As of November 2010, the District has paid \$667 for this service which was not a part of Hopson's contract.

### **Recommendation B**

The District should obtain reimbursement of \$2,288 from Hopson for health and dental insurance premiums improperly paid on his behalf. Further, the District should discontinue

contributing an insurance premium rate not allowed by Code.

Life and disability insurance premiums paid on behalf Hopson should be reported as income on his IRS Form W-2 for 2010.

However, \$141 the District paid for disability insurance over the amount provided in Hopson's contract is due the District.

The District should require Hopson to maintain vehicle usage records for his personal use of a District vehicle to comply with IRS regulations. The District should report the value of personal vehicle use on Hopson's IRS Form W-2. This value should comply with IRS valuation regulations which include annual lease price of a vehicle as well as fuel expenses.

The Board should determine if the cost of car washes is included in Hopson's contract. If not, the District should obtain reimbursement for car washes charged to the District's credit card. Otherwise, the Board should establish an amount to pay for this expense.

Any amount reimbursed to Hopson for his cost associated with reinstatement to ATRS should be reported as income on Hopson's annual IRS Form W-2.

The amount of \$667 the District has spent for cellular telephone expenses for the Superintendent should be reimbursed by Hopson and services under District plan cancelled. If Hopson chooses to retain his District phone service, the District should reduce Hopson's monthly communications and technology allowance of \$300 by the monthly cost of his District cellular telephone service cost.

**Exhibit III on page 10** details certain amounts paid to, or on behalf of, Hopson and the amounts unallowed and due the District.

### ***Reimbursement for Airline Ticket-Purpose Unknown***

Prior to selection by the Board as a candidate for the Superintendent position and at the request of an individual Board member, Hopson purchased a round trip airline ticket from Portland, Oregon to Little Rock, Arkansas. A request for reimbursement of the cost of the ticket was submitted to the

District. Since the purpose of Hopson's trip was unknown, the Acting Superintendent directed the District Chief Financial Officer (CFO) not to pay for the \$855 airline ticket without Board approval and further directed the Board to obtain a majority vote, during open session, regarding such payment. The Board voted, on April 20, 2010, to reimburse Hopson for the ticket.

#### *Consultant Expenses*

Hopson's contract for Superintendent included a provision that prior to the effective date of July 1, 2010, the Board may hire him as a consultant at a daily rate equal to the contract salary divided by 244 days, which results in a daily rate of \$840.

Subsequently, the Board approved for Hopson to work as a consultant on selected dates prior to July 1, 2010.

While serving the District as a consultant, Hopson was reimbursed \$12,414 which included \$10,922 for 13 days of consultant services; \$854 per diem at a daily rate of \$61 for 14 rather than 13 days; \$150 luggage fees; and \$488 rental car fees.

During the consulting period, the District paid for \$3,645 in airfare and \$1,597 in hotel fees on behalf of Hopson. The airfare amount included \$585 for a ticket for Hopson's wife, which he reimbursed the District.

The District paid \$364 for three nights hotel lodging in May 2010 on days Hopson was not serving as a consultant to the District. DLA staff contacted District personnel in August regarding repayment of these charges and were informed that Hopson had not yet reimbursed the District. At that time, Hopson submitted a check to the District for payment and DLA staff received a copy of it the following day. DLA staff contacted the District Business Office in November to request a copy of the deposit slip for the \$364 reimbursed by Hopson, but Business Office personnel had no knowledge of the check nor record of its deposit.

Subsequently, on November 15, 2010, Hopson issued another check for \$364 to the District and DLA staff received a copy of deposit ticket from District.

#### *Moving/Relocation Expenses*

According to IRS Publication 521 Moving Expenses, reasonable expenses, as provided below, may be deducted on an individual's

income tax return. IRS Publication 15-B allows an employer to exclude from an employee's income these same expenses:

- Moving household goods and personal effects including in-transit storage expenses.
- Traveling including lodging, but not meals, to a new home.

IRS Publication 521 further states the following items cannot be deducted as moving expenses:

- Any part of the purchase of a new home.
- Expenses of entering into or breaking a lease and security deposits.
- Return trips to the former residence.
- General repairs, maintenance, insurance, or depreciation of car.

Terms of Hopson's contract included a moving and relocation stipend of \$25,000.

Hopson was paid \$3,589, via payroll check, net of payroll withholdings totaling \$1,411, in May 2010 for "relocation expenses" prior to the effective date of his contract. In addition, the District paid \$5,000, \$2,000, and \$2,000 in May 2010, October 2010, and November 2010, respectively, as deposits toward the purchase of a residence for Hopson.

Prior to the effective date of his contract, Hopson was given a District credit card to use for moving and relocation expenses. Of the \$10,388 Hopson charged for moving and relocation expenses, \$4,419 was allowable and \$5,969 was unallowable according to IRS regulations. The following transactions were identified as nonallowable moving and relocation expenses:

- Sleep Country - \$1,750
- JCPenney catalog purchases - \$1,081
- Air travel and related costs - \$1,009
- Transmission Shop - \$764
- Wal-Mart - \$596
- Cable television service in Oregon - \$379
- Cellular telephone service in Oregon - \$286
- Garden Ridge - \$94
- Meal - \$10

**Exhibit III**

**Pulaski County Special School District (District)  
Superintendent Charles Hopson Expenses/Reimbursements  
June 1, 2010 through October 31, 2010**

	<u>Amounts</u>	
Fringe Benefits for Insurance Premiums	<u>\$ 6,590</u>	
Consultant Expenses:		
Consultant fee	\$	10,922
Per diem (\$61 X 14 days)		854
Airfare (Note 1)		3,645
Hotel (Note 1)		1,597
Car rental (\$488) and luggage fees (\$150)		638
Total Consultant Expenses	\$	<u>17,656</u>
	<u>Board</u>	<u>Actual</u>
	<u>Approved</u>	<u>Expenses</u>
Relocation/Moving Expenses:	\$25,000	
Condo purchase plan/deposit		\$ 9,000
Relocation stipend (Note 2)		5,000
Round trip airfare for Hopson's daughter (Note 3)		417
Miscellaneous credit card charges		10,388
Total Moving/Relocation Expenses	<u>\$25,000</u>	<u>\$ 24,805</u>
Credit Card Charges:		
Luggage fees (\$75), meals (\$79), and parking fees (\$100)		\$ 254
Miscellaneous office accessories		493
Total Credit Card Charges		<u>\$ 747</u>
Miscellaneous Expense: Airfare on March 19, 2010 (Note 4)		<u>\$ 855</u>
Unallowable Expenses:		
Health insurance benefits	\$	2,288
Disability insurance premiums		141
Cellular telephone		667
Meals charged to credit card on days per diem paid		79
Unallowed payments for residence purchase		9,000
Unallowed moving expenses charged to credit card		5,969
Unallowed moving expenses for airline cost reimbursed		417
Undocumented credit card charges for moving expenses		3,925
Undocumented credit card charges for business expenses		517
Undocumented airfare		855
Extra day per diem		61
Total Unallowable/Due or Potentially Due District	\$	<u>23,919</u>

Note 1: Hopson reimbursed \$585 for spouse's plane ticket and \$364 for 3 additional nights in hotel

Note 2: Received \$3,589, net of withholdings totaling \$1,411

Note 3: Hopson's daughter flew round trip from Portland, Oregon to Little Rock, Arkansas in October 2010

Note 4: Round trip ticket from Portland, Oregon to Little Rock, Arkansas

**Source:** District financial records

In addition, of the \$10,388 Hopson charged to the District's credit card, documentation was available for only \$5,195. The undocumented charges totaled \$5,193, of which \$3,925 appeared to be for allowable moving expenses.

Since Hopson did not provide receipts for all purchases charged to this credit card, the District did not pay full amount by the due dates for August through November 2010 billing statements, resulting in late fees and interest charges of \$497.

Further, Hopson was reimbursed, as an additional moving expense, \$417 for the cost of round trip airfare for his daughter to fly from Portland, Oregon to Little Rock, Arkansas.

#### *Other Credit Card Charges*

Hopson charged \$747 to a District credit card for business-related expenses such as meals, airline fees, and office/technology accessories during the period June 4 to July 8, 2010. Review of charges revealed the following:

- Documentation was not provided to support \$517.
- Meals totaling \$79 charged to credit card on days that Hopson received per diem for meals.

#### **Recommendation C**

Although the Board approved reimbursing \$855 to Hopson for the cost of an airline ticket from Portland to Little Rock, a business purpose was not provided. Unless a business purpose for this expense is provided, Hopson should reimburse the District. Otherwise, \$855 should be reported on Hopson's IRS Form W-2 as income.

The District should report \$14,969 as income on Hopson's IRS Form W-2 for moving and relocation expenses paid for his residence (\$9,000) and for purchases charged to a District credit card (\$5,969) which were not allowable in accordance with IRS regulations. If Hopson reimburses the District for any unallowable moving and relocation expenses, then that amount would not need to be reported to the IRS as income.

The District should also obtain adequate supporting documentation for all purchases

charged to a District credit card. For any charges not documented, the District should request reimbursement from Hopson.

In addition, to ensure District is not responsible for charges not for District purposes, District should strengthen policies to ensure adequate documentation is maintained to support purchases. In the event adequate documentation is not provided, the Board may consider revoking credit card use.

Further, District should obtain reimbursement of \$79 for meals charged to a District credit card for which Hopson received a per diem.

**Exhibit III** details certain amounts paid to, or on behalf of, Hopson. The Superintendent owes or potentially owes \$23,919 to the District for unallowable expenses/reimbursements.

#### **Administrators**

The District employs approximately 2,728 full- and part-time employees, including 131 administrators, 1,384 educators, 943 support staff, and 270 bus drivers.

Salaries and benefits of certain administrators for the 2010-11 school year are provided, and compared to 2009-10 school year salaries and benefits, in **Schedule 1 on page 36**. This comparison indicated that salaries and benefits of these administrators increased by approximately \$550,138 and \$162,777, respectively, in the 2010 -11 school year.

#### **Cabinet**

The District Cabinet consists primarily of District administrative staff. According to Board policy, the Superintendent is authorized to establish a permanent or temporary cabinet deemed necessary for administration of Board policies and coordination of District educational and support programs. Further, policy states membership, reflecting racial balance, and responsibilities of Cabinet will be at the discretion of the Superintendent. The roles of Cabinet members will be advisory and recommendations to the Board will be submitted by Superintendent.

For the 2010-11 school year, the Cabinet consists of 12 members, including the Superintendent, as identified in **Exhibit IV on page 12**. Two Cabinet members were not District

employees, but were both under consultant agreements with the District, when chosen as Cabinet members.

According to District personnel, a mandatory Cabinet meeting is held weekly. The Superintendent presides over the meetings with a planned agenda which addresses issues, provides updates, and promotes transparency within District departments and schools. In addition, the Cabinet approves Board meeting agendas.

Hopson approved the purchase of 20 Apple® iPads™ (iPads) for Cabinet and Board members as a cost effective, around-the-clock communication tool. Cost of the iPads totaled \$15,852 and a monthly charge of \$300 (\$15 for each device) is incurred for internet and email access.

In addition to the iPads, the District provides smart phones to 8 of the 12 Cabinet members at an average cost of \$82 per month, per phone. The smart phone serves as a personal digital

assistant with address book, calendar, to-do list, and email capability. One Cabinet member is provided a wireless USB modem for internet access at \$60 per month.

#### **Board Approval Process**

Standard operating procedures regarding Board approval process for policies and contracts are enumerated in the Board Policy Manual. Any item pending Board approval is reviewed and approved by the Superintendent's Cabinet two weeks before the regularly scheduled Board meeting; however, items may be placed on the Board agenda two "work days" in advance of a Board meeting. In addition, at the request of at least three Board members, an "addendum" may be added to the meeting agenda on the day prior to the meeting, if time is available for an official notice to the press.

#### **Board Member Training Hours**

Ark. Code Ann. § 6-13-629 requires serving Board members to receive six hours of training

### **Exhibit IV**

Pulaski County Special School District (District) Cabinet Members 2010-11 School Year	
Name	Position
Dr. Charles Hopson	Superintendent
Anita Farver	Chief Financial Officer
Deborah Coley	Assistant Superintendent for Human Resources
Derrick Brown	Chief Technology Officer
Deborah Roush	Executive Director of Communications
Dr. Brenda Bowles	Assistant Superintendent for Equity and Pupil Services
June Elliott	Deputy Superintendent for Academic Accountability Region I
Rodney Matheney	Deputy Superintendent for Academic Accountability Region II
Dr. Bruce Bryant	Assistant Superintendent of Curriculum and Instruction
Dr. Robert Clowers	Executive Director of Educational Accountability
Derek Scott (Note 1)	Consultant for Facilities and Operations
Paul Brewer (Note 2)	Consultant to Superintendent for Human Resources
Note 1: Under consulting agreement with District when appointed to Cabinet, but is currently employed by District	
Note 2: Under consulting agreement with District	

**Source:** District records

each calendar year of continuing service. Newly-elected Board members or members returning to the Board after a break in service must receive nine hours of training by December 31 of the year following election and six hours of training each calendar year thereafter. All but one District Board member exceeded the required number of training hours for the period January 1, 2007 through December 31, 2009 as reflected in **Exhibit V**. Charlie Wood did not obtain 4.75 of the required 6 hours of training in the 2008 calendar year.

A synopsis of information obtained at conferences attended was provided to DLA staff by applicable current Board members during November 2010.

#### Exhibit V

Pulaski County Special School District (District) Board Members' Training Hours January 1, 2007 through December 31, 2009				
Name	2009	2008	2007	Totals
Mildred Tatum	35.5	40.5	24.5	100.5
Gwen Williams	27.5	16.25	26.25	70
Danny Gililand	18.5	19.25	25	62.75
Bill Vasquez	14	15.5	8	37.5
Charlie Wood	9	1.25	12.5	22.75
Tim Clark	23.25	16.25	(Note 1)	39.5
Shana Chaplin (Note 2)	(Note 1)	16	3	19
Sandra Sawyer (Note 3)	6	(Note 1)	(Note 1)	6

Note 1: Not a Board member at that time  
Note 2: Elected to Board September 2007  
Note 3: Elected to Board September 2009

**Source:** Arkansas School Boards Association and District records

#### **Recommendation D**

The Board should evaluate the cost/benefit associated with Board members acquiring training hours in excess of the number required by Code. Procedures should also be implemented to ensure Board members obtain required number of training hours.

#### **Board-Related Expenses**

##### *Overview*

The District expended \$176,054 for Board travel, Boardroom renovations, meals for Board meetings, association dues and fees, mileage reimbursements, fees for a firm to assist in the search for a new Superintendent, and other miscellaneous expenses for the period March 4, 2009 through June 30, 2010. The Board adopted a policy, in April 2010, increasing the annual number of trips a Board member may take from two to three.

**Exhibit VI on page 14** summarizes various Board expenses by type or vendor and amount.

During review of certain documents, DLA staff determined that District personnel did not correctly record expenses of a Board member in

the financial records. Rather than charging a Board member's travel expenses, totaling \$1,593, to the applicable accounting code for Board of Education Services, the expenses were coded as Instructional Staff Services. According to the Arkansas Financial Accounting Handbook (Accounting Handbook), instructional staff services code is for "activities associated with assisting the *instructional staff* (emphasis added) with the content and process of providing learning experiences for students."

##### *Boardroom Renovation*

The Board approved, on October 13, 2009, the purchase of equipment for reconfiguration of the boardroom for presentations and a paperless delivery system for Board documents.

According to District records, total cost of boardroom renovations, completed during Spring 2010, was approximately \$104,524 which included three 65" LCD displays, upgraded audio system, and laptops for Board and Cabinet members.

Subsequently, as mentioned on the previous page, upon the Superintendent's recommenda-

tion, 20 iPads were purchased at a total cost \$15,852 for Board and Cabinet members and the previously purchased laptops costing \$17,840 were not used.

#### *Mileage Reimbursements*

The District reimbursed Board members Tim Clark, Mildred Tatum, and Gwen Williams \$2,030, \$454, and \$1,015, respectively, during the period March 1, 2009 through September 3, 2010, for mileage incurred while performing duties on behalf of the District.

Mileage reimbursements are listed below by Board member and amounts due the District are reflected in **Exhibit VII on page 17**.

#### • Tim Clark

Clark was reimbursed \$2,030, on December 18, 2009, for 5,800 miles accumulated while commuting to/from District Central Office (Central Office) for the period February 26, 2009 through December 14, 2009. Mileage and odometer readings were listed on an expense form prepared by District personnel using Clark's mileage log. The mileage log appeared to be overstated by approximately 1,600 miles, based on actual distance between Clark's residence and Central Office. Prior to this review, Clark reimbursed the District \$2,030 on June 16, 2010, when questions arose over number of miles claimed for reimbursement.

### Exhibit VI

Pulaski County Special School District (District) Summary of Board Expenses For the Period March 4, 2009 through June 30, 2010	
Description	Totals
Arkansas School Boards Association	\$ 5,974
Board member travel	11,562
Board member mileage (Note 1)	3,499
Boardroom renovations (Note 2)	104,524
Carlson Wagonlit Travel	3,688
Catering/meals for Board meetings and workshops	10,722
Cellular telephone (Note 3)	1,059
Holiday Inn Presidential Center (Note 4)	518
McPherson & Jacobson, L.L.C. (Note 5)	18,359
National Alliance of Black School Educators	1,570
National School Boards Association	11,740
Other miscellaneous expenses	2,089
Virginia School Boards Association	750
<b>Total Board Member Expenses (Note 6)</b>	<b>\$ 176,054</b>
Note 1: \$2,030 subsequently reimbursed by one Board member Note 2: Does not include purchase of iPads totaling \$15,852 Note 3: Services for Board member Gwen Williams for the period March 2009 through August 2010 Note 4: Expenses for Board workshop/retreat Note 5: Expenses for Superintendent search Note 6: Amounts may not be all inclusive	

**Source:** District financial records



- Gwen Williams

Williams was reimbursed \$98 for 280 miles; \$242 for 690 miles, of which \$116 for 330 miles was reimbursed twice; and \$114 for 326 miles on November 13, 2009, March 9, 2010, and June 30, 2010, respectively. The majority of mileage reported by Williams appears to have accumulated while commuting to/from Central Office for Board meetings and workshops. Review of MapQuest, an online mapping service, indicated mileage reported appears to have been correctly stated.

- Mildred Tatum

Tatum was reimbursed \$895, on June 18, 2009, for 2,556 miles recorded from June 6, 2008 to May 27, 2009 and \$120 for 344 miles driven from June 2, 2009 to September 28, 2009. The following mileage reimbursements are questioned and considered overpayments to Tatum:

- Reimbursed \$12 for 34 miles reported as driven in-district on same dates as attending the National School Boards Association (NSBA) conference in San Diego.
- Round trip mileage from Tatum's residence to a hotel in Little Rock was overstated by 14 miles, resulting in \$5 incorrectly reimbursed.
- Round trip mileage from Tatum's residence to the Central Office was paid twice for a trip on May 12, 2009, resulting in \$4 overpayment.

### **Recommendation E**

The District should obtain reimbursements for mileage reimbursement overpayments of \$116 and \$21 from Board members Williams and Tatum, respectively. Before reimbursing Board members for mileage expense, the District should review and substantiate mileage forms submitted for reimbursements.

#### *Travel Advances*

Board members Mildred Tatum, Gwen Williams, and Charlie Wood received \$4,795, \$4,455, and \$1,760, respectively, as travel advances for District-related travel expenses during the period March 1, 2009 through July 9, 2010.

The Board voted to discontinue travel advances to employees and Board members on June 8, 2010.

The following questioned transactions related to out-of-district travel are listed by Board member and amounts due the District are also reflected in **Exhibit VII on page 17**.

- Mildred Tatum

- The District issued a travel advance, in April 2009, to Tatum which included \$95 for NSBA membership fee and for which Tatum submitted a paid receipt from NSBA as documentation of the expenditure. Subsequently, Tatum received a \$95 refund check from NSBA in May 2009 for overpayment of membership fees which is due the District.
- Tatum received a travel advance of \$1,525, on October 16, 2009, for a National Association of Black School Educators (NABSE) conference in Indianapolis, Indiana. Actual expenses reported to the District reflect Tatum owed the District \$215, which was returned to the District on September 3, 2010, over ten months after the travel advance was received.
- Tatum received a travel advance of \$1,765, on March 3, 2009, for NSBA conference in San Diego, California. Actual expenses reported to the District reflect Tatum reported \$87 for gratuities, which was determined by District to be due back and subsequently repaid by Tatum on September 3, 2010.
- Tatum received a travel advance of \$1,284, on March 30, 2010, for NSBA conference in Chicago, Illinois. Actual expenses reported to the District reflect Tatum owed the District \$149, which was repaid to the District on September 3, 2010, five months after the travel advance was issued.
- One month after the Board voted to discontinue travel advances, Tatum received a travel advance of \$221, on July 9, 2010, as per diem for meals



during attendance at a NSBA Southern Region conference in Williamsburg, Virginia.

- Gwen Williams

- Williams received a travel advance of \$1,273, on October 15, 2009, for NABSE conference in Indianapolis, Indiana. Although Williams did not attend the conference, she cashed the travel advance check and did not return the amount advanced until three months later.
- Williams received a travel advance of \$1,702, on March 3, 2009, for a NSBA conference in San Diego, California. Actual expenses were not reported to the District until July 22, 2009 and reflected Williams owed the District \$268. Williams also submitted two mileage reimbursement forms and expenses incurred during another conference (NSBA Southern Regional conference in Little Rock) totaling \$279, which resulted in the District reimbursing Williams an additional \$11. District personnel later determined, and DLA staff verified, Williams reported \$71 in gratuities and \$20 for parking that was not documented, which is due the District.
- Williams received a travel advance of \$1,284, on March 30, 2010, for NSBA conference in Chicago, Illinois. Actual expenses reported to the District reflect Williams owes the District \$214.
- One month after the Board voted to discontinue travel advances, Williams received a travel advance of \$196, on July 9, 2010, as per diem for meals during attendance at NSBA Southern Region conference in Williamsburg, Virginia.

- Charlie Wood

Wood received a travel advance check totaling \$1,760 in March 2009 to attend the NSBA conference in San Diego, California. District personnel indicated Wood did not attend the conference nor did he cash the check. Although District personnel further

stated Wood had misplaced the check, District financial records reflected this check as an outstanding item on the bank reconciliation until November 2010 when brought to District attention by DLA staff.

### Recommendation F

The District should obtain reimbursements for improper travel advances of \$95 and \$305 from Board members Tatum and Williams, respectively. The District should enforce the Board's policy of not advancing funds for travel expense.

### *Miscellaneous*

Four Board members were reimbursed for miscellaneous expenses for the period March 4, 2009 through July 9, 2010 as listed below.

- Tim Clark

- \$138 for meals and parking expense, which included a \$15 meal per diem for a meal charged to the District's credit card, incurred while attending T+L conference in Denver, Colorado.
- \$351 for meals, parking, and baggage fees incurred while visiting Lawrence School District in Lawrence, Massachusetts.
- \$43 for recruiting supplies.

- Danny Gililand

\$34 for a meal and parking incurred during NSBA Southern Region conference in Little Rock during July 2009. Receipts reflect \$15 for parking on two days; however, the District reimbursed \$18 to Gililand. In addition, a gratuity of \$3 was improperly reimbursed. As shown in **Exhibit VII**, Gililand owes \$6 to the District.

- Mildred Tatum

- \$16 for a meal, which included a gratuity of \$3 subsequently reimbursed to the District by Tatum, during NSBA Southern Region conference in Little Rock. In addition, Tatum was reimbursed \$42 for valet parking on three days.

- o \$90 for baggage fees and taxi fare incurred while attending NSBA Southern Region conference in Williamsburg, Virginia.

- Gwen Williams

\$110 for baggage fees, taxi fare, and per diem for an additional meal, a result of flight delay, incurred while attending NSBA Southern Region conference in Williamsburg, Virginia.

Appropriate receipts were provided as documentation for each of the reimbursements to these four Board members.

#### *Cellular Telephone Services*

Board member Gwen Williams was furnished a District cellular telephone, allowable per Board policy as long as the member promptly reimbursed the District for the monthly service charges. The District terminated Williams' cellular telephone services in August 2010 because service charges totaling \$802, as identified in **Exhibit VII**, had not been reimbursed the District.

#### **Recommendation G**

The District should ensure adequate documentation is available for reimbursements. The District should request Clark repay \$15 for duplicate meal reimbursement and obtain \$6 from former Board member Gililand for improper expense reimbursements.

In addition, the District should require Williams reimburse \$802 for cellular telephone services the District paid on her behalf.

#### **Ethics Issue**

On February 17, 2010, the Board approved execution of a Contractual Privacy Agreement (Agreement) with Summit School Improvement Technology (Summit), at no cost to the District.

DLA staff received a complaint from a concerned citizen regarding a possible violation of Ark. Code Ann. §§ 6-24-101, -105 by Board President Tim Clark and his affiliation with Summit, a company owned by his in-laws.

According to Board Meeting Minutes (Board Minutes), Clark excused himself from the Board meeting, as required by Ark. Code Ann. § 6-24-

#### **Exhibit VII**

**Pulaski County Special School District (District)**  
**Amounts Due District from Board Members**  
**For the Period March 3, 2009 through July 31, 2010**

<b>Board Member</b>	<b>Unallowable/ Due District</b>
Gwen Williams	
Cellular telephone	\$ 802
Mileage	116
Gratuities	71
Parking	20
Travel advance	214
<b>Total Due District</b>	<b>\$ 1,223</b>
Mildred Tatum	
NSBA dues/refund	\$ 95
Mileage	21
<b>Total Due District</b>	<b>\$ 116</b>
Tim Clark	
Meal per diem	\$ 15
<b>Total Due District</b>	<b>\$ 15</b>
Danny Gililand	
Parking	\$ 3
Gratuity	3
<b>Total Due District</b>	<b>\$ 6</b>
<b>Total Amount Due District from Board Members</b>	<b>\$ 1,360</b>

**Source:** District financial records

105(c)(1)(C), prior to discussions regarding the contract between Summit and District, and therefore, did not vote on approval of the Agreement.

In addition, Ark. Code. Ann § 6-24-105(c)(1)(B), requires approval by the public educational entity's board be documented by written resolution after fully disclosing the reasons justifying the contract in an open meeting. DLA staff reviewed an addendum prepared and approved by Board members that disclosed the Board's rationale for the Agreement and the relationship between Clark and Summit.

Further, the Board consulted with ADE personnel who determined, that since the transaction was at no cost to the District, approval by the Commissioner of Education was not required.

### **Employee Travel Reimbursements/Expenses**

To determine if proper documentation was maintained for employee travel expense reimbursements, DLA staff randomly selected ten checks, dated October 15, 2010, for review. Adequate documentation existed to support all ten reimbursements.

DLA staff review of District credit card purchases for the period March 4, 2009 through June 30, 2010 disclosed five instances in which meals, totaling \$86, were charged to hotel rooms by employees, but were not properly documented.

### **Recommendation H**

The District should ensure adequate supporting documentation is maintained for all purchases. If employees do not provide documentation, the District should request the applicable employee reimburse the District.

### **Union Representation**

#### ***PACT -***

#### ***Pulaski Association of Classroom Teachers***

The Pulaski Association of Classroom Teachers (PACT), the teachers' union, is the legal bargaining agent for teachers' employment contracts. The Board and PACT negotiated the latest Professional Negotiations Agreement (PNA), effective for the 2006 through 2009 school years. The PNA includes personnel policies, salaries, and educational matters concerning teachers, the majority of whom are members of PACT, employed by the District.

Although the District and PACT have been unable to agree on terms of a contract for successive years, the PNA is a continuous contract and remains in place until both sides agree on a new contract. As of report date, the 2006-2009 PNA is in effect.

For the 2009-10 school year, PACT had 796 members for whom the District paid \$580,783, obtained from teachers' payroll withholdings, for dues.

#### ***PASS – Pulaski Association of Support Staff***

The Pulaski Association of Support Staff (PASS), the union for support staff, is the legal bargaining

agent for bus drivers and support staff. The previous contract between PASS and District, for the 2008-09 school year, expired on June 30, 2009. While PASS representatives negotiate a new contract, PASS members are operating under Board policy.

For the 2009-10 school year, PASS had 412 members for whom the District paid dues of \$118,610, obtained as payroll withholdings from support staff, to PASS.

### ***Board Action Against PACT and PASS***

Board voted in December 2009 and April 2010 to withdraw recognition of PACT and PASS; however, a Sixth Judicial District Circuit Court Judge ruled the Board's actions were not legal because without recognition of PACT and the PNA, the District did not have written personnel policies in place or a personnel policy committee as required by state law. The Judge further ordered the District and PACT to attempt to resolve differences through mediation, which was unsuccessful.

Subsequently, the Board, with two newly elected members, voted on October 12, 2010 to restore Board recognition of PACT and PASS.

**Schedule 2 on page 37** provides a timeline of events involving the District and PACT/PASS for the period December 6, 2009 through October 12, 2010.

### **Desegregation Funds**

Settlement provisions of a 1989 lawsuit between the state and the three school districts in Pulaski County require the state to provide extra funding each year to these school districts for desegregation efforts. According to Ark. Code Ann. § 6-20-210, desegregation funds are provided to ADE Public School Fund account from net general revenues of the state. ADE then disburses the desegregation funds, through the Public School Fund, to the applicable school districts.

District financial records reflected desegregation fund revenue totaling \$20,499,490 of which the District expended \$16,221,517 for the period July 1, 2009 through June 30, 2010 as reflected in **Exhibit VIII**, leaving a balance of \$4,277,973 at June 30, 2010.

## Consultant Contracts/Expenses

DLA staff selected five consultant contracts to review for content, purpose, and compliance with Board approval process. Review of certain consultant contracts indicated two individuals, who are or will become District employees, were placed on contract for services prior to employment with District which allowed them to be paid above the salary level for the positions they have or will assume. In addition, two contracts for professional staff development were analyzed.

### *Chief Technology Officer*

The Board approved, on June 8, 2010, to restructure the Directors of Instructional Technology and Management Information Systems positions to form a new position of Chief Technology Officer with the new position at a higher level on the pay scale of the support staff salary schedule.

Subsequently, the Board approved, on June 11, 2010, employment of a Chief Technology Officer (CTO) with beginning contract date of July 1, 2010 and an annual salary of \$100,067.

Prior to the beginning of his contract, the newly-hired CTO from Portland Public Schools (Portland, Oregon) served as a consultant on Information Technology at the District for the period June 9, 2010 through June 30, 2010; however, the Board did not approve this consultant contract until July 8, 2010.

The contract specified consulting services relating to:

- Execution of technology strategy for technology platforms, partnerships, and external relationships.
- Building and management of the District's technology team, research and development, and project management.

## **Exhibit VIII**

### **Pulaski County Special School District (District) Desegregation Funds Sources and Uses of Funds For the Period July 1, 2009 through June 30, 2010**

	<u>Amounts</u>
Beginning Balance	\$ 0
Sources of Funds:	
State Assistance	20,499,490
Uses of Funds:	
Salaries	8,297,021
Employee benefits	1,755,991
Purchased services:	
Advertising	13,803
Fleet insurance	202,642
Legal fees	343,658
Maintenance and repairs	94,565
Other professional services	40,514
Rent	5,650
Services purchased	
from other LEAs (Note 1)	117,400
Travel	13,885
Tuition to other LEAs (Note 1) in state	3,437,508
Gasoline	1,318,658
Supplies, books, and materials	492,029
Equipment	60,262
Heating oil	26,238
Dues and fees	1,693
Total Uses of Funds	<u>16,221,517</u>
Ending Balance	<u>\$ 4,277,973</u>

**Note 1: Local Education Agency**

**Source:** District financial records

- Anticipation of, and reaction to, major technology changes.
- Establishment of technical standards for District operations.

The contract further provided for a daily pay rate of \$410 and reimbursement of travel expenses incurred. A minimum number of hours or days to work was not specified in the contract.

The District paid the consultant for fees totaling \$3,691 and other expenses totaling \$8,117 which

were charged to the accounting code for the Superintendent's Office rather than to the accounting code specifically for administrative technology services. The Accounting Handbook states charges to the Office of the Superintendent are for activities performed by a superintendent in directing and managing all affairs of a school district.

According to District personnel, the consultant's check was mailed overnight to his residence in Oregon on July 13, 2010. The expenses paid, not covered in the consultant contract, included the following questioned transactions totaling \$6,223:

- \$5,899 for moving expenses.
- \$13 for alcoholic beverages.
- \$35 for child's car seat in rental car.
- \$80, which includes a \$3 gratuity, for meals in July 2010, after the expiration date of consultant contract.
- \$196 for hotel accommodations for two nights in July 2010, after the expiration date of consultant contract.

According to District records, effective employment date for CTO was July 1, 2010; however, email correspondence from CFO to Superintendent on July 2, 2010 indicated CTO would not officially report to the District for work until July 19, 2010. The Superintendent directed the CFO to not change the effective contract date or charge the CTO for ten days leave time because the CTO would make up time for which he was paid, but did not work, through flex time on Fridays during the summer and other days originally scheduled off work during the school year.

#### *Executive Director of Operations*

The District entered into a consulting agreement for Consultant Services for District Facilities and Operations (Operations Consultant) for 60 days during the period July 29, 2010 through November 7, 2010. Terms of the agreement stated the Operations Consultant would be paid a daily pay rate of \$727, totaling \$43,620, for 60 days service and reimbursed travel expenses incurred, subject to District approval.

Although the only service specified to be provided by the Operations Consultant was to initiate

development of an intensive five-year facility plan, District records indicate the Operations Consultant served on the Superintendent's Cabinet and was responsible for overseeing budgets, approving time sheets, and performing staff evaluations, all responsibilities of the Executive Director of Operations. These duties appear to conflict with Board policy that states "Consultants who serve the District will exercise no authority over the work of District employees . . . ."

In addition, the District provided the Operations Consultant a District cellular telephone and paid the monthly service charges, benefits not included in the consulting agreement nor normally provided a consultant.

For the duration of the Operations Consultant's contract, the District paid \$46,907 for 64.5 days of service, 4.5 days more than the contract allowed, resulting in \$3,272 paid over the approved contract amount.

In addition, the District reimbursed Operations Consultant \$4,237 in travel related expenses.

At the end of the consultant contract and on November 8, 2010, the District hired the Operations Consultant for the position of Executive Director of Support Services at a salary of \$65,065 and a salary supplement of \$20,140, total salary of \$85,205, for the remaining 2010-11 school year.

#### *Consultant to Superintendent for Human Resources*

The District executed a consulting agreement for a Consultant to the Superintendent for Human Resources (HR Consultant) for the period July 21, 2010 through December 21, 2010. Terms of the agreement included daily pay rate of \$600, with maximum amount paid not to exceed \$62,400, and reimbursement for in-district travel based on existing Board approved policy. Other travel expense reimbursements were subject to the approval of the Superintendent.

According to the agreement, primary responsibilities of the HR Consultant involve assistance to the Superintendent for compliance, mediation, reorganization, and restructuring of Human Resources Department (HR Department). In addition, the HR Consultant was to assist with the District's conversion process to APSCN.

The District paid the HR Consultant \$31,200 for services and reimbursed \$1,974 in mileage for commuting from his Hot Springs residence to the District during the period July 21, 2010 through October 1, 2010. While the contract between the District and Consultant stated the District would reimburse in-district travel expense, mileage reimbursement for commuting to the Central Office was not addressed in the contract.

### *Professional Development Contracts*

According to Ark. Code Ann. § 6-20-2305, a portion of state foundation funding aid is required to be used for professional staff development each school year. The District received \$698,967 and anticipates getting \$692,218 in the 2009-10 and 2010-11 school years, respectively. DLA staff reviewed three contracts for professional development as discussed below.

#### *1. Arkansas Leadership Academy*

The Acting Superintendent, on behalf of the District, renewed a contract with Arkansas Leadership Academy (Academy) on May 7, 2010 for professional staff development for the 2010-11 school year.

The Academy provides services such as institutes for superintendents, master principals, and teachers as well as training for Board members, teacher leaders and facilitators, and community involvement design. In addition, the Academy provides an annual review of assessment data and assists in the development of school and District annual strategic planning.

The estimated cost is \$692,311 for the Academy's services during the 2010-11 school year.

#### *2. Pacific Educational Group*

On behalf of the District, the Superintendent entered into a consulting agreement with Pacific Educational Group (PEG) to conduct a two day workshop (Cultural Building Diversity Training Workshop) for a District executive team retreat at Mt. Magazine State Park. PEG was paid \$11,500 for consulting fees and \$951 for travel expenses of a PEG representative who conducted the workshop.

The Superintendent and consultant signed the contract on July 14, 2010, the date the invoice reflected services were actually performed. The contract approved and signed by Board members indicated dates of services of June 14 and 15, 2010.

An additional consulting agreement with PEG was executed in October 2010 for the period October 5, 2010 through July 1, 2011 at a cost to the District of approximately \$282,000, plus all travel related expenses.

Under this agreement, PEG will provide professional development and consulting services to the District for the purpose of developing and accelerating the District's capacity to engage in systemic equity transformation and eliminate racial educational disparities in District schools.

#### *3. Performance fact, Inc.*

On behalf of the District, the Superintendent executed a consulting agreement with Performance *fact*, Inc. to provide development of a system-wide strategic alignment plan, a service which appears to a part of the Academy contract, for the District.

Duration of this agreement is November 3, 2010 through June 1, 2011 with a cost of \$42,000.

### **Recommendation I**

The District should obtain reimbursement of \$6,223 from the CTO for moving expenses (\$5,899) not a part of his contract and unallowed expenses (\$324). In addition, employees should not be paid for days not worked.

The District should also obtain reimbursement of \$1,974 from the HR Consultant for mileage reimbursement received for commuting, which was not included in the contract.

District management should ensure employees in positions combined to allow an increase in salary continue to perform the services which the new position entails.

In addition, the Board should ensure that all contracts are in the best interest of the District, approved prior to services performed, and adhered to properly. District personnel should



also refrain from allowing services to begin and obligating District financially without Board approval.

Further, the District should ensure that new professional development contracts do not duplicate services provided by existing contracts.

### **Legal Fees**

According to District records, the District paid legal fees totaling \$961,329, as reflected in **Exhibit IX**, for the period July 16, 2009 through October 27, 2010. These fees were for professional services performed by various law firms, individual attorneys, and court reporters as well as other reimbursable charges.

Legal expenses included:

- \$427,313 to a Little Rock law firm for representation on a routine basis. The firm represents the District in various discrimination cases, a pending civil suit filed against James Sharpe (former superintendent), as well as certain issues concerning PACT.
- \$414,322 to another Little Rock law firm for representation in the ongoing desegregation case and certain personnel matters.
- \$71,920 to a New York law firm to assist with issues concerning the District and PACT.
- \$25,581 to various court reporters and a firm that provides court reporting services.
- \$16,233 to three attorneys who served as hearing officers for the Board mainly in personnel hearings regarding grievances and termination recommendations and also student expulsion hearings.

### **Overview of Purchasing Procedures for Goods and Services**

The District expended approximately \$75.5 million for goods and services, excluding payroll related expenses, during the 2009-10 school year. Of this amount, approximately \$37.6 million was spent for construction projects.

### **Exhibit IX**

**Pulaski County Special School District (District)  
Legal Fees  
For the Period July 16, 2009 through October 27, 2010**

Payee	Amounts
Bequette & Billingsley	\$427,313
Mitchell Williams	414,322
Vedder Price	71,920
Court reporters	19,062
Hearing officers	16,233
Flynn Legal Services	6,519
Lassiter & Couch	4,810
ADR, Inc. (Note 1)	1,150
<b>Total Legal Fees</b>	<b>\$961,329</b>

**Note 1: Provided mediation services involving District and  
Pulaski Association of Classroom Teachers**

**Source:** District financial records

The District purchasing cycle is initiated by an applicable user department employee preparing a requisition, including specifications, for purchase of desired goods or services, which is sent to the Purchasing Department (Purchasing) for approval. Purchasing personnel review requisition and specifications to determine the proper procurement method. When appropriate, Purchasing personnel solicit, receive, and review quotations, bids, and proposals, as required by Ark. Code Ann. § 6-21-304.

When a bid is required, Purchasing personnel award the contract to the successful bidding vendor. If no bid is required, a purchase order is issued to the vendor. After the applicable user department receives goods or services, Accounts Payable Department is notified to pay the vendor.

The District also allowed the use of blanket purchase orders for purchases less than \$2,500 until the Board voted to discontinue this practice on September 14, 2010.

According to District policy, an emergency purchase is one which if not immediately initiated will endanger human life or health, District

property, or the functional capability of the school or department. Although emergency purchases should be kept to a minimum, occasionally an unforeseen situation arises that constitutes an emergency.

Prior Report reflected the following deficiencies regarding District purchasing procedures:

- Blanket purchases for small order purchases frequently exceeded \$1,000 per vendor monthly limit.
- Business purpose of goods purchased was not always documented.
- Excessive use of “emergency” purchase orders. Routine operating items purchased prior to purchase order being prepared were classified as “emergency,” however, documentation to support the nature of the emergency was not provided.

These deficiencies contributed to a former Maintenance Department employee misappropriating \$439,745 in District funds by abusing blanket purchase orders.

DLA staff review of 20 invoices related to District maintenance shop purchases, paid between July 1, 2010 and October 18, 2010, to verify compliance with District procedures revealed the following issues:

- Invoices reflected purchase order numbers previously assigned to blanket purchase orders. The District issued valid purchase orders to accompany the payment after the order had been secured.
- Invoices were not paid timely.
- Supporting documentation, such as a District work order, was not provided for all purchases.
- Five invoices denoted “Shop Stock” as location for items ordered.

In addition, DLA staff randomly selected 35 invoices, paid between July 1, 2010 and October 18, 2010, to review for compliance with District procedures. The following issues were identified:

- Seven instances of District personnel placing “Hold for Pick Up” on checks, meaning

checks were held at Central Office for pick up by, or hand delivered to, specific employees or vendors.

- Three emergency purchase orders issued to the Transportation Department without documentation to verify the emergency.
- Five purchase orders created after invoice date.
- Twenty-one invoices totaling \$593 for the period November 2009 through June 2010 that were assigned purchase orders in July 2010 and paid in November 2010.

### **Recommendation J**

The District should strengthen and monitor procedures to ensure disbursements comply with District policies and procedures. Monitoring procedures should be expanded to ensure all purchases are legitimate, received, and used for District purposes. Detailed supporting documentation should also be retained for all disbursements and invoices should be paid timely. Further, reasons to justify the use of an emergency purchase order should be documented.

To deter misappropriation of funds, the District should not allow accounts payable checks to be picked up by employees or vendors or otherwise held.

### **Bids**

The Board directed the District utilize competitive bidding by securing formal and informal bids from suppliers and awarding contracts to the lowest responsible bidder meeting specifications. Prior to awarding a bid, the Board further directed all bids exceeding \$25,000 be submitted to the Board for approval. Exceptions may be made in case of emergencies with Superintendent’s approval.

All purchases in excess of \$10,000, but less than \$25,000, may be approved by the Purchasing Director after notification, in writing, to all actual or prospective bidders or contractors who make a written request to the District for notification of opportunities to bid. The Purchasing Director is required to report these purchases to the Board quarterly.



Purchases in excess of \$5,000, but less than \$10,000, may be approved by Purchasing Director after three or more verbal or written informal bids have been obtained.

Purchasing Director may purchase items less than \$5,000 without bids.

During the 2009-10 school year, 26 items were solicited for purchase through the bid process. DLA staff randomly selected seven bids for review and determined all bids selected appeared to comply with District bid requirements and specifications listed in Request for Proposal (RFP).

Of the bids selected for review, only three appeared to have the required Board approval recorded in the Board Minutes. The other four bids were not specifically mentioned by vendor in the Board Minutes, but may have been included as part of the consent agenda, "award of bids," that the Board approved by motion. Therefore, for these four bids, DLA staff was unable to determine from Board Minutes if Board approval was obtained as Board policy requires.

#### **Recommendation K**

Board action concerning acceptance of a bid proposal should be clearly denoted in Board Minutes. To ensure vendor compliance with RFPs, the District should continue to monitor the conformity process.

#### **Maintenance Department**

As reported in Prior Report, a Maintenance Shop employee misappropriated funds totaling \$439,745 by purchasing items, for which the District paid, for personal gain. As a result, DLA staff performed an onsite inventory observation on November 22, 2010 to identify and locate nine items, in various quantities, ordered as "Shop Stock."

DLA staff and District personnel were able to locate seven of the items ordered; however, two of the items, paint rolling kits and floor mats, were not accounted for properly. Maintenance personnel indicated the items were probably distributed to District schools; however, a tracking system was not utilized to determine how "Shop Stock" is ordered, received, and shipped to schools.

Further, while conducting the observation, DLA staff identified numerous items such as a juke box, antique dresser, wrought iron fence post, and various other items that were not District property. Discussions with District personnel revealed these items belong to former Executive Director of Support Services who retired from District employment in September 2009. District personnel further indicated it had been common practice for this individual to store personal items on District property.

#### **Recommendation L**

To ensure proper accountability for purchases, District should develop an order and tracking system to be used by Maintenance Department personnel. In addition, the District should not allow property, other than District property, to be stored at the Maintenance Shop.

#### **Division of Equity and Pupil Services**

Disclosed in the Prior Report, a responsibility of the District's Division of Equity and Pupil Services is to assist in providing basic needs for homeless and foster care students. According to the Assistant Superintendent for Equity and Pupil Services, the District often purchases food for families who cannot afford it themselves, supplements meals provided at the Assisting People in Transition Center located at the District Learning Academy, and provides care packages to students during the holidays and spring break. During the 2009-10 school year, the District purchased 50 grocery gift cards with value of \$50 each and utilized these gift cards for such purchases.

Receipts to support these purchases were not always maintained. In addition, supporting documentation to reflect which families were assisted and employee responsible for using the gift cards was not maintained.

Documentation provided by the District reflected seven gift cards had not been used. Although these cards should have a \$50 balance, DLA staff determined, by contacting the grocery gift card services, that five cards had a zero balances and two had balances of less than \$5.

Further, seven reimbursements totaling \$5,052 for purchases of clothing, supplies, and food for homeless students were reviewed to ensure

adequate supporting documentation was maintained. Application for Assistance forms and receipts were available to support each reimbursement reviewed.

### **Recommendation M**

Documentation to support purchases should be maintained. In addition, the District should establish a policy to ensure adequate internal controls exist regarding gift cards or other cash equivalent assistance provided to students.

### **Bell Schedule and School Buses**

The District released a new bell schedule for elementary and secondary school classes for the 2010-11 school year on August 16, 2010.

District personnel indicated the new schedule, which increased the elementary school day by forty minutes, was initiated to comply with state regulations that teacher plan time be scheduled during the school day rather than before or after school. Previously, elementary school teachers' plan time was before or after the student day schedule.

The bell schedule change for secondary schools was necessitated since District buses run routes for both elementary and secondary schools. District personnel stated neither the manpower nor funds were available for additional buses to accommodate the new bell schedule.

Ark. Code. Ann. § 6-17-114(a)(1) stipulates school districts shall provide each teacher a minimum of two hundred minutes weekly for instructional planning and preparation in increments of no less than forty minutes. However, Code further states a school district is exempt from these provisions if it has collectively negotiated a contract through a local teachers' association and the contract expressly provides for a teacher's daily planning period. Since the District has a collectively negotiated contract, it is exempt from these Code provisions.

According to the current contract negotiated between the District and PACT, as well as Board policy, elementary teachers have the option of a 45 minute preparation period either before or after the student day.

Subsequently, certain teachers filed a lawsuit against the District citing violation of teachers'

contracts. A settlement was negotiated and the District was ordered by a Sixth Judicial District Circuit Court Judge to revert back to the previous bell schedule for elementary schools. The new bell schedule for the secondary schools remains in effect.

To implement the new schedules, the District required approximately 50 additional buses.

Although the Superintendent informed the LJAC's Standing Committee on Educational Institutions at its September 9, 2010 meeting that the District would lease, rather than purchase, these buses, the District purchased 39 used buses totaling \$760,500 on October 12, 2010.

The District did not solicit bids for the purchase of buses because the Superintendent declared the purchase an "emergency." The Director of Purchasing indicated that while the formal bid process was not followed due to declared emergency, prices were obtained from three vendors.

According to the Director of Purchasing, the Director considered purchasing new buses at a cost of \$65,000 each with a nine month delivery time period, leasing buses for one year which cost more than purchasing new buses, or buying used buses. After obtaining quotes from three vendors, the District purchased 39 used buses at a unit cost of \$19,500 each.

In addition, the District hired 35 additional part-time bus drivers, at a pay rate of \$40 per day, as of report date.

According to Board Minutes of August 16, 2010, the Superintendent stated the decision to lengthen the elementary school day was solely his and not that of the Board. The Superintendent further stated the decision was not in the Board's domain and did not need a vote of the Board. However, Board policy and the PNA dictate the length of the elementary school day.

### **Recommendation N**

As governing body of District, the Board should ensure changes that affect students, faculty, and staff as well as obligate the District financially comply with Code and PACT negotiated contracts and are an appropriate use of funds.

### **Fixed Assets**

According to District financial records as of June 30, 2010, the District had capital assets valued at approximately \$158 million, consisting of 5,312 items such as buses, computers, printers, copy machines, cafeteria equipment, etc.

District policies and procedures require equipment be capitalized and recorded on the balance sheet if its value exceeds \$1,000 or is a computer, printer, copy machine, VCR, TV, or office furniture.

According to District insurance records, 441 vehicles totaling \$4,658,720 were insured as of October 15, 2010. Those insured include 358 buses, 42 maintenance vehicles, and 41 other vehicles assigned to various departments as reflected in **Exhibit X**. According to District personnel, employees are not allowed to commute in District vehicles except for the Superintendent and in instances of inclement weather.

DLA staff compared the list of insured vehicles to the fixed assets listing. The following was noted:

- Eighteen buses on insurance records, at an average insured cost of \$39,605, that were not found on fixed assets inventory.

- Ten buses listed on insurance records that were listed on fixed assets inventory without identifying manufacturer, model, or serial number.
- Eight buses listed on fixed assets inventory that were not listed on insurance records. District personnel indicated these buses appeared to be fully depreciated.
- Two buses with conflicting serial numbers between insurance records and fixed assets inventory list.

In addition, a review of a fixed assets report noted 35 computers and a projector with total value of \$47,792 with a location of "Missing."

Fixed assets may not be adequately accounted for if the District did not accurately record the description and location of each item. Further, failure to properly record fixed assets information may result in an over- or understatement of District assets on the year-end financial statements.

### **Recommendation O**

To comply with Board policy and safeguard assets, the District should establish procedures to ensure fixed assets inventory is accurate and updated timely so that year-end financial statements are fairly stated.

In addition, District should verify insurance coverage maintained for vehicles is adequate.

A policy should be implemented regarding employee use, including commuting, of District vehicles.

### **Inventory Control**

The District maintains a Warehouse in close proximity to the District Central Office that houses inventory items such as school supplies, janitorial supplies, and frozen and non-perishable foods.

**Exhibit X**

Pulaski County Special School District (District) District Vehicles As of October 15, 2010		
Department	Number of Vehicles	Cost
Bus Shop	358	\$ 4,276,157
Maintenance	42	87,123
Food Service/Bakery	6	11,016
Management Information Systems	7	36,265
Plant Planning	2	25,825
Security	4	33,411
Superintendent	1	35,480
Support Services	1	5,060
Transportation	12	52,080
Warehouse	7	91,881
Workforce Education	1	4,422
<b>Totals</b>	<b>441</b>	<b>\$ 4,658,720</b>

**Source:** District fixed assets records

DLA staff performed an onsite inventory observation at the District Warehouse on November 22, 2010. An Inventory Status Report (Inventory Report) was provided to DLA staff by District Warehouse Manager; however, neither written policies nor procedures pertaining to inventory control were available.

According to the Warehouse Manager, all items received are counted and entered into the inventory system. Individual District schools order supplies from the Warehouse Secretary, by fax or via courier, who enters the items into the inventory system. The system generates an order ticket which is distributed to the Warehouse delivery drivers. Warehouse personnel deliver to eight schools in the District per week day. Drivers are to count items set aside for delivery to ensure the items agree with the order ticket. DLA staff was informed the receiving school is responsible for counting items received and signing the delivery ticket.

Warehouse Manager indicated to DLA staff that an inventory is performed each June and an inventory report, which was shown to DLA staff, is sent to the District Business Office. Personnel in District Business Office could not locate 2009-10 school year inventory report.

Upon review of a current Inventory Report, it was determined that the received date and cost for items were not documented; therefore, DLA staff could not determine the age or value of items in the Warehouse.

DLA staff observed several items covered in dust that appear to have been stored for a prolonged period of time.

Further, DLA staff determined the Warehouse is not under proper security surveillance. Cameras installed at the Warehouse appear to be only motion sensors that do not record daily activity.

### **Recommendation P**

To ensure proper usage and safeguard against misappropriation, District should establish internal controls that account for receipt, storage, and distribution of inventory items. Written policies and procedures should be developed to ensure that all inventory is accounted for properly. The inventory system should record and report dates received and removed, as well as cost of items, features currently available in APSCN.

In addition, District may consider installing security cameras to monitor Warehouse activity to enhance protection of District property.

### **Cellular Telephones**

The monthly cellular telephone bill for the District is reviewed by the Director of Purchasing, who initiated this procedure after he was hired July 19, 2010, to determine if charges are proper and to identify cellular telephones that are no longer needed by the District, whereupon service is cancelled. Before payment, District personnel separate the bill by department for approval by the respective department supervisors. However, Department Supervisors indicated, during interviews with DLA staff, that cellular telephone bills were not thoroughly reviewed prior to October 2010.

The District cellular telephone policy states:

- The supervisors of each department will, for their division, monitor and approve detailed cellular telephone bills.
- Each employee will review his/her cellular telephone bill each month and denote any personal and/or nonofficial calls. Reimbursement should be sent to the Business Office within 30 days.
- All long distance, roaming, and personal calls, as well as calls exceeding the allowable plan minutes will be paid by the employee. Personal calls not accounted for within 30 days may be deducted from the employee's next regularly scheduled payroll disbursement.

The District provided cellular telephones to administrative, transportation, warehouse, security, support, and certain nursing staff. District expenditures totaled \$70,718 for 92 cellular telephones and related services which included \$3,884 in usage charges, such as roaming and voice and data fees, not covered by the District's service plan for the period August 14, 2009 through September 10, 2010.

The District cellular telephone policy does not identify usage and eligibility requirements; therefore, DLA staff was unable to determine if District had adequate controls over the use and distribution of cellular telephones.

### Recommendation Q

The District should determine the employees responsible for the charges of \$3,884 not covered in the District's cellular telephone service plan and obtain reimbursement from the applicable employees.

### Overpayments to Newly Hired Employees

DLA staff randomly selected four employees, whose employment with the District began after July 1, 2010, to determine if these employees were correctly entered in the payroll system based on information contained on Employee Recommendation Form (ERF), Support Staff Personnel Recommendation Form (SSPRF), and Certified Employment Recommendation Form (CERF).

Review revealed the District overpaid three of the four employees at least \$9,741 during the period July 1, 2010 through September 15, 2010, as reflected in **Exhibit XI**, for days which appear not worked prior to actual start date.

#### **Exhibit XI**

Pulaski County Special School District (District) Employees' Salary Overpayments July 1, 2010 through September 15, 2010	
Employee	Amounts
1	\$ 4,553
2	4,101
3 (Note 1)	1,087
Total Amounts Overpaid	\$ 9,741

Note 1: Employee is Superintendent's brother

**Source:** District payroll records

#### *Employee 1*

Review of ERF indicated employee effective date was originally July 8, 2010; however, Human Resources personnel changed the date to July 22, 2010 with notations that this was the actual first day of work. The Assistant Superintendent of Human Resources changed the date back to July 8, 2010 with no additional notation. ERF also reflected the Superintendent contacted three of the employee's references on July 8, 2010.

DLA staff contacted the employee's previous employer to determine the last official work day for the individual. According to the previous employer, the employee submitted his resignation on July 9, 2010 with an effective date of July 13, 2010. Due to conflicting information on the ERF, it appears the employee was paid for ten days that were not worked, resulting in an overpayment of \$4,553.

#### *Employee 2*

Review of SSPRF did not indicate the beginning date of District employment for the employee; however, payroll records reflect an effective date of July 1, 2010. The SSPRF did not contain references nor any indication the District contacted references. Email correspondence between the Superintendent and CFO on July 2, 2010, included in the employee's personnel file, revealed the CFO was concerned that the contract was signed on July 1, 2010, but the employee was not to actually start work until July 19, 2010. The Superintendent directed the CFO not to change the effective date on the contract or charge the employee for ten days leave time. The Superintendent indicated the employee would make up the time through flex time on Fridays during the summer and other days that would originally be scheduled off during the school year. Further, prior to July 1, 2010, the employee served as a consultant to the District and District personnel indicated, and DLA staff confirmed, payment for consultant services was mailed overnight to the employee's residence in Portland, Oregon on July 13, 2010. Based on this information, it appears the employee was paid for ten days that were not worked resulting in an overpayment of \$4,101.

#### *Employee 3*

Review of CERF reflected an effective start date of September 3, 2010 and payroll records reflected hire date of September 8, 2010; however, District personnel indicated references for the employee were checked on September 8, 2010. Further, District personnel indicated that the Superintendent stated on September 7, 2010 that this employee would be joining the District. Due to conflicting information between effective start date and hire date, it appears the employee, who is the Superintendent's brother, was paid for at least three days that were not worked, one of which was a holiday, resulting in an overpayment of \$1,087.



### **Recommendation R**

District should ensure new employee effective start dates accurately reflect the actual first date of work.

District should also obtain reimbursement from, or apply leave time to, those employees who were paid for days not worked.

### **Overtime Compensation**

Prior Report disclosed excessive overtime compensation in the Maintenance Department. Although review of overtime compensation payments for the 2009-10 school year revealed a significant reduction in overtime pay, the following three employees received triple the amount of overtime from the previous school year.

- Insurance Specialist - \$18,483
- Payroll Specialist II - \$17,116
- Secretary to Superintendent and Board - \$10,081

Discussions with District personnel revealed the District is understaffed in the payroll and insurance departments. District employees are paid every two weeks; therefore payroll is processed one week and distributed the next week. In addition to the frequency of payroll disbursements, the District recently converted its financial records to APSCN and during the transition, dual payrolls were run which required additional overtime for the payroll and insurance specialists to ensure payroll was complete and accurate.

The District financial audit for the year ended June 30, 2009, revealed payroll duties were not adequately segregated. According to District management, the cost/benefit implications hinder the District's ability to segregate the payroll preparation among employees.

In addition, the Board Secretary is required to work overtime when Board meetings are held after regular school hours. During the 2009-10 school year, the Board held approximately 36 meetings, which resulted in over 200 overtime hours for the Board Secretary.

### **Recommendation S**

To prevent excessive overtime, the District should continue to monitor payroll disbursements.

In addition, District should ensure that adequate segregation of duties exists in the payroll and benefits department.

### **Grant Writer**

District personnel notified DLA staff of an internal investigation regarding allegations of misuse of District supplies by District Grant Writer, Dr. Deborah McAfee. According to file documents, the District determined, and this review confirmed, \$1,221 in questioned reimbursements to McAfee for supplies that may have been used by McAfee in her personal business, Grant It. The items in question include CD labels and cases, bubble mailers, ink cartridges, and address labels. These items, when used by the District, are ordered directly from the vendor through the District procurement process.

In addition, a vendor informed the Superintendent that McAfee stated the District would utilize the vendor's services in exchange for completing an application for a particular grant. After the District was awarded this grant, the vendor subsequently notified the Superintendent because the vendor's service were not used by the District as McAfee promised.

Further, DLA staff identified the following \$235 in questioned mileage reimbursements that are due the District:

- \$65 mileage reimbursement to McAfee for 187 mile round trip to Clarksville School District (CSD) on March 29, 2010. DLA staff contacted CSD and learned McAfee was writing a grant for CSD, not representing the District. Representatives of CSD further indicated McAfee was paid \$3,000 for grant writing services and returned to CSD on March 31, 2010 for grant writing assistance. DLA staff reviewed District employee leave records for McAfee and determined McAfee did not charge leave for either of the days away from the District for matters unrelated to the District.
- \$170 mileage reimbursement for 487 miles reported on previous in-district travel report.

In addition, DLA staff identified \$1,191 in reimbursements to McAfee for supplies for the period July 1, 2009 through August 3, 2010. District personnel neglected to include these

reimbursements due to McAfee having two vendor names (Deborah McAfee and Dr. Deborah McAfee) set up in APSCN.

DLA staff determined reimbursements totaling \$343 were questioned as to business purpose and included items such as card readers, scanning services, and picture frames.

DLA staff received permission from the Superintendent to obtain McAfee's District computer and email archives to perform a computer forensics review. Results of that review included the following:

- Email between McAfee and Acting Superintendent, dated June 2, 2010, indicated McAfee was teaching a workshop outside the District and requested to take "professional" leave for that purpose. McGill instructed McAfee that if she were paid to conduct the workshop she must take vacation days. DLA staff contacted two entities for which McAfee conducted three workshops on three different days and determined McAfee was paid to conduct each workshop and reimbursed for mileage and lodging. District leave records reflected McAfee charged a vacation day, a school business day, and a professional day as opposed to taking three vacation days as directed by McGill.
- Email between McAfee and District personnel reflected a District employee printed labels for a school district in Tennessee at McAfee's request. DLA staff review of McAfee's grant writing website revealed schools in Tennessee used McAfee's grant writing service.

### **Recommendation T**

The District should require reimbursement from McAfee for items purchased totaling \$1,221 determined not to be for District use. Unless adequate documentation is provided, McAfee should also reimburse \$343 for supplies that DLA staff identified were not for a District purpose.

In addition, the District should obtain reimbursement of \$235 for mileage.

Further, District personnel should determine amount of leave time McAfee should have been charged while performing services unrelated to District.

### **DREAM**

Dedicating Resources to Excel All Minds (DREAM) is a non-profit community based organization, in partnership with the District, committed to providing an environment that meets the academic and social needs of students and families from all cultural and economic backgrounds.

Jody Abernathy, Director of DREAM and daughter of a District Assistant Superintendent, stated DREAM provided academic support for 120 District students through pre-school and after school programs.

During the 2009-10 school year, DREAM supplied after school services to nine District schools and pre-school services to approximately 40 children.

Funding for DREAM was primarily through the federal Twenty-First Century Community Learning Centers grant program administered by ADE. DREAM also received funds from the Arkansas Better Chance pre-school program as reimbursement for meals and snacks served to children enrolled in the DREAM pre-school program.

Under terms of a contract, effective October 1, 2009 through June 1, 2010, signed by Abernathy and the District Director of Student Nutrition Services, DREAM was to reimburse the District for meals and snacks supplied by the District.

According to District records, DREAM was charged \$78,076 for meals and snacks for the period August 2008 through April 2010, but has reimbursed only \$50,885, leaving \$27,191 due the District.

Subsequently, Abernathy reimbursed an additional \$5,400 to the District via the District's attorney, leaving \$21,791 due the District as of report date. Abernathy further agreed, through a consent judgment, to reimburse the balance. The District executed an agreement to withhold execution of judgment as long as Abernathy continued to reimburse the District.

According to District personnel, the District Nutrition Department no longer provides services to DREAM, effective May 1, 2010.

### **Recommendation U**

The District should continue to monitor reimbursements from DREAM and take appropriate action if the debt is not satisfied in accordance with the consent judgment.

### **Foreign Travel**

In reviewing District financial records, DLA staff identified a payment of \$7,826 to China Travel Services on October 28, 2010. District provided a copy of the invoice which indicated the Superintendent, Board member Tim Clark, and six other District employees were traveling to Beijing, China from December 2 through December 10, 2010 for a 2010 Winter Chinese Bridge for American Schools program. Interviews with District personnel revealed the trip is sponsored by the University of Central Arkansas Confucius Institute (UCACI) and East China Normal University in Shanghai. The UCACI, in collaboration with ADE, is promoting the teaching of the Chinese language in Arkansas school districts.

Information provided to the District by UCACI indicated the District is responsible for half of the round trip airfare from China and will not be responsible for any additional travel costs associated with the trip such as lodging, meals, tour guides, and inter-city transportation costs. The District anticipates reimbursement of \$3,424 from UCACI.

In addition, because Board member Tim Clark paid his airfare directly to China Travel Services, the District is due a refund of \$978 from China Travel Services.

DLA staff was unable to determine if this trip was discussed with or approved by Board prior to payment of the airline costs.

Further, it was determined that even though only one Board member is attending, the entire cost of the trip was charged to the Board of Education Services accounting code.

### **Recommendation V**

District personnel should refrain from obligating District financially for expenses outside of normal business without Board approval. In addition, District should ensure costs associated with trip are charged to the appropriate accounting code.

Further, District should ensure reimbursements of \$978 and \$3,424 from China Travel Services and UCACI, respectively, are received. Without Board approval, the District should not reimburse other expenses associated with trip.

### **Outstanding Checks**

A review of District financial records revealed 151 outstanding accounts payable checks totaling \$62,428 were more than 120 days old as of September 30, 2010. One check totaling \$31,933, payable to a vendor, was given to a District employee who held the check for five months before notifying District Accounting personnel that the check was being held because the vendor had not fulfilled an order. Due to the District employee holding the check after the close of the 2009-10 school years, District personnel did not void the check; therefore, expenditures for the year were overstated. After notification from DLA staff, District personnel voided this check on November 4, 2010.

In addition, 39 of the 151 outstanding accounts payable checks, totaling \$4,938, were identified as issued in 2008.

Further review of District financial records revealed 185 outstanding payroll checks totaling \$40,889 were more than 120 days old as of June 30, 2010. Of these outstanding checks, 110 totaling \$26,895 and 60 totaling \$12,278 were issued in calendar years 2009 and 2008, respectively.

Although District checks denote "Check void after 180 days," discussions with District Accounting personnel indicate the District does not have a formal, clearly defined policy for voiding outstanding checks. However, District personnel indicated at the end of each school year, during the year-end closeout of financial records, the oldest checks are written off. District personnel strive to ensure outstanding checks were not older than two school years.

### **Recommendation W**

The District should establish a formal, written policy to void stale outstanding checks. Such policy should establish scheduled aging dates with specified required action. At a minimum, checks outstanding over the established time period should be voided and reissued as needed.



In addition, District should discontinue the practice of allowing employees to intercept checks payable to vendors.

### **Manual Checks**

A review of manual payroll checks revealed 148 checks were processed between July 1 through December 1, 2010. Of these checks, 146 were issued to employees for refunds of PACT dues withheld from paychecks in error.

The remaining two checks were issued to the Superintendent and a District principal who were to be out of town when direct deposits were scheduled to post to their bank accounts. At the request of the Superintendent, the District CFO authorized manual checks be issued in lieu of direct deposit.

According to District personnel, the District did not have a policy for issuing manual checks; however, the Director of Accounting/Auditing or the CFO may authorize a manual check.

### **Recommendation X**

The District should implement a manual check policy and not issue manual payroll checks.

### **Arkansas Financial Accounting Handbook**

The Arkansas Financial Accounting Handbook (Accounting Handbook) was developed to provide an accounting system to effectively manage local school district funds. According to ADE, it is a uniform chart of accounts and related codes established by ADE and used for accounting and financial reporting of school districts. The classifications contained in the Accounting Handbook describe financial transactions and provide consistency and comparability in local school district financial reporting throughout the state.

The District utilized incorrect classifications in coding various expenditures. Incorrectly classified expenditures not only inhibit comparability between local school districts, but also cause a potential misstatement of the financial statements.

### **Recommendation Y**

Procedures should be implemented to ensure consistency in coding District expenditures.

### **Spending Practices**

To demonstrate District spending practices, DLA staff provided examples of certain District expenditures, totaling over \$3.2 million, in **Schedule 3 on page 38**.

### **Internal Control Deficiencies**

Internal control is a process consisting of five interrelated components – control environment, risk assessment, information and communication, control activities, and monitoring. Management is responsible for adopting sound policies and establishing and maintaining internal control that will ensure the achievement of the entity's objectives. The control environment sets the tone of an organization, which influences control consciousness of its employees, and is the foundation for all other components of internal control, providing discipline and structure.

District management is responsible for properly communicating values and behavioral standards to personnel through policy statements, codes of conduct, and example. District management and the Board are also responsible for establishing a "tone at the top" that demonstrates to personnel the necessity of standards and fiscal prudence.

This review and interviews with pertinent District personnel revealed several internal control deficiencies which could contribute to misappropriation of District funds as well as potential waste and abuse of District resources. In particular, these deficiencies indicate Administrative staff and the Board, at times, did not:

- Exercise proper management fiscal oversight responsibility or provide safeguards to prevent and timely detect misappropriation of funds and potential waste and abuse of District assets.
- Follow established District policies and procedures.

### **Recommendation Z**

To reduce the risk of misappropriation of assets and potential waste and abuse of funds, the Board should, in conjunction with Administrative staff, continue to practice sound internal control policies, comply with applicable Code and IRS regulations, and monitor all accounting phases for adherence to established controls and procedures.

In addition, the Board should increase and maintain its knowledge and awareness of fiscal oversight, accountability, and fiduciary responsibilities. District management and the Board should strive to demonstrate to personnel the necessity of standards and fiscal prudence.

### **Matters Disclosed in Prior Report**

#### *Superintendent Salary Overpayment*

District personnel recalculated former Superintendent James Sharpe's compensation for services to the District from July 2005 through March 2009 to determine if Sharpe was overpaid for the period. Accounting and payroll personnel calculated, and DLA staff verified, an overpayment totaling \$17,203 net of \$4,636 withheld from Sharpe's separation payment.

The overpayment was due primarily to the unauthorized retirement contribution amount paid directly to Sharpe each pay period, totaling \$13,569.

#### *Superintendent's Travel Expenses*

The District issued Sharpe travel advances, net of amount unused, and reimbursements totaling \$4,665 and \$265, respectively. In addition, Sharpe charged other expenses totaling \$15,688 to a District credit card he was authorized to use. Of the total travel expenses of \$20,618 paid to, or on behalf of, Sharpe, \$7,836 were unallowable expenses. These included duplicate charges, meals and conference registration fees for family members, gratuities, alcoholic beverages, meals at local restaurants, and taxi fares not adequately documented.

#### *Status*

The District filed a civil lawsuit against Sharpe seeking reimbursement of salary overpayment (\$17,203) and the unallowable travel expenses (\$7,836). Attorneys for the District and Sharpe are currently in negotiations regarding this matter and the civil suit is pending resolution in Sixth Judicial District Circuit Court.

#### *Board Members' Travel*

Board members' travel expenses for the period July 1, 2006 through March 3, 2009 included unallowable or undocumented expenses of \$7,349 and \$343, respectively. Three Board members reimbursed the District for unallowable

amounts (\$278) or provided an explanation for questioned expenses (\$70) and two other Board members provided adequate supporting documentation for a portion of their unallowable expenses (\$3,667). Unallowable and questioned travel expenses totaling \$3,677 remain due the District.

#### *Status*

The District was reimbursed for \$3,527 of the unallowable travel expenses and documentation to support the remaining \$150 was provided to the District.

#### *Misappropriation of Funds*

District Mechanical Systems Supervisor James Diemer misappropriated \$439,745 by purchasing items, for which the District paid, from three vendors for personal gain.

#### *Status*

Diemer entered, in federal court, a plea of guilty to theft of property from a government entity which received federal funds and was sentenced to 18 months imprisonment with three years supervised probation upon his release. Diemer was also ordered to pay restitution totaling \$387,442. During incarceration, he will pay 50 percent per month of all funds available to him and upon release, will pay 10 percent per month of his monthly gross income to satisfy restitution.

The Arkansas Governmental Bonding Board approved bond payment of \$249,000 from the bond trust fund as fidelity insurance coverage for this loss in July 2010.

The District maintains fidelity bond insurance coverage through Central Arkansas Risk Management Association with which a claim was filed in early November 2010. The District received payment of \$99,000 for this claim.

#### *Jacksonville High School Activity Fund*

District accounting personnel determined \$23,036 had not been deposited in the Jacksonville High School Activity Fund (Activity Fund) during the period August 2009 through January 2010.

In addition, gate receipts and change funds, estimated to total \$8,500, for eight athletic events during September 1, 2009 through January 15,

2010 were not deposited in the Activity Fund bank account.

The District contacted the Jacksonville Police Department to report funds not deposited. Subsequently, Rosalind Taylor, Activity Fund Bookkeeper, was charged with theft of property.

#### District Response

District accountants require school bookkeepers to make daily deposits for Activity funds. The Activity funds are accounted by fundraiser and monthly activity fund balances are reported in the Board Agenda book. Activity funds may not carry over more than \$4 per student to the next fiscal year without Board approval at the June meeting.

#### Status

Felony theft of property charges were filed against Taylor in Sixth Judicial District Circuit Court. A jury trial has been scheduled for January 2011.

### CONCLUSION

Following presentation of the Prior Report on May 14, 2010, the Legislative Joint Auditing Committee (LJAC) requested DLA staff to determine and report corrective measures the District implemented regarding Prior Report findings. In addition, LJAC requested, at its June 11, 2010 meeting, DLA staff to prepare a follow-up report relating to selected transactions and activities of the District subsequent to the time periods of review for various components of the Prior Report.

Selected examples of the District's spending patterns during the period July 2009 through November 2010, totaling over \$3.2 million, are provided in **Schedule 3 on page 38**.

The employment contract for Superintendent Charles Hopson included use of a District vehicle and fuel credit cards for both business and personal purposes. Although the contract stipulated Hopson maintain records for personal use, these were not kept. Hopson's contract also contained clauses for services as a consultant prior to hire date, moving and relocation expenses of \$25,000, health and other types of

insurance premiums not allowed by Code nor certain IRS regulations, and reimbursement of \$56,357 for a portion of his cost to reinstate to ATRS.

Salaries and benefits for certain administrators are budgeted to increase by \$550,138 and \$162,777, respectively, in the 2010-11 school year from the previous school year.

Several Board members received training hours in excess of the number required. The District spent over \$176,000 for Board-related expenses, including boardroom renovations. In addition, Board members received unallowed reimbursements and use of a cellular telephone totaling \$1,360, which is due the District.

The District received \$20.5 million in desegregation funds of which \$16.2 million was expended in the 2009-10 school year.

Review of certain consultant contracts indicated two individuals, who are or will become District employees, were placed on contract for services prior to employment which appears to be to pay them above the salary level for the positions they hold or will assume.

The District expended \$961,329 for legal services, including fees for union disputes and an ongoing desegregation case.

The Prior Report disclosed numerous deficiencies in the District purchasing process. Although this review indicated improvements in purchasing practices, the District continued to have issues in that supporting documentation was not available for all disbursements; accounts payable checks were occasionally held for pick up by, or hand-delivered to, vendors; and some Maintenance Department purchases were not tracked properly.

The District's bell schedule was changed, at the direction of the Superintendent, resulting in the purchase of 39 used school buses at a cost of \$760,500 as well as hiring 35 additional part-time bus drivers.

Review of the District's fixed assets records and Warehouse inventory reports revealed several instances for which asset information was not accurate and inventory items were not adequately tracked. In addition, security measures at the Warehouse were not sufficient.

Three new employees were paid a total of \$9,741 for days not worked.

An internal review conducted by District personnel disclosed that the District's Grant Writer had misused District supplies. In addition, this employee received mileage reimbursement for travel unrelated to District business on District time.

DREAM, a vendor which provided before and after school programs, owes the District \$21,791 for meals and snacks provided by the District.

The District did not code all expenditures consistently or in accordance with ADE's accounting manual. In addition, the District did not timely void stale outstanding checks.

Matters disclosed and pending in the Prior Report, and the status thereof, are discussed on **pages 33 and 34**.

The District is due or potentially due \$66,807 from various Board members, employees, and vendors as shown in **Exhibit XII**.

District management is responsible for properly communicating values and behavioral standards to personnel through policy statements, codes of conduct, and example. District management and

the Board are also responsible for establishing a "tone at the top" that demonstrates to personnel the necessity of standards and fiscal prudence. This review and interviews with pertinent District personnel revealed several internal control deficiencies which could contribute to misappropriation of District funds as well as potential waste and abuse of District resources.

Response to the report provided by the Superintendent is presented in the **Appendix on pages A-1 through A-3**.

This report has been forwarded to Sixth Judicial District Prosecuting Attorney, Arkansas Department of Education, and Arkansas Governmental Bonding Board.

#### Exhibit XII

Pulaski County Special School District (District)  
Amounts Due/Potentially Due the District  
As of November 30, 2010

Title/Vendor	Amounts Due/Potentially Due District
Superintendent	\$ 23,919
Board members	1,360
Chief Technology Officer	6,223
Consultant for Human Resources	1,974
Overpaid employees (3)	9,741
Grant Writer	1,799
DREAM	21,791
<b>Total</b>	<b>\$ 66,807</b>

**Source :** District financial records

**Schedule 1**

**Pulaski County Special School District  
Salaries and Benefits of Certain Administrators  
For the 2009-10 and 2010-11 School Years**

Position	Date Hired	Date Resigned	2009-10		2010-11	
			Salaries	Benefits	Salaries	Benefits
			(Note 1)		(Note 2)	
Superintendent	7/1/10				\$ 258,600	\$ 82,752
Acting Superintendent	3/11/09	06/30/10	\$ 167,391	\$ 53,565		
Chief Financial Officer	6/10/09		111,500	35,680	115,168	36,854
Chief Technology Officer	7/1/10				100,067	32,021
Director of Management Information Systems	5/12/99	1/15/10	47,972	15,351		
Dep. Supt. for Academic Accountability Region I	7/14/09		101,823	32,583	111,090	35,549
Dep. Supt. for Academic Accountability Region II	7/8/09				109,269	34,966
Asst. Superintendent for Human Resources	7/1/06		114,742	36,717	114,742	36,717
Asst. Superintendent for Equity/Pupil Services	3/14/07		114,496	36,639	117,242	37,517
Asst. Superintendent of Curriculum/Instruction	8/9/10				88,703	28,385
Director of Secondary Education	7/1/06	01/06/10	57,127	18,281		
Director of Elementary Education	7/1/06		102,110	32,675	105,469	33,750
Director of Federal Programs	9/9/10		84,517	27,045	91,270	29,206
Executive Director of Support Services	8/24/01	9/25/09	24,255	7,761		
Acting Executive Director of Support Services	5/7/09	6/30/10	92,408	29,570		
Executive Director of Operations	11/8/10				85,205	13,999
Director of Public Information and Policy	9/23/09	6/30/10	41,046	13,135		
Executive Director of Communications	7/1/10				67,881	21,722
Director of Educational Accountability	10/11/99	6/30/10	99,269	31,766		
Executive Director of Educational Accountability	7/1/10				101,642	32,525
Director of Pupil Services	7/1/10				77,374	24,760
Director of Human Resources	7/17/06		77,374	24,760	88,070	28,182
Director of Special Education	7/7/06	8/31/10	18,171	5,815		
Acting Director of Special Education	7/1/09	6/30/10	83,972	26,871		
Director of Special Education	7/1/10				87,815	28,101
Director of Workforce Education	9/26/05		74,909	23,971	77,374	24,760
Director of Counseling	7/11/07		79,919	25,574	82,550	26,416
Director of Gifted and Talented	8/10/05		85,265	27,285	88,070	28,182
Director of District Athletics	7/1/10				61,687	19,740
Acting Director of Educational Technology	7/1/09	6/30/10	79,305	25,378		
Director of Accounting and Auditing (Note 3)	12/24/86		85,459	27,347	85,707	27,426
Acting Director of Accounting and Auditing	7/1/10				71,402	22,849
Director of Purchasing	1/2/07	8/11/09	15,020	4,806		
Director of Purchasing	9/9/10	4/2/10	51,670	16,534		
Director of Purchasing	7/19/10				75,259	24,083
Director of Transportation (Note 4)	4/25/95		7,440	2,381	94,670	30,294
Director of Grants Administration	7/24/09		77,176	24,696	85,344	27,310
Director of Child Nutrition	8/4/08		75,511	24,163	78,029	24,969
Director of Plant Planning	8/26/87		98,249	31,440	98,535	31,531
<b>Totals</b>			<b>\$ 2,068,096</b>	<b>\$ 661,789</b>	<b>\$ 2,618,234</b>	<b>\$ 824,566</b>

Note 1: Actual amounts paid

Note 2: Amounts budgeted for 2010-11 school year

Note 3: Employee is on leave

Note 4: Employee was on military leave the majority of the 2009-10 school year

**Source:** District financial records

## Schedule 2

Pulaski County Special School District (District) Board and Union Actions For the Period December 6, 2009 through October 12, 2010	
Date	Action
12/6/09	Tentative agreements between the District School Board (Board) and Pulaski Association of Classroom Teachers (PACT) were ratified.
12/8/09	Board voted to withdraw recognition of PACT and Pulaski Association of Support Staff (PASS), effective immediately.
12/10/09	Memo from Acting Superintendent Rob McGill indicated PACT contract for 2006-2009 would remain in effect and both certified and support staff employees would form a personnel policy committee in compliance with state law.
12/10/09	A number of certified teachers participated in a "one-day Fair Treatment Walkout."
12/15/09	PACT filed a complaint seeking declaratory judgment that the Professional Negotiations Agreement was effective by its terms until a successor agreement could be negotiated.
12/30/09	District filed a counterclaim seeking declaratory judgment that some members of PACT engaged in an "illegal one-day strike" on December 10, 2009.
3/5/10	Both parties entered into a Joint Stipulation of Facts for submission to the court.
3/8/10	Court ordered both parties to attend mediation.
3/24/10	Court was notified by the mediator that the mediation process was unsuccessful.
6/11/10	Board voted to give Attorney for District authority to hire additional legal counsel to assist in the union case.
10/12/10	Board voted to recognize PACT and PASS.

**Source:** District Board minutes and Sixth Judicial District Circuit Court order

### Schedule 3

Pulaski County Special School District (District)  
District Spending Patterns  
For the Period July 16, 2009 through November 30, 2010

Item	Cost	Description
First Student, Inc.	\$ 760,500	Purchased 39 used buses as a result of bell schedule changes.
Administrators' salaries and benefits	712,915	Increases in certain administrators' salaries and benefits as compared to 2009-10. See Schedule 1 on page 36.
Consultant fees	96,126	Chief Technology Officer (\$11,808), Executive Director of Operations (\$51,144), and Consultant to Superintendent (\$33,174) were paid for consultant fees and other expenses prior to employment with District.
Pacific Education Group	294,451	Diversity Training Contract. \$282,000 to be paid during the 2010-11 school year.
Boardroom renovation	104,524	Boardroom renovations to convert to "paperless" Board meetings.
Grievance settlement (Note 1)	75,000	\$50,000 to Michael Nellums for grievance settlement; \$25,000 to Nellums for attorney fees.
Legal fees	961,329	Includes various expenses for legal representation. See Exhibit IX on page 22.
Cellular telephones	70,718	Cellular telephone charges for 92 District administrators and other personnel during the 2009-10 school year.
Performance <i>fact</i> , Inc.	42,000	Contracted to develop a three-year strategic alignment plan to be implemented in the 2011-12 school year.
Superintendent's vehicle	35,480	Purchased a 2010 Buick LaCrosse for Superintendent's use.
Superintendent's moving expenses	24,805	Board approved \$25,000 for moving/relocation expenses.
Superintendent's consultant fees	17,656	\$10,922 consultant services; \$5,880 airfare, rental car, hotel, and miscellaneous fees; and \$854 per diem paid prior to contract effective date.
iPads	15,852	Purchased 20 iPads for Board and Cabinet members.
China Travel Service (Note 2)	7,826	Airfare to Beijing, China for Superintendent, a Board member, and six other District employees to attend the 2010 Winter Chinese Bridge For American Schools program.
Chief Technology Officer moving expenses	5,899	Moving expenses from Portland, Oregon to Little Rock, Arkansas.
<b>Total</b>	<b>\$ 3,225,081</b>	

Note 1: \$25,000 of the \$50,000 is to be paid to Nellums in January 2011

Note 2: District anticipates reimbursement of \$3,424 from University of Central Arkansas Confucius Institute

**Source:** District financial records

# **APPENDIX**

**Pulaski County Special School District  
Response to Report  
Dr. Charles Hopson, Superintendent**



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**Response: A**

The District will report all fuel cost incurred by Mr. McGill as income on his IRS Form W-2 for 2010.

**Response: B and C**

The District will recommend to the Board a policy requiring employees to maintain vehicle usage records for personal use of a District vehicle to comply with IRS regulations. The District will also recommend that the policy include the IRS 100% income inclusion for all District-provided vehicles should vehicle usage records not be provided.

The \$141 noted in the report as overpayment of disability insurance is incorrect. The District will review the total amount of \$6,590 in insurance premiums which were negotiated as part of Dr. Hopson's contract to ensure compliance with Arkansas Code.

The District has not expended any cost associated with Dr. Hopson's reinstatement of ATRS service. The District has referred this issue to legal counsel and the contract negotiator for the Superintendent. All said costs were negotiated as part of the Superintendent's contract.

The District will address the parameters of reasonable, necessary District car maintenance expenditures allowed in the Superintendent's contract.

All income paid to Dr. Hopson for technology services be will included as income on his 2010 IRS Form W-2, and all payments made on behalf of Dr. Hopson's technology services will be reimbursed by Dr. Hopson or included as income on his IRS Form W-2.

All moving and relocation expenses not meeting IRS regulations will be added as income on Dr. Hopson's 2010 IRS Form W-2. The District will not request reimbursement of moving and relocation expenses because they were negotiated as part of the Superintendent's contract.

**Response: D**

The Superintendent will recommend to the Board President consideration of procedures to be implemented to ensure Board members obtain required number of training hours.

**Response: E**

The District will seek reimbursements for mileage reimbursement overpayments of \$116 and \$21 from Board members Williams and Tatum, respectively. Before reimbursing Board members for mileage expense, the District will review and substantiate mileage forms submitted for reimbursement.

**Response: F**

The District will seek reimbursement for improper travel advances of \$95 and \$305 from Board members Tatum and Williams, respectively. The District will enforce the Board's policy of not advancing funds for travel expense.

**Response: G**

The District will request Board member Clark repay \$15 for duplicate meal reimbursement and seek \$6 from former Board member Gililand for improper expense reimbursements.

In addition, the District will require Williams reimburse \$802 for cellular telephone services the District paid on her behalf.

**Response: H**

The District has revised its travel reimbursement policy and now reimburses employee travel expenses on a per diem basis for meals.

**Response: I**

The District will review the \$6,223 not covered in the CTO's consultant contract. Moving expenses were agreed to by the Superintendent and CTO as a condition of employment. The CTO will reimburse the District \$13 in questioned expenses. In addition, employees will not be paid for days not worked.

The District will review reimbursement of \$1,974 paid the HR Consultant for mileage expenses for commuting, which was not included in the contract. The District will recommend that all contracts are in the best interest of the organization, approved prior to services performed, and adhered to properly. In addition, the organization will ensure that District personnel refrain from allowing services to begin and obligating District financially without Board approval.

The District will also evaluate employees in positions combined to allow an increase in salary to ensure they are continuing to perform the services which the new position entails.

**Response: J**

The District will continue to strengthen and monitor procedures to ensure disbursements comply with District policies and procedures.

The District will adopt a policy to discontinue allowing vendors to pick up checks or allowing employees to pick up checks for vendors. The policy will be presented at our January 12, 2011 Board meeting.

**Response: K**

Board action concerning acceptance of a bid proposal will be clearly denoted in Board minutes. To document vendor compliance with RFPs, the District will implement and document a conformity process.

**Response: L**

To ensure proper accountability for purchases, District will develop an order and tracking system to be used by Maintenance Department personnel. In addition, the District will not allow property, other than District property, to be stored at the Maintenance Shop.

**Response: M**

Documentation to support purchases will be maintained. In addition, the District will establish a policy to ensure adequate internal controls exist regarding gift cards or other cash equivalent assistance provided to students.

**Response: N**

As governing body of District, the Board will ensure changes that affect students, faculty, and staff as well as obligate the District financially comply with Code and PACT negotiated contracts and are an appropriate use of funds.

**Response: O**

To comply with Board policy and safeguard assets, the District will establish procedures to ensure fixed assets inventory is accurate and up-

dated timely so that year-end financial statements are fairly stated.

In addition, District will continue to verify that insurance coverage maintained for vehicles is adequate.

A policy will be implemented regarding employee use, including commuting, of District vehicles.

**Response: P**

To ensure proper usage and safeguard against misappropriation, District will strengthen internal controls that account for receipt, storage, and distribution of inventory items. Written policies and procedures will be developed to ensure that all inventory is accounted for properly. The inventory system will record and report dates received and removed, as well as cost of items, features currently available in APSCN.

In addition, District will enhance security methods to monitor warehouse activity to protect District property.

**Response: Q**

The District will seek to determine the employees responsible for the charges of \$3,884 not covered in the District's cellular telephone service plan and obtain reimbursement from the applicable employees.

**Response: R**

District will ensure new employee effective start dates accurately reflect the actual first date of work. District will seek reimbursement from, or apply leave time to, those employees who were paid for days not worked.

**Response: S**

To prevent excessive overtime, the District will continue to monitor payroll disbursements.

In addition, District will ensure that adequate segregation of duties exists in the payroll and benefits department.

**Response: T**

The District will require reimbursement from McAfee for items purchased totaling \$1,221 de-

terminated not to be for District use. Unless adequate documentation is provided, McAfee should also reimburse \$343 for supplies that DLA staff identified were not for a District purpose.

In addition, the District will obtain reimbursement of \$235 for mileage.

Further, District personnel will determine amount of leave time McAfee should have been charged while performing services unrelated to District.

**Response: U**

The District will continue to monitor reimbursements from DREAM and take appropriate action if the debt is not satisfied in accordance with the consent judgment.

**Response: V**

District personnel will refrain from obligating District financially for expenses outside of normal business without Board approval.

In addition, District will ensure costs associated with trips are charged to the appropriate accounting code.

Further, District will ensure reimbursements of \$978 and \$3,424 from China Travel Services and UCACI, respectively, are received. Without Board approval, the District will not reimburse other expenses associated with trip.

**Response: W**

The District will establish a formal, written policy to void stale outstanding checks. Such policy will establish scheduled aging dates with specified required action. At a minimum, checks outstanding over the established time period will be voided and reissued as needed.

The District will adopt a policy to discontinue allowing vendors to pick up checks or allowing employees to pick up checks for vendors. The policy will be presented at our January 12, 2011 Board meeting.

**Response: X**

The District will establish a procedure for the issuance of manual payroll checks. The new procedure will be presented at the January 12, 2011 Board meeting.

**Response: Y**

The District will continue to monitor all District expenditures to ensure proper coding.

Procedures will be implemented to ensure consistency in coding District expenditures.

**Response: Z**

To reduce the risk of misappropriation of assets and potential waste and abuse of funds, the Board will, in conjunction with Administrative staff, continue to practice sound internal control policies, comply with applicable Code and IRS regulations, and monitor all accounting phases for adherence to established controls and procedures.

In addition, the Board will increase and maintain its knowledge and awareness of fiscal oversight, accountability, and fiduciary responsibilities.



# Investigative Report Update #2

Legislative Joint Auditing Committee

April 1, 2011

## Review of Selected Transactions

### Status of Matters

#### Pulaski County Special School District

#### INTRODUCTION

Numerous internal control deficiencies were identified at the Pulaski County Special School District (District) as indicated in the Division of Legislative Audit (DLA) Investigative Report Update – Review of Selected Transactions – Pulaski County Special School District (Report Update), dated December 6, 2010 inclusive of the period March 1, 2009 through November 30, 2010. In addition, the Report Update disclosed that District Superintendent Charles Hopson potentially owed the District \$23,919, questioned expenses totaling \$1,360 were incurred by District Board of Directors (Board), and three new employees were paid \$9,741 for days not worked.

#### HIGHLIGHTS OF REPORT

- Superintendent Hopson **continues to owe the District \$2,179 for unallowed expenses and \$2,288 for health and dental insurance premiums improperly paid** on his behalf. An addendum to Hopson's contract, approved January 2011, provides **an additional \$37,431 to his annual salary** of \$205,000.
- Board member Gwen Williams **continues to owe the District \$1,198** for mileage reimbursement overpayments, improper travel advances, and cellular telephone services. Chief Technology Officer **owes the District \$311** for unallowed expenses.
- District did not obtain reimbursement nor require documentation be submitted for **\$1,564 in questioned reimbursements** from Grant Writer Deborah McAfee.
- Balance due of **\$21,791 from DREAM has not been collected** and Board suspended terms of repayment agreement.
- **Uses of desegregation funds** are provided in Exhibit II on page 15.
- Legal fees totaled **\$162,152 for litigation between Board and Union** for the period January 1, 2010 through December 31, 2010. Board voted on March 8, 2011 to employ in-house attorney as a cost-saving measure.
- **District is due or potentially due \$37,617** from a Board member, employees, and vendors as reflected in Exhibit V on page 19.
- ADE notified the District that it had been **identified as a school district in fiscal distress** according to criteria in Ark. Code Ann. § 6-20-1904 and **could not incur "any debt"** without ADE approval.

ARKANSAS DIVISION OF LEGISLATIVE AUDIT

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Report ID: IR SD 398 11 Report Date: March 30, 2011



Following presentation of the Report Update on December 15, 2010, the Legislative Joint Auditing Committee (LJAC) requested DLA staff to determine and report corrective measures District implemented regarding Report Update recommendations.

In addition, LJAC members requested information regarding District use of desegregation funds; legal fees paid pertaining to issues regarding Pulaski Association of Classroom Teachers (PACT) and Pulaski Association of Support Staff Unions (Union); and District Apple® iPads™ (iPad) usage policy. Further, after receiving a complaint from a vendor concerning past due payments from the District, another LJAC member requested DLA staff research this matter.

DLA staff also consulted with Arkansas Department of Education (ADE) regarding fiscal distress status of the District.

## OBJECTIVES

Objectives in conducting the investigative review were:

- Review District responses to Report Update recommendations A through Z and determine if District implemented corrective actions.
- Determine District use of desegregation funds.
- Identify legal fees paid regarding Union-related issues.
- Determine if District-issued iPads were used for personal purposes.
- Ascertain if District accounts payable invoices were paid timely.
- Determine ADE position regarding fiscal distress status of District.

## SCOPE AND METHODOLOGY

This review was conducted primarily for the period December 1, 2010 through February 24, 2011. Pertinent Board and District policies and District accounting records, including accounts payable invoices, were reviewed. Appropriate personnel were interviewed to assist in

determining the status of corrective actions implemented by the District in response to Report Update recommendations. ADE personnel were contacted to determine fiscal distress status of the District.

The methodology used in conducting this review was developed uniquely to address the stated objectives; therefore, this review was more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller of the United States.

## BACKGROUND

One of three public school districts in Pulaski County, the District encompasses the territory outside the Little Rock, Cammack Village, and North Little Rock city limits and includes the cities of Jacksonville, Maumelle, and Sherwood. An act of the Arkansas legislature combined 38 independent school districts to establish the District in 1927.

The District is governed by a seven-member Board elected, by zone, to four-year terms. Board members serve without compensation.

Effective July 1, 2010, the District converted its accounting system to the Arkansas Public School Computer Network (APSCN).

A financial audit of the District is performed annually by a private CPA firm.

Pursuant to a request by the Commissioner of ADE and District Board for DLA to conduct a limited scope review of selected District transactions and activities, DLA issued the Investigative Report - Review of Selected Transactions - Pulaski County Special School District (First Report) dated April 28, 2010.

The First Report revealed former Superintendent James Sharpe was overpaid \$17,203 and \$7,836 was paid to, or on behalf of, Sharpe for unallowed expenses for the period July 1, 2005 through March 11, 2009. District filed a civil lawsuit against Sharpe seeking reimbursement, totaling \$25,039, of the salary overpayment and unallowed expenses. Attorneys for District and Sharpe are in negotiations regarding this matter and the civil suit is pending resolution in Sixth Judicial District Circuit Court.



In addition, First Report identified unallowed or undocumented travel expenses for Board members totaling \$7,692 for the period July 1, 2006 through March 3, 2009. Board members reimbursed the District for unallowed amounts (\$278), provided an explanation for questioned expenses (\$70), or provided adequate supporting documentation for a portion of their unallowed expenses (\$3,667), leaving a balance of \$3,677 due the District. Before the Report Update was issued, this balance was resolved.

Further, James Diemer, former District Mechanical Systems Supervisor, misappropriated \$439,745 by purchasing items, for which the District paid, for personal gain during a five-year period. In federal court, Diemer entered a plea of guilty to theft of property from a government entity which received federal funds and was sentenced to 18 months imprisonment with three years supervised probation upon his release. Diemer was also ordered to pay restitution totaling \$387,442.

The First Report also disclosed numerous internal control deficiencies. Following presentation of First Report, LJAC requested DLA staff to determine and report corrective measures District implemented regarding First Report findings. An oral update was presented to LJAC on June 11, 2010.

In response to the oral update, LJAC requested DLA staff to prepare a follow-up report relating to selected transactions and activities of District subsequent to time periods of review of First Report. The Report Update was presented to LJAC on December 15, 2010.

The Report Update included DLA staff findings regarding various District transactions, activities, and internal control deficiencies. DLA staff recommendations pertaining to the findings were also listed in Report Update. District responses to the recommendations were reflected in the Appendix to Report Update.

## RESULTS OF REVIEW

Results of this review relating to Report Update recommendations are discussed below. Each recommendation from Report Update is provided, followed by District response to that recommendation, previously provided in Report Update. Status updates pertaining to corrective

actions implemented by District as a result of the recommendations are also included following the responses.

District received \$20.5 million in desegregation funds of which \$16.2 million was expended in the 2009-10 school year as shown in **Exhibit I on page 14**. District programs and positions funded with desegregation revenue as well as other District uses of these funds are reflected in **Exhibit II on page 15**.

Legal fees pertaining to Union-related issues totaled \$162,152 for the period January 1, 2010 through December 31, 2010.

District provided iPads, regulated by District usage policy, to Board and Cabinet members. Although iPad users are able to access personal email and possibly store personal data, security restrictions prohibit downloading of applications not approved by District, thus limiting personal use.

Review of District accounts payable invoices revealed past due invoices. Of accounts payable invoices totaling \$14,824,270 for the period December 1, 2010 through January 31, 2011, current invoices totaled \$12,116,160 (81.7%), with the remaining \$2,708,110 (18.3%) representing past due invoices.

As reflected in **Exhibit III on page 16**, past due invoices include those paid more than 30, 60, 90, and 120 days after invoice date totaling \$1,440,747, \$344,541, \$244,642, and \$678,180, respectively.

As a result of findings disclosed in First Report, ADE notified the District, in September 2010, that two or more indicators of fiscal distress, at a nonmaterial level, had been identified and without intervention, the District could be placed in fiscal distress status.

On March 30, 2011, ADE notified the District it had been identified as in fiscal distress.

DLA staff recommendations that remain unresolved are summarized in **Exhibit IV on page 17**.

As shown in **Exhibit V on page 19**, the District is due or potentially due \$37,617 from a Board member, employees, and vendors.

## **Acting Superintendent**

### *Recommendation A*

The District should determine dollar value of fuel purchased for nonbusiness use and either obtain reimbursement from former Acting Superintendent Rob McGill or report this as income on his Internal Revenue Service (IRS) Form W-2 for 2010.

The District should also ensure expenses paid employees are for District purposes.

### *District Response*

The District will report all fuel cost incurred by Mr. McGill as income on his IRS Form W-2 for 2010.

### *Status*

McGill's IRS Form W-2 for 2010 included taxable fuel cost of \$2,422 as income.

## **Superintendent**

### *Recommendation B*

The District should obtain reimbursement of \$2,288 from Dr. Charles Hopson, Superintendent, for health and dental insurance premiums improperly paid on his behalf. Further, the District should discontinue contributing an insurance premium rate not allowed by Arkansas Code Annotated (Code).

Life and disability insurance premiums paid on behalf of Hopson should be reported as income on his IRS Form W-2 for 2010.

However, \$141 the District paid for disability insurance over the amount provided in Hopson's contract is due the District.

The District should require Hopson to maintain vehicle usage records for his personal use of a District vehicle to comply with IRS regulations. The District should report the value of personal vehicle use on Hopson's IRS Form W-2. This value should comply with IRS valuation regulations which include annual lease price of a vehicle as well as fuel expenses.

The Board should determine if the cost of car washes is included in Hopson's contract. If not,

the District should obtain reimbursement for car washes charged to the District's credit card. Otherwise, the Board should establish an amount to pay for this expense.

Any amount reimbursed to Hopson for his cost associated with reinstatement to Arkansas Teacher Retirement System (ATRS) should be reported as income on Hopson's annual IRS Form W-2.

The amount of \$667 the District has spent for cellular telephone expenses for the Superintendent should be reimbursed by Hopson and services under District plan cancelled. If Hopson chooses to retain his District telephone service, the District should reduce Hopson's monthly communications and technology allowance of \$300 by the monthly cost of his District cellular telephone service cost.

### *District Response*

District response to Recommendation B is included with response to Recommendation C.

### *Recommendation C*

Although the Board approved reimbursing \$855 to Hopson for the cost of an airline ticket from Portland to Little Rock, a business purpose was not provided. Unless a business purpose for this expense is provided, Hopson should reimburse the District. Otherwise, \$855 should be reported on Hopson's IRS Form W-2 as income.

The District should report \$14,969 as income on Hopson's IRS Form W-2 for moving and relocation expenses paid for his residence (\$9,000) and for purchases charged to a District credit card (\$5,969) which were not allowable in accordance with IRS regulations. If Hopson reimburses the District for any unallowable moving and relocation expenses, then that amount would not need to be reported to the IRS as income.

The District should also obtain adequate supporting documentation for all purchases charged to a District credit card. For any charges not documented, the District should request reimbursement from Hopson.

In addition, to ensure District is not responsible for charges not for District purposes, District should strengthen policies to ensure adequate documentation is maintained to support

purchases. In the event adequate documentation is not provided, the Board may consider revoking credit card use.

Further, District should obtain reimbursement of \$79 for meals charged to a District credit card for which Hopson received a per diem.

#### *District Response*

The District will recommend to the Board a policy requiring employees to maintain vehicle usage records for personal use of a District vehicle to comply with IRS regulations. The District will also recommend that the policy include the IRS 100% income inclusion for all District-provided vehicles should vehicle usage records not be provided.

The \$141 noted in the report as overpayment of disability insurance is incorrect. The District will review the total amount of \$6,590 in insurance premiums which were negotiated as part of Dr. Hopson's contract to ensure compliance with Arkansas Code.

The District has not expended any cost associated with Dr. Hopson's reinstatement of ATRS service. The District has referred this issue to legal counsel and the contract negotiator for the Superintendent. All said costs were negotiated as part of the Superintendent's contract.

The District will address the parameters of reasonable, necessary District car maintenance expenditures allowed in the Superintendent's contract.

All income paid to Dr. Hopson for technology services will be included as income on his 2010 IRS Form W-2, and all payments made on behalf of Dr. Hopson's technology services will be reimbursed by Dr. Hopson or included as income on his IRS Form W-2.

All moving and relocation expenses not meeting IRS regulations will be added as income on Dr. Hopson's 2010 IRS Form W-2. The District will not request reimbursement of moving and relocation expenses because they were negotiated as part of the Superintendent's contract.

#### *Status*

Although District discontinued contributing an insurance premium rate for Hopson not allowed

by Code, District did not obtain reimbursement of \$2,288 from Hopson for health and dental insurance premiums improperly paid on his behalf for the period July 1, 2010 through December 31, 2010. This amount is still due the District as shown in **Exhibit V on page 19**.

During the January 2011 Board meeting, an addendum to Hopson's contract was approved and states "In addition to the compensation provided herein, on December 31 and June 30 of each year during the term of this Agreement the District shall make a lump sum payment to the Superintendent for services rendered in the amounts of \$6,739 (December 31) and \$30,692 (June 30), respectively."

Hopson's annual salary totals \$242,431, which includes initial contract amount of \$205,000 and addendum of \$37,431.

Review of payroll records indicated District paid Hopson an additional \$6,739 on January 20, 2011.

District included full value of District vehicle use with no deduction for business use on Hopson's IRS Form W-2 for 2010, since vehicle mileage records were not maintained. DLA staff recommends District develop a policy that requires employees to maintain vehicle usage records for personal use of District vehicle to comply with IRS regulations.

District also included on Hopson's IRS Form W-2 for 2010, as additional income, moving expenses of \$20,386 not allowed by IRS regulations.

Further, Hopson reimbursed the District \$485 for undocumented relocation expenses.

District did not include the following amounts, totaling \$2,179, as additional income on Hopson's IRS Form W-2 for 2010 nor did Hopson reimburse the District as recommended in Report Update. Therefore, these amounts remain due the District as shown in **Exhibit V on page 19**.

- Undocumented airfare - \$855
- Cellular telephone - \$667
- Undocumented credit card charges - \$517
- Meals - \$79
- Additional day of per diem for meals - \$61

## **Board Member Training Hours**

### *Recommendation D*

The Board should evaluate the cost/benefit associated with Board members acquiring training hours in excess of the number required by Code. Procedures should also be implemented to ensure Board members obtain required number of training hours.

### *District Response*

The Superintendent will recommend to the Board President consideration of procedures to be implemented to ensure Board members obtain required number of training hours.

### *Status*

Board minutes dated December 20, 2010 reflect Board President stated all Board members are in compliance with required number of training hours. Board adopted a motion to suspend all out-of-state travel until further notice for Board members and District employees without 30-day prior approval by the Board.

## **Board-Related Expenses**

### *Recommendations E, F, and G*

The District should obtain reimbursements for mileage reimbursement overpayments of \$116 and \$21 from Board members Gwen Williams and Mildred Tatum, respectively. Before reimbursing Board members for mileage expense, the District should review and substantiate mileage forms submitted for reimbursements.

The District should obtain reimbursements for improper travel advances of \$95 and \$305 from Board members Tatum and Williams, respectively. The District should enforce the Board's policy of not advancing funds for travel expense.

The District should ensure adequate documentation is available for reimbursements. The District should request Board member Tim Clark repay \$15 for duplicate meal reimbursement and obtain \$6 from former Board

member Danny Gililand for improper expense reimbursements.

In addition, the District should require Williams reimburse \$802 for cellular telephone services the District paid on her behalf.

### *District Response*

The District will seek reimbursements for mileage reimbursement overpayments of \$116 and \$21 from Board members Williams and Tatum, respectively. Before reimbursing Board members for mileage expense, the District will review and substantiate mileage forms submitted for reimbursement.

The District will seek reimbursement for improper travel advances of \$95 and \$305 from Board members Tatum and Williams, respectively. The District will enforce the Board's policy of not advancing funds for travel expense.

The District will request Board member Clark repay \$15 for duplicate meal reimbursement and seek \$6 from former Board member Gililand for improper expense reimbursements.

In addition, the District will require Williams reimburse \$802 for cellular telephone services the District paid on her behalf.

### *Status*

On February 1, 2011, Tatum reimbursed the District \$116 for mileage reimbursement overpayments and an improper travel advance.

District retained an attorney to assist in obtaining reimbursement totaling \$1,223 from Williams for mileage reimbursement overpayments, improper travel advances, and cellular telephone services.

Correspondence from the attorney to Williams, dated February 1, 2011, indicated legal remedies would be used to collect the debt owed unless payment was made within 10 days. Williams reimbursed \$25 on March 25, 2011. The remaining \$1,198, as reflected in **Exhibit V on page 19**, is due the District.

Board members Clark and Gililand reimbursed the District \$15 and \$6, respectively, for improper expense reimbursements.

## **Employee Travel Reimbursements/Expenses**

### *Recommendation H*

The District should ensure adequate supporting documentation is maintained for all purchases. If employees do not provide documentation, the District should request the applicable employee reimburse the District.

### *District Response*

The District has revised its travel reimbursement policy and now reimburses employee travel expenses on a per diem basis for meals.

### *Status*

Board minutes dated September 14, 2010 reflect approval of Business Procedure Manual revisions regarding local and out-of-district travel. Revised out-of-district travel procedures policy reflects District will reimburse the federal per diem rate for meals.

## **Consultant Contracts/Expenses**

### *Recommendation I*

The District should obtain reimbursement of \$6,223 from the Chief Technology Officer (CTO) for moving expenses (\$5,899) not a part of his contract and unallowed expenses (\$324). In addition, employees should not be paid for days not worked.

The District should also obtain reimbursement of \$1,974 from the Consultant to the Superintendent for Human Resources (HR Consultant) for mileage reimbursement received for commuting, which was not included in the contract.

District management should ensure employees in positions combined to allow an increase in salary continue to perform the services which the new position entails.

In addition, the Board should ensure that all contracts are in the best interest of the District, approved prior to services performed, and adhered to properly. District personnel should also refrain from allowing services to begin and obligating District financially without Board approval.

Further, the District should ensure that new professional development contracts do not duplicate services provided by existing contracts.

### *District Response*

The District will review the \$6,223 not covered in the CTO's consultant contract. Moving expenses were agreed to by the Superintendent and CTO as a condition of employment. The CTO will reimburse the District \$13 in questioned expenses. In addition, employees will not be paid for days not worked.

The District will review reimbursement of \$1,974 paid the HR Consultant for mileage expenses for commuting, which was not included in the contract. The District will recommend that all contracts are in the best interest of the organization, approved prior to services performed, and adhered to properly. In addition, the organization will ensure that District personnel refrain from allowing services to begin and obligating District financially without Board approval.

The District will also evaluate employees in positions combined to allow an increase in salary to ensure they are continuing to perform the services which the new position entails.

### *Status*

The CTO and HR Consultant reimbursed the District \$13 and \$2,604, respectively, on December 14, 2010.

District included \$5,899 as moving expenses on CTO's IRS Form W-2 for 2010.

District did not include \$311, identified as unallowed expenses, on CTO's IRS Form W-2 for 2010 nor receive reimbursement from CTO; therefore, this amount remains due the District as shown in **Exhibit V on page 19**.

In addition, review of CTO's leave records indicated District did not charge leave time nor receive reimbursement for the 10 days not worked. As noted in Report Update, email correspondence between Hopson and Chief Financial Officer (CFO) indicated Hopson would require CTO make up days through flex time on Fridays



during the summer and other days originally scheduled off work during the school year.

District response to Report Update indicated District would seek reimbursement from, or charge leave time to, employees for days paid which were not worked.

During this review, District personnel indicated Hopson stated CTO was working remotely in Portland, Oregon for 10 days prior to working onsite at the District and would not be charged leave time.

Subsequently, District Human Resource Director (HR Director) stated to DLA staff that the District would charge CTO 10 days of leave time. However, according to District records the CTO's leave balance was only 7 days on March 30, 2011. Therefore, the District improperly increased CTO's leave balance by 5 days, resulting in a leave balance of 12 days from which the aforementioned 10 days were deducted.

#### **Overview of Purchasing Procedures for Goods and Services**

##### *Recommendation J*

The District should strengthen and monitor procedures to ensure disbursements comply with District policies and procedures. Monitoring procedures should be expanded to ensure all purchases are legitimate, received, and used for District purposes. Detailed supporting documentation should also be retained for all disbursements and invoices should be paid timely. Further, reasons to justify the use of an emergency purchase order should be documented.

To deter misappropriation of funds, the District should not allow accounts payable checks to be picked up by employees or vendors or otherwise held.

##### *District Response*

The District will continue to strengthen and monitor procedures to ensure disbursements comply with District policies and procedures.

The District will adopt a policy to discontinue allowing vendors to pick up checks or allowing employees to pick up checks for vendors. The policy will be presented at our January 12, 2011 Board meeting.

##### *Status*

According to District personnel, a new purchasing system has been developed and implemented. Confirming purchase orders must be obtained prior to purchase and the vendor must include the purchase order number on the invoice at time of purchase.

The Business Procedures Manual includes an accounts payable check distribution policy, effective January 12, 2011, that states these checks will not be returned to the person requesting the check or invoice payment, but will be mailed directly to the payee from the Accounts Payable office. Approval from the CFO or designee is required when a situation requires special handling of a check.

DLA staff review of accounts payable invoices revealed several checks dated after January 12, 2011 were designated as "hold for pick up." Although check requests were signed by CFO or designee, no reason for special handling was indicated.

##### **Bids**

##### *Recommendation K*

Board action concerning acceptance of a bid proposal should be clearly denoted in Board minutes. To ensure vendor compliance with Request for Proposal (RFP), the District should continue to monitor the conformity process.

##### *District Response*

Board action concerning acceptance of a bid proposal will be clearly denoted in Board minutes. To document vendor compliance with RFPs, the District will implement and document a conformity process.

##### *Status*

District personnel indicated there is a consent section on the Board agenda which includes an award of bids section. This section lists the bid name and number, low bidder name, and low bid amount.

Arkansas School Board Association (ASBA) handbook states board minutes should note every action of the board during a meeting.

District has not addressed inclusion of bids awarded, an action which occurs during Board meeting, in Board minutes as required by ASBA.

### **Maintenance Department**

#### *Recommendation L*

To ensure proper accountability for purchases, District should develop an order and tracking system to be used by Maintenance Department personnel. In addition, the District should not allow property, other than District property, to be stored at the Maintenance Shop.

#### *District Response*

To ensure proper accountability for purchases, District will develop an order and tracking system to be used by Maintenance Department personnel. In addition, the District will not allow property, other than District property, to be stored at the Maintenance Shop.

#### *Status*

Board approved, on September 14, 2010, the use of confirming purchase orders to assist the Purchasing Department in tracking purchases.

According to District personnel, personal items previously stored in the Maintenance area have been removed from District property.

### **Division of Equity and Pupil Services**

#### *Recommendation M*

Documentation to support purchases should be maintained. In addition, the District should establish a policy to ensure adequate internal controls exist regarding gift cards or other cash equivalent assistance provided to students.

#### *District Response*

Documentation to support purchases will be maintained. In addition, the District will establish a policy to ensure adequate internal controls exist regarding gift cards or other cash equivalent assistance provided to students.

#### *Status*

While a policy was not implemented, a memo dated February 24, 2011 from District Assistant

Superintendent for Equity and Pupil Services to the District CFO, indicated gift cards for purchases by the District has been permanently discontinued.

DLA staff again recommends implementation of a policy regarding District use of gift cards or other cash equivalent assistance provided to students.

### **Bell Schedule and School Buses**

#### *Recommendation N*

As governing body of District, the Board should ensure changes that affect students, faculty, and staff as well as obligate the District financially comply with Code and PACT negotiated contracts and are an appropriate use of funds.

#### *District Response*

As governing body of District, the Board will ensure changes that affect students, faculty, and staff as well as obligate the District financially comply with Code and PACT negotiated contracts and are an appropriate use of funds.

#### *Status*

DLA staff was unable to determine the status of corrective actions taken as described in District response due to time constraints between release of Report Update and this report.

DLA staff recommends District monitor actions to ensure compliance with Code and terms of PACT negotiated contracts.

### **Fixed Assets**

#### *Recommendation O*

To comply with Board policy and safeguard assets, the District should establish procedures to ensure fixed assets inventory is accurate and updated timely so that year-end financial statements are fairly stated.

In addition, District should verify insurance coverage maintained for vehicles is adequate.

A policy should be implemented regarding employee use, including commuting, of District vehicles.



### *District Response*

To comply with Board policy and safeguard assets, the District will establish procedures to ensure fixed assets inventory is accurate and updated timely so that year-end financial statements are fairly stated.

In addition, District will continue to verify that insurance coverage maintained for vehicles is adequate.

A policy will be implemented regarding employee use, including commuting, of District vehicles.

### *Status*

District has developed a new policy regarding fixed assets to ensure all assets are accounted for properly.

District has not developed a policy regarding employee use of District vehicles for commuting to work.

DLA staff again recommends District implement a policy regarding employee use of District vehicles for commuting to work.

### **Inventory Control**

#### *Recommendation P*

To ensure proper usage and safeguard against misappropriation, District should establish internal controls that account for receipt, storage, and distribution of inventory items. Written policies and procedures should be developed to ensure that all inventory is accounted for properly. The inventory system should record and report dates received and removed, as well as cost of items, features currently available in APSCN.

In addition, District may consider installing security cameras to monitor Warehouse activity to enhance protection of District property.

### *District Response*

To ensure proper usage and safeguard against misappropriation, District will strengthen internal controls that account for receipt, storage, and distribution of inventory items. Written policies and procedures will be developed to ensure that all inventory is accounted for properly. The inventory system will record and report dates

received and removed, as well as cost of items, features currently available in APSCN.

In addition, District will enhance security methods to monitor warehouse activity to protect District property.

### *Status*

District has not developed written policies and procedures regarding inventory control, however District personnel indicated to DLA staff that instructional supplies are no longer inventoried at the District Warehouse. District food service products and janitorial supplies will continue to be stored and distributed from the Warehouse.

District has not enhanced security methods to monitor Warehouse activity.

DLA staff again recommends District develop written policies and procedures to ensure all inventory is accounted for properly.

### **Cellular Telephones**

#### *Recommendation Q*

The District should determine the employees responsible for the charges of \$3,884 not covered in the District's cellular telephone service plan and obtain reimbursement from the applicable employees.

### *District Response*

The District will seek to determine the employees responsible for the charges of \$3,884 not covered in the District's cellular telephone service plan and obtain reimbursement from the applicable employees.

### *Status*

According to District personnel, monthly cellular telephone invoices are reviewed for excess telephone usage and roaming charges. Account adjustments and adding or deleting users cannot be made without permission from either Information Technology or Purchasing Director.

However, District has not determined which employees were responsible for \$3,884 in cellular telephone charges that were not covered in the District's plan as noted in Report Update. This amount remains due the District as shown in **Exhibit V on page 19**.

## **Overpayments to Newly Hired Employees**

### *Recommendation R*

District should ensure new employee effective start dates accurately reflect the actual first date of work.

District should also obtain reimbursement from, or apply leave time to, those employees who were paid for days not worked.

### *District Response*

District will ensure new employee effective start dates accurately reflect the actual first date of work. District will seek reimbursement from, or apply leave time to, those employees who were paid for days not worked.

### *Status*

Report Update disclosed three employees were paid \$9,741 for days not worked.

### Employee 1

District changed the start date for Employee 1, paid for 10 days not worked, which should reduce the number of days under contract for which the employee will be paid.

### Employee 2

As indicated in Recommendation I status section on page 8, District charged Employee 2 with 10 days of leave after improperly increasing this employee's leave balance.

### Employee 3

District changed the start day of Employee 3, the Superintendent's brother who was paid for three days not worked, and deducted one day's pay totaling \$357. The remaining day not worked was a holiday for which the employee was not paid nor required to work.

HR Director, who worked for the District in a consultant capacity for three months prior to being hired as HR Director in December 2010, discovered the Superintendent's brother was inadvertently placed on an incorrect pay scale at time of hire, resulting in a higher level of pay. To correct the error, HR Director instructed Payroll Specialist to reduce employee's salary by \$1,182 by deducting \$197 for each of the remaining six pay periods.

## **Overtime Compensation**

### *Recommendation S*

To prevent excessive overtime, the District should continue to monitor payroll disbursements. In addition, District should ensure that adequate segregation of duties exists in the payroll and benefits department.

### *District Response*

To prevent excessive overtime, the District will continue to monitor payroll disbursements.

In addition, District will ensure that adequate segregation of duties exists in the payroll and benefits department.

### *Status*

While additional staff was not hired for the payroll and benefits department, the District submitted a plan that appears, if implemented, to adequately segregate duties with regard to authorizing, processing, and recording payroll transactions.

## **Grant Writer**

### *Recommendation T*

The District should require reimbursement from District Grant Writer, Dr. Deborah McAfee, for items purchased totaling \$1,221 determined not to be for District use. Unless adequate documentation is provided, McAfee should also reimburse \$343 for supplies that DLA staff identified were not for a District purpose.

In addition, District should obtain reimbursement of \$235 for mileage.

Further, District personnel should determine amount of leave time McAfee should have been charged while performing services unrelated to District.

### *District Response*

The District will require reimbursement from McAfee for items purchased totaling \$1,221 determined not to be for District use. Unless adequate documentation is provided, McAfee should also reimburse \$343 for supplies that DLA staff identified were not for a District purpose.

In addition, the District will obtain reimbursement of \$235 for mileage.

Further, District personnel will determine amount of leave time McAfee should have been charged while performing services unrelated to District.

#### *Status*

District received reimbursement of \$235 from McAfee on December 17, 2010.

McAfee did not reimburse \$1,221 for items purchased not for District use. In addition, documentation was not provided to substantiate supplies purchased totaling \$343 were for a District purpose nor was reimbursement of this amount received.

McAfee still owes District \$1,564 for aforementioned items as shown in **Exhibit V on page 19**.

District deducted two days annual leave from McAfee on February 26, 2011.

#### **DREAM**

##### *Recommendation U*

The District should continue to monitor reimbursements from Dedicating Resources to Excel All Minds (DREAM) and take appropriate action if the debt is not satisfied in accordance with the consent judgment.

##### *District Response*

The District will continue to monitor reimbursements from DREAM and take appropriate action if the debt is not satisfied in accordance with the consent judgment.

#### *Status*

District has not received any further payments from DREAM, whose Director is the daughter of a District Assistant Superintendent, and has not taken any legal action. The \$21,791 remains due the District as shown in **Exhibit V on page 19**.

During the Board meeting on January 19, 2011, Board voted to suspend reimbursement payments from DREAM until District investigates alleged inequities between DREAM and other after-school programs.

#### **Foreign Travel**

##### *Recommendation V*

District personnel should refrain from obligating District financially for expenses outside of normal business without Board approval. In addition, District should ensure costs associated with trip are charged to the appropriate accounting code.

Further, District should ensure reimbursements of \$978 and \$3,424 from China Travel Services and University of Central Arkansas Confucius Institute (UCACI), respectively, are received. Without Board approval, the District should not reimburse other expenses associated with trip.

##### *District Response*

District personnel will refrain from obligating District financially for expenses outside of normal business without Board approval.

In addition, District will ensure costs associated with trips are charged to the appropriate accounting code.

Further, District will ensure reimbursements of \$978 and \$3,424 from China Travel Services and UCACI, respectively, are received. Without Board approval, the District will not reimburse other expenses associated with trip.

#### *Status*

As of report date, District has not received reimbursement of \$978 and \$3,424 from China Travel Services and UCACI, respectively. Although District email correspondence indicates that UCACI intends to reimburse the District, as of report date, these amounts remain due the District as shown in **Exhibit V on page 19**.

#### **Outstanding Checks**

##### *Recommendation W*

The District should establish a formal, written policy to void stale outstanding checks. Such policy should establish scheduled aging dates with specified required action. At a minimum, checks outstanding over the established time period should be voided and reissued as needed.

##### *District Response*

The District will establish a formal, written policy to void stale outstanding checks. Such policy will

establish scheduled aging dates with specified required action. At a minimum, checks outstanding over the established time period will be voided and reissued as needed.

#### *Status*

The Business Procedures Manual includes a stale check policy, effective January 12, 2011, that states no check issued by the District shall be payable unless presented for payment at the bank within 90 days of issue date. Further, policy requires any check older than 90 days be submitted to Accounts Payable department for reissuance, if applicable.

#### **Manual Checks**

##### *Recommendation X*

The District should implement a manual check policy and not issue manual payroll checks.

##### *District Response*

The District will establish a procedure for the issuance of manual payroll checks. The new procedure will be presented at the January 12, 2011 Board meeting.

#### *Status*

District did not provide documentation that a procedure for the issuance of manual checks was established nor did District personnel indicate manual payroll checks would no longer be issued.

#### **Arkansas Financial Accounting Handbook**

##### *Recommendation Y*

Procedures should be implemented to ensure consistency in coding District expenditures.

##### *District Response*

The District will continue to monitor all District expenditures to ensure proper coding. Procedures will be implemented to ensure consistency in coding District expenditures.

#### *Status*

DLA staff randomly reviewed checks issued in December 2010 and January 2011 for proper

coding of expenditures. Expenditures reviewed appeared to be properly coded.

#### **Internal Control Deficiencies**

##### *Recommendation Z*

To reduce the risk of misappropriation of assets and potential waste and abuse of funds, the Board should, in conjunction with Administrative staff, continue to practice sound internal control policies, comply with applicable Code and IRS regulations, and monitor all accounting phases for adherence to established controls and procedures.

In addition, the Board should increase and maintain its knowledge and awareness of fiscal oversight, accountability, and fiduciary responsibilities. District management and the Board should strive to demonstrate to personnel the necessity of standards and fiscal prudence.

##### *District Response*

To reduce the risk of misappropriation of assets and potential waste and abuse of funds, the Board will, in conjunction with administrative staff, continue to practice sound internal control policies, comply with applicable Code and IRS regulations, and monitor all accounting phases for adherence to established controls and procedures.

In addition, the Board will increase and maintain its knowledge and awareness of fiscal oversight, accountability, and fiduciary responsibilities.

#### *Status*

As indicated in Recommendation N status section on page 9, DLA staff was unable to determine the status of corrective actions taken as described in District response due to time constraints between release of Report Update and this report.

DLA staff recommends District monitor actions to ensure internal controls are strengthened and in compliance with applicable Code and IRS regulations. In addition, District management should monitor all accounting phases for adherence to established controls and procedures.

#### **Other Matters**

Subsequent to presentation of Report Update, LJAC members requested additional information regarding District matters.

Specifically, three matters of interest included District use of desegregation funds, legal fees expended for litigation between District Board and PACT, and purchase of iPads for District Board and Cabinet members.

At the request of another LJAC member, DLA staff researched complaint by a vendor regarding past due payments from the District.

In addition, ADE notified the District, in September 2010, that two or more indicators of fiscal distress, at a nonmaterial level, had been identified and without intervention, the District could be placed in fiscal distress, which occurred on March 30, 2011.

#### *Desegregation Funds*

Settlement provisions of a 1989 lawsuit between the state and the three school districts in Pulaski County require the state to provide extra funding each year to these school districts for desegregation efforts. According to Ark. Code Ann. § 6-20-210, desegregation funds are provided to ADE Public School Fund account from net general revenues of the state. ADE then disburses the desegregation funds, through the Public School Fund, to the applicable school districts.

District financial records reflected desegregation fund revenue totaling \$20,499,490 of which District expended \$16,221,517 for the period July 1, 2009 through June 30, 2010, as reflected in **Exhibit I**, leaving a balance of \$4,277,973 at June 30, 2010.

At the request of Senator Jimmy Jeffress, District provided a list of programs and positions funded by desegregation revenue as well as other District uses of these funds for the period July 1, 2009 through June 30, 2010 as summarized in **Exhibit II**.

#### *Legal Fees*

Report Update revealed District paid legal fees totaling \$961,329 for the period July 16, 2009 through October 27,

2010, which included \$427,313 paid to Bequette & Billingsley Law Firm (Law Firm). This firm represents District and Board in various discrimination cases, a civil lawsuit against former Superintendent James Sharpe, as well as certain Union-related issues.

Representative Mike Burris requested DLA staff determine the portion of legal fees paid to Law Firm for litigation between the Board and the Union.

### **Exhibit I**

Pulaski County Special School District (District) Desegregation Funds Sources and Uses of Funds For the Period July 1, 2009 through June 30, 2010	
	Amounts
Beginning Balance	\$ 0
Sources of Funds:	
State Assistance	20,499,490
Uses of Funds:	
Salaries	8,297,021
Employee benefits	1,755,991
Purchased services:	
Advertising	13,803
Fleet insurance	202,642
Legal fees	343,658
Maintenance and repairs	94,565
Other professional services	40,514
Rent	5,650
Services purchased	
from other LEAs (Note 1)	117,400
Travel	13,885
Tuition to other LEAs (Note 1) in state	3,437,508
Gasoline	1,318,658
Supplies, books, and materials	492,029
Equipment	60,262
Heating oil	26,238
Dues and fees	1,693
Total Uses of Funds	16,221,517
Ending Balance	\$ 4,277,973

Note 1: Local Education Agency

Source: District financial records

## Exhibit II

### Pulaski County Special School District (District) Uses of Desegregation Funds For the Period July 1, 2009 through June 30, 2010

#### Description:

After school programs at interdistrict schools and Harris Elementary
Consulting fees to Center for Research in Educational Policy
Coordinator for Multicultural/Pathwise
Dean(s) of Students at local schools
Desegregation and equity-related field trips
Formative Educational Process for School training/stipends
Home School counselors/consultants
Learning Academy intercessors
Legal expenses
Magnet School tuition and fees
Multiage classrooms at seven elementary schools
Pfeifer Camp
Recruitment for interdistrict schools and specialty programs
Saturday School
Secondary in-school suspension programs
Specialty programs at six schools
Specialty themes at interdistrict schools
Stipends for professional development for desegregation and equity-related training

**Source:** District personnel

According to information provided by Law Firm, District paid \$162,152 for representation concerning Union-related issues for the period January 1, 2010 through December 31, 2010.

At the March 8, 2011 Board meeting, the Board voted to employ a staff attorney which will save the District money, according to the Superintendent, by eliminating the use of outside counsel for daily attorney needs.

#### *iPad Usage by Board and Cabinet Members*

At the request of Representative Tiffany Rogers, DLA Information Technology Staff (DLA IT staff) obtained District-issued iPads from Cabinet and

Board members to determine if iPads were being used for personal reasons.

Subsequent to DLA IT staff obtaining the iPads, District iPad User Agreement (Agreement) was revised to include "... these devices are District property and subject to audits at any time. A violation of this agreement could result in loss of privileges, termination or criminal charges."

After review of Agreement and discussion with District Information Technology personnel, DLA IT staff determined that iPad users were able to access personal email and plausibly store personal data. However, security restrictions prohibit users from downloading applications not approved by District, limiting most personal use.



### Accounts Payable

Pursuant to request by Senator Bobby Glover, whose term ended December 31, 2010, DLA staff researched an issue regarding past due invoices. DLA staff also reviewed accounts payable invoices paid during the period December 1, 2010 through January 31, 2011, with the exception of payments for utilities, debt service, and reimbursements to employees. Invoices were examined to determine date of purchase or service rendered and generate an aging schedule of invoices illustrated in **Exhibit III**. In addition to invoice amounts paid within 30 days or less, amounts paid more than 30, 60, 90, and 120 days after the invoice date are provided.

Of accounts payable invoices totaling \$14,824,270 for the period December 1, 2010 through January 31, 2011, current invoices totaled \$12,116,160 (81.7%), with the remaining \$2,708,110 (18.3%) representing past due invoices.

As reflected in **Exhibit III**, past due invoices include those paid more than 30, 60, 90, and 120 days after the invoice date totaling \$1,440,747, \$344,541, \$244,642, and \$678,180, respectively. The past due invoices totaling \$678,180 over 120 days old include invoices, totaling \$515,480, from one vendor for textbooks.

The Director of Purchasing, who was hired in July 2010, indicated past due invoices were an issue with prior purchasing system of the District, but the majority of these outstanding invoices had been paid and a new purchasing system implemented.

The new purchasing system requires the issuance of a confirming purchase order prior to the purchase of goods or services, which enables the Purchasing Department to track outstanding invoices.

### Fiscal Assessment and Accountability Program

The Arkansas Fiscal Assessment and Accountability Program, created by Ark. Code Ann. § 6-20-1901, requires ADE to identify, assess, and address school districts in fiscal distress.

As a result of findings disclosed in First Report, ADE notified the District, in September 2010, that two or more indicators of fiscal distress, at a nonmaterial level, had been identified and without intervention, the District could be placed in fiscal distress status.

On March 30, 2011, ADE notified the District that it had been identified as a school district in fiscal distress according to criteria in Ark. Code Ann. § 6-20-1904. According to ADE, the District was identified as one in fiscal distress because of

### Exhibit III

#### Pulaski County Special School District (District) Accounts Payable Aging Schedule For the Period December 1, 2010 through January 31, 2011

Month	Total Accounts Payable	Current Invoices	Invoices Over			
			30 days	60 days	90 days	120 days
December 2010	\$ 7,787,673	\$ 6,771,928	\$ 720,939	\$ 191,994	\$ 54,618	\$ 48,194
January 2011	7,036,597	5,344,232	719,808	152,547	190,024	629,986
Totals (Note 1)	<u>\$ 14,824,270</u>	<u>\$ 12,116,160</u>	<u>\$ 1,440,747</u>	<u>\$ 344,541</u>	<u>\$ 244,642</u>	<u>\$ 678,180</u>
Percent of Accounts Payable		81.7%	9.7%	2.3%	1.7%	4.6%

Note 1: Does not include payments for debt service, utilities, or reimbursements to District personnel

Source: District financial records



“material state or federal audit exceptions or violations.” In addition, this identification of fiscal distress was based on “acts or violations determined to jeopardize the fiscal integrity of the district including without limitations failure to fully develop and implement adequate corrective actions for previously identified audit findings and deficiencies.”

The State Board of Education (SBE) will determine whether to classify the District as being in fiscal distress at its meeting scheduled for May 9, 2011. According to ADE, the District may appeal the classification of fiscal distress to the SBE within 30 days of notification of this status.

Ark. Code. Ann. § 6-20-1907 states that no school district identified by ADE as being in fiscal distress may incur any debt without prior written approval from ADE. According to ADE, “any debt” includes any employment contract, vendor contract, lease, loan, purchase, or any other obligation that will increase a district’s financial obligations, accounts payable, or liabilities.

## RECOMMENDATIONS

Although District indicated new policies were or would be implemented in response to Report Update recommendations, DLA review revealed policies were not developed regarding all Report Update recommendations as reflected in **Exhibit IV**. Further, DLA staff noted noncompliance with certain of the newly developed policies.

DLA staff again recommends District obtain reimbursement of:

- \$4,467 from Superintendent for unallowed expenses (\$2,179) and health and dental insurance premiums paid on his behalf (\$2,288) in conflict with Ark. Code Ann. § 6-17-1117.
- \$1,198 from Board member Gwen Williams for mileage reimbursement overpayments, improper travel advances, and cellular telephone services.

### Exhibit IV

#### Pulaski County Special School District (District) Unresolved Recommendations As of February 24, 2011

Recommendation	Description	Page Number
B	District has not developed a policy which requires employees to maintain vehicle usage records for personal use of District vehicles to comply with IRS regulations.	4
K	Board action concerning acceptance of bid proposals is not clearly denoted in Board minutes.	8
M	District has not developed a policy regarding gift cards or other cash equivalent assistance provided to students through the Equity and Pupil Services Department.	9
O	District has not developed a policy regarding employee use of District vehicles for commuting to work.	9
P	District has not developed policies and procedures to ensure all inventory in the District Warehouse is accounted for properly. Further, District has not enhanced security methods to monitor Warehouse activity.	10
X	District has not established procedures for the issuance of manual checks.	13

Source: District records and personnel

- \$311 from CTO for unallowed expenses.
- \$3,884 from employees responsible for cellular telephone charges not covered in District's plan.
- \$1,564 from District Grant Writer for items purchased not for District use.
- \$21,791 from DREAM, a vendor that provided before and after school programs, for reimbursement for meals and snacks supplied by District and whose Director is the daughter of a District Assistant Superintendent.
- \$978 from China Travel Services and \$3,424 from UCACI for reimbursement of travel expenses.

In addition, DLA staff again recommends District develop and implement policies:

- Requiring employees to maintain vehicle usage records for personal use of District vehicles to comply with IRS regulations.
- Requiring Board minutes clearly denote Board action taken during meeting.
- Regarding gift cards or other cash equivalent assistance provided to students.
- Regarding employee use of District vehicles for commuting purposes.
- Regarding receipt, storage, and distribution of inventory items to ensure that all inventory is accounted for properly.
- Regarding the issuance of manual checks.

District should also monitor compliance with established policies and procedures. Further, District personnel should periodically review new purchasing system process to ensure District invoices are paid timely.

## CONCLUSION

Following presentation of the Report Update on December 15, 2010, LJAC requested DLA staff to determine and report corrective measures District implemented regarding Report Update recommendations. In addition, LJAC requested

information regarding District use of desegregation funds, legal fees paid pertaining to Union-related issues, District iPad usage policy, and past due vendor invoices.

As shown in **Exhibit V**, the District is due or potentially due \$37,617 from a Board member, employees, and vendors.

An addendum to Superintendent Charles Hopson's contract of \$205,000 that authorizes a salary increase of \$37,431 was approved by the Board in January 2011.

District did not obtain reimbursement from CTO nor provide explanation for \$311 identified as unallowed expenses; therefore, this amount remains due District.

District retained an attorney to assist in collecting \$1,223 from Board member Gwen Williams for cellular telephone services, unallowable mileage, gratuities, parking, and travel advances incurred from March 1, 2009 through July 31, 2010.

Report Update disclosed that the District Grant Writer had potentially misused District supplies totaling \$1,221 and DLA staff identified an additional \$343 in questioned supplies. Although District responded that reimbursement and/or documentation was required from the Grant Writer for these supplies, as of report date, no reimbursement has been made nor further documentation provided.

District has not determined, nor received reimbursement from, employees responsible for cellular telephone charges of \$3,884 not covered in District's service plan.

DREAM, a vendor that provided before and after school programs, owes the District \$21,791 for meals and snacks provided by the District. As disclosed in Report Update, Director of DREAM, daughter of a District Assistant Superintendent, agreed, through a consent judgment, to reimburse this amount. However, no further payments have been made and the Board voted to suspend these payments until further notice.

As of report date, District has not received reimbursement of \$978 and \$3,424 from China Travel Services and UCACI, respectively.

Unresolved Report Update recommendations are summarized in **Exhibit IV on page 17**.

District received \$20.5 million in desegregation funds of which \$16.2 million was expended in the 2009-10 school year. District programs and positions funded with desegregation revenue as well as other District uses of these funds are reflected in **Exhibit II on page 15**.

Legal fees pertaining to Union-related issues totaled \$162,152 for the period January 1, 2010 through December 31, 2010.

District provided iPads, regulated by District usage policy, to Board and Cabinet members. Although iPad users are able to access personal email and plausibly store personal data, security restrictions prohibit the downloading of applications not approved by the District, thus limiting personal use.

Of accounts payable invoices totaling \$14,824,270 for period December 1, 2010 through January 31, 2011, \$2,708,110 were over 30 days old reflected in **Exhibit III on page 16**.

In September 2010, ADE notified the District that two or more indicators of fiscal distress, at a nonmaterial level, had been identified and without intervention, the District could be placed in fiscal distress status.

On March 30, 2011, ADE notified the District that it had been identified as a school district in fiscal distress according to criteria in Ark. Code Ann. § 6-20-1904. According to ADE, the District may not incur any debts without prior written approval from ADE.

## Exhibit V

### Pulaski County Special School District (District) Amounts Due/Potentially Due the District As of February 24, 2011

Title/Vendor	Amounts Due/Potentially Due District
Superintendent	\$ 4,467
Board member	1,198
Chief Technology Officer	311
Employee(s) (Note 1)	3,884
Grant Writer	1,564
DREAM (Note 2)	21,791
China Travel Services	978
UCACI (Note 3)	3,424
<b>Total</b>	<b>\$ 37,617</b>

Note 1: Cellular telephone charges not covered in District's plan

Note 2: Dedicating Resources to Excel All Minds

Note 3: University of Central Arkansas Confucius Institute

**Source:** District financial records

Response to the report provided by the Superintendent and Board President is presented in the **Appendix on pages A-1 through A-4**.

This report has been forwarded to Sixth Judicial District Prosecuting Attorney, Arkansas Department of Education, and Arkansas Governmental Bonding Board.

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# **APPENDIX**

**Pulaski County Special School District  
Response to Report  
Dr. Charles Hopson, Superintendent  
Mr. Bill Vasquez, Board President**

**Pulaski County Special School District  
Response to Report  
Dr. Charles Hopson - Superintendent  
Mr. Bill Vasquez - Board President**



**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**

Office of the Superintendent

Arkansas Division of Legislative Audit  
172 State Capitol  
Little Rock, AR 72201

Pulaski County Special School District  
925 East Dixon Road  
Little Rock, AR 72206

April 1, 2011

Dear Legislative Audit Members,

The purpose of this letter is to address the Legislative Audit findings in the report of December 2010, and to specify with clarity how each finding was resolved by the Pulaski County Special School District (PCSSD).

- Finding: Superintendent Hopson continues to owe the District \$2,179 for unallowed expenses and \$2,288 for health and dental insurance premiums improperly paid on his behalf. An addendum to Hopson's contract, approved January 2011, provides an additional \$37,431 to his annual salary of \$205,000.
  - RESOLUTION: Dr. Hopson reimbursed \$140.00 of unallowed expenses on March 31, 2011.
  - RESOLUTION: See Attachment
- Finding: Board member Gwen Williams continues to owe the District \$1,223 for mileage reimbursement overpayments, improper travel advances, and cellular telephone services.
  - RESOLUTION: Board member Gwen Williams stated at the PCSSD Special Board meeting of March 31, 2011, that the balance due would be repaid within 10 days.
  - NOTE to Legislative Audit: Board member Mildred Tatum has repaid the District all funds due.
- Finding: Chief Technology Officer owes the District \$311 for unallowed expenses.
  - RESOLUTION: The District received check from Chief Technology Officer in the amount of \$311 on March 31, 2011.
- Finding: District did not obtain reimbursement nor require documentation to be submitted for \$1,564 in questioned reimbursements from Grant Writer Deborah McAfee.
  - RESOLUTION: Superintendent has 1) made a personnel recommendation to the Division of Human Resources and 2) directed the PCSSD attorney, Judy Wilber, to pursue recovery of District funds.

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Phone: (501) 490-6201 ♦ Fax: (501) 490-0483 ♦ Email: [chopson@pcssd.org](mailto:chopson@pcssd.org)

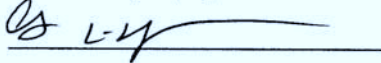
**Pulaski County Special School District  
Response to Report  
Dr. Charles Hopson - Superintendent  
Mr. Bill Vasquez - Board President**

Continued from page A-1

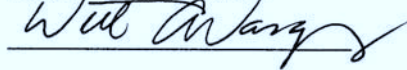
- Finding: Balance due of \$21,791 from DREAM has not been collected and Board suspended terms of payment agreement.
  - RESOLUTION: PCSSD internal investigation is complete and Board directed PCSSD attorney to recover District funds in accordance with the Consent Judgment entered into between PCSSD and DREAM.
- Finding: Reimbursements of \$978 and \$3,424 are due from China Travel Service and UCACI, respectively.
  - RESOLUTION: District received a check in the amount of \$3,424 from UCACI.
  - RESOLUTION: District received a check in the amount of \$978 from China Travel Service.
  - NOTE to Legislative Audit: These debts were incurred as part of a teacher recruitment trip to China sponsored by the Arkansas State Department of Education.
- Finding: Legal fees totaled \$162,152 for litigation between Board and Union for the period January 1, 2010 through December 31, 2010. Board voted on March 8, 2011 to employ in-house attorney as a cost-saving measure.
  - RESOLUTION: Board voted on March 8, 2011 to employ in-house attorney as a cost-saving measure.

Educationally yours,

Dr. Charles Hopson, Superintendent



Bill Vasquez, Board President



Attachment

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**Pulaski County Special School District  
Response to Report  
Dr. Charles Hopson - Superintendent  
Mr. Bill Vasquez - Board President**

Continued from page A-2



**PULASKI COUNTY SPECIAL SCHOOL DISTRICT**

Office of the Superintendent

**Memorandum**

Date: March 31, 2011

To: Legislative Joint Auditing Committee

From: Dr. Charles Hopson, Pulaski County Special School District Superintendent  
Bill Vasquez, Pulaski County Special School Board President

Re: Responsive Statement Regarding Dr. Hopson's Employment Contract

The following memo has been provided to all board members and the issues were presented and discussed at the Board Meeting on March 31, 2011. This memo represents finality on the issues identified in red italics below which were raised by the Legislative Audit Committee in connection with the Employment Contract of Superintendent Charles Hopson. The responsive statement follows each italicized issue.

1. Background and General Statement. The compensation package agreed upon by the Pulaski County Special School District (PCSSD) Board, the board's attorney, Jay Bequette, and Dr. Hopson's agent was fair and appropriate for a district the size of the PCSSD. All areas of concern have been addressed.
2. Health and dental insurance premiums were improperly paid by the District under Arkansas statutes. Dr. Hopson's employment contract states, "The Board will maintain health insurance, including dental coverage, on and for the benefit of the Superintendent and health insurance, including dental coverage, on and for the benefit of the Superintendent's spouse and dependent children; *provided, however, that upon the election of Superintendent the dollar amount of any health insurance premiums not paid by the District on or for the benefit of Superintendent or his dependents shall be paid to Superintendent as salary in addition to the salary established in paragraph 2 hereof.*" The highlighted language in the employment contract allows for payment of the amount of the health and dental insurance premiums above the amount paid for other employees to be paid to Dr. Hopson as salary. Dr. Hopson will be taxed on the \$2,288 as salary (and the same will be reported on his 2010 W-2 form). Please note that this section of the contract has been amended to move this extra compensation to a semi-annual bonus but the compensation has not been eliminated. This is a very common provision in superintendent employment contracts in districts the size of PCSSD, and should be provided in some form even if Arkansas statutes do not allow the premiums to be paid directly by the District. Also, the \$2,288 that was improperly paid by the District was recovered by a reduction in Dr. Hopson's contract addendum payment in January, 2011.
3. "Any amount reimbursed to Hopson for his cost associated with reinstatement to ATRS should be reported as income on Hopson's annual IRS Form W-2." We agree and never intended that this not be treated as income to the Superintendent. Due to the ambiguity in the ATRS rules and Arkansas code, no payments have been made for the payment of Dr. Hopson's ATRS reinstatement, therefore, there was no income to be added to the W-2.

**Pulaski County Special School District  
Response to Report  
Dr. Charles Hopson - Superintendent  
Mr. Bill Vasquez - Board President**

Continued from page A-3

4. "The amount of \$667 the District has spent for cellular telephone expenses for the Superintendent should be reimbursed by Hopson and services under District plan cancelled. If Hopson chooses to retain his District telephone service, The District should reduce Hopson's monthly communications and technology allowance of \$300 by the monthly cost of his District cellular telephone service cost." Dr. Hopson was issued a cell phone during his transition to his job at the District in the summer of 2010. Immediately after starting work for the District he used the communications and technology allowance to obtain his own cell phone and began to use this. The District should have discontinued the service for the phone they issued to him at that time. We think the fair way of handling this issue would be for Dr. Hopson to reimburse the District for any actual usage costs for the District issued cell phone. He should not be responsible for standard monthly charges for a cell phone that he did not use.
5. "District did not include the following amounts totaling \$2,179, as additional income on Hopson's IRS Form W-2 for 2010 nor did Hopson reimburse the District as recommended in Report Update. Therefore, these amounts remain due the District."
- Undocumented airfare - \$855
  - Cellular telephone – \$677
  - Undocumented credit card charges - \$517
  - Meals - \$79
  - Additional day of per diem for meals - \$61"

It should be noted that it was always the parties' understanding that Dr. Hopson would be taxed on the moving and relocation allowance and expense reimbursements.

The \$855 air fare was incurred on one of the trips that the Board asked Dr. Hopson to make to the District during the discussion of his employment contract. Dr. Hopson made several of these trips. All of these were done at the request of the Board and should not be reimbursed by Dr. Hopson to the District.

In the spirit of transparency and cooperation, Dr. Hopson has paid the \$517 credit card charges but maintains that these were legitimate expenses under the very broad definition of the moving and relocation stipend in his employment contract.

Dr. Hopson has reimbursed the District for the meal expenses noted totaling \$140 and will reimburse the actual amount of cell phone usage of the District issued phone once that amount has been determined.

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For a copy of this report as well as the First Report and Report Update  
visit Division of Legislative Audit Website at  
[www.arklegaudit.gov](http://www.arklegaudit.gov)

**Investigative Report**  
Legislative Joint Auditing Committee  
May 14, 2010

**Review of Selected Transactions**  
**Pulaski County Special School District**


INTRODUCTION

This report is issued pursuant to a request by the Commissioner of Arkansas Department of Education (ADE) and the Pulaski County Special School District (District) Board of Directors (Board) for the Division of Legislative Audit (DLA) to conduct a limited scope review of selected District transactions and activities. Specifically, ADE is interested in the financial settlement to which Mr. James Sharpe, former District Superintendent, was entitled. The Board also expressed concerns relating to certain financial operations of, and compliance with policies by, the District. These concerns as well as issues District personnel revealed to DLA staff are discussed in this report.

**HIGHLIGHTS OF REPORT**

- Financial settlement of \$269,529 initially paid to Superintendent James Sharpe upon resignation from the District conflicted with Board approved terms and amount of \$185,000. Sharpe reimbursed the overpayment of \$72,918 calculated by the District. District personnel indicated Sharpe received additional salary and benefits overpayments totaling \$17,203 during his tenure. In addition, Sharpe was reimbursed for, or charged on District credit card, unallowable, undocumented expenses totaling \$7,836.
- Unallowable and questioned travel expenses totaling \$7,692 paid to Board members. These expenses include overnight stay in a Little Rock hotel, Broadway play in New York, and gratuities.
- A Maintenance Shop employee misappropriated District funds totaling \$439,745. Internal control deficiencies and lack of oversight by District management contributed to this matter not being detected. Specifically, numerous purchase orders and invoices were approved using a "rubber stamp."
- Potential waste and abuse of District resources due to excessive use of emergency purchase orders and overtime compensation to employees in the Maintenance Department.
- District overpaid a vendor \$11,975. Director of Purchasing allowed vendor to repay District in installments and maintained this agreement "off-the-books."
- Administrative staff and the Board did not exercise proper management fiscal oversight responsibility nor demonstrate a "tone at the top" promoting commitment to financial prudence and consistency with policies and procedures.

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Report ID: IR SD 398 09 Report Date: April 28, 2010



**Investigative Report Update**  
Legislative Joint Auditing Committee  
December 15, 2010

**Review of Selected Transactions**  
**Pulaski County Special School District**


INTRODUCTION

As indicated in the Division of Legislative Audit (DLA) Investigative Report – Review of Selected Transactions – Pulaski County Special School District (Prior Report), dated April 28, 2010 inclusive of the period March 1, 2004 through February 16, 2010, numerous internal control deficiencies were identified at the Pulaski County Special School District (District). In addition, the Prior Report disclosed that District funds were misappropriated by a maintenance shop employee and unallowable and questioned travel expenses were incurred by District Board of Directors (Board) and former Superintendent James Sharpe.

**HIGHLIGHTS OF REPORT**

- Employment contract for Superintendent Hopson included salary of \$205,000, purchase, and business/personal use, of a vehicle costing \$35,480 and unlimited use of District fuel credit cards; one-third of cost to reimburse to ATRS of \$56,357; moving/relocation allowance of \$20,000; insurance benefits at a monthly cost of \$1,426; and technology and community/educational activities allowances of \$3,000 and \$2,400, respectively.
- Salaries and benefits for certain administrators are budgeted to increase by \$550,138 and \$162,777, respectively, in the 2010-11 school year from the previous school year.
- Unallowable travel expenses and cellular telephone usage fees totaling \$1,360 paid to, or on behalf of, Board members. Board-related expenses totaled \$178,054 including boardroom renovations, laptop computers, travel costs, and association dues. Another \$15,852 was spent to purchase iPads for Board and Cabinet members.
- District received \$20.5 million in desegregation funds and expended \$16.2 million in the 2009-10 school year.
- Review of certain consultant contracts indicated two individuals, who are or will become District employees, were placed on contract for services and paid over \$78,000 prior to employment which appears to be to pay them above the salary level for the positions they hold or will assume.
- District expended \$961,329 for legal services, including fees for union disputes and ongoing desegregation case.
- At the direction of the Superintendent, the District's bell schedule was changed resulting in the purchase of 30 used school buses at a cost of \$769,500 as well as hiring 30 additional part-time bus drivers.
- Three new employees were paid a total of \$8,741 for days not worked.
- Examples of the District's spending patterns, totaling over \$2.2 million, are provided in Schedule 3 on page 38.
- Matters disclosed and pending in the Prior Report, and status thereof, are discussed on pages 33 and 34.
- The District is due or potentially due \$66,807 from various Board members, employees, and vendors.

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Report ID: IR SD 398 10 Report Date: December 6, 2010









**Financial and Operational Forensic  
Analysis of Pulaski County Special  
School District's Budget and  
Expenditure Patterns**

**Provided to:**

**Office of the Attorney General for the  
State of Arkansas**

**April 20, 2011**



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New York, NY 10016

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## Appendices

- A. Summary of Desegregation Funding and Expenditures by Fiscal Year
- B. Matrix of Potential Issues Identified During Desegregation Funding Analysis



## **I. Introduction**

Navigant was engaged by the Office of Attorney General for the State of Arkansas (“AG”) to provide forensic accounting and other related services in connection with desegregation funding (“Desegregation Funding” or the “Funding”) provided by the Arkansas Department of Education (“ADE”) to the three Pulaski County school districts (collectively referred to as the “School Districts”)—Pulaski County Special School District (the “PCSSD”), North Little Rock School District (the “NLRSD”) and Little Rock School District (the “LRSD”).<sup>1</sup>

Specifically, Navigant was engaged to perform a financial and operational forensic analysis of the budget and expenditure patterns of the School Districts to determine how the Funding has been historically expended and identify areas where cost savings can be achieved. Navigant was also requested to identify any areas or incidents of weakness in internal controls, and policies and procedures that may have allowed fraud, waste, mismanagement or abuse of the Funding to have occurred. Additionally, Navigant was engaged to perform an impact analysis to serve as the underlying rationale for any proposed wind down of the Desegregation Funding to ensure that the reduction in Funding will not have an adverse impact on the academic and fiscal integrity and standards of the School Districts.

This report serves as a preliminary report of the analyses and interviews Navigant has performed to date in connection with the PCSSD and addresses the processes and internal controls at the ADE.<sup>2</sup>

## **II. Executive Summary**

### **A. Overview**

In accordance with the AG’s request, Navigant focused its forensic analysis on the PCSSD’s financial records in connection with the Funding for fiscal years 2006-2010 and fiscal year (“FY”) 2011 to date.<sup>3</sup> The objective was to assess the accuracy and completeness of the PCSSD’s accounting of the Funding and the extent that the expenditures incurred for desegregation purposes can be identified and vouched to supporting documentation.

---

<sup>1</sup> In 1989, the State of Arkansas entered into the Pulaski County School Desegregation Case Settlement Agreement (“Settlement Agreement”) with the School Districts in which the State was required to provide additional funding currently totaling approximately \$60-70 million annually to the School Districts to implement and fund student desegregation programs. There were subsequent modifications and updates to the Settlement Agreement issued by the court including Plan 2000 and an agreement between LRSD and the ADE executed on March 19, 2001.

<sup>2</sup> Navigant will also analyze the budget and expenditure patterns of the other school districts in Pulaski County, which are LRSD and NLRSD.

<sup>3</sup> The ADE’s and the School Districts’ FY begins on July 1. For FY 2011, Navigant reviewed transactions recorded in the Arkansas Public School Computer Network (“APSCN”) through December 7, 2010.

Mr. Scott Richardson, Assistant Attorney General of the AG, was the primary point of contact to assist Navigant by providing appropriate documentation, access to representatives from the ADE and the PCSSD and other information Navigant required performing its analysis.

Navigant conducted 16 interviews of representatives from the PCSSD and the ADE. Navigant obtained Funding documentation from the ADE and obtained access to APSCN, the online accounting and reporting application used by most school districts in Arkansas.<sup>4</sup>

The ADE created specific codes for the School Districts to utilize and properly record the Funding in APSCN for tracking purposes. These include a combination of Source of Fund and the associated Revenue Account codes as follows:

Source of Fund Code and Description	Related Revenue Account(s)
386 Pulaski County Magnet School Revenue	32800 and 32808 - 32811
387 Majority to Minority ("M-to-M") Revenue	32812
387 Teacher Retirement & Insurance Court Settlement	32814
388 Magnet & M-to-M Transportation	32813

The ADE informed Navigant that the Revenue Account codes related to the Funding begins with "328."

## B. Summary of Preliminary Findings

### 1. Recording of Funding and Related Expenditure

The chart on the following page summarizes the Desegregation Funding and related expenditures and outflows recorded by the PCSSD:

---

<sup>4</sup> Navigant was informed by the ADE that LRSD does not utilize APSCN for accounting and reporting. For further details on the procedures performed by Navigant to date, see section V of this report.

(in millions)

<b>Recorded by the PCSSD in APSCN</b>	<b>FY 2006 - FY 2011</b>
<b>ADE Desegregation Funding</b>	<b>\$105.9</b>
Additional Magnet Review Committee <sup>5</sup> Revenue (funded by the School Districts)	0.7
Specific Expenditures related to Desegregation Purposes	(61.5)
<b>Remaining Desegregation Funding</b>	<b>45.1</b>
Transfers to Non-Desegregation General Unrestricted Accounts	(\$35.0)
<b>Balance – Unaccounted Use of Desegregation Funding</b>	<b>\$10.1</b>

a. Funding from the ADE

Only approximately 63% of the \$105.9 million Funding for FY 2006 to December 2010 from the ADE was properly recorded by the PCSSD with the ADE designated desegregation Source of Fund and related Revenue Account codes in APSCN. The remaining approximately 37% of the Funding was recorded in APSCN, however, without the ADE designated desegregation Source of Fund and related Revenue Account codes.

b. Expenditures and Other Outflows Recorded in APSCN

There were specific expenditures tied to desegregation purposes totaling \$61.5 million and transfers to non-desegregation general unrestricted accounts totaling \$35 million recorded in known desegregation Source of Fund codes.

i. Appears related to desegregation purposes

Approximately 58% (\$61.5 million) of the use of the Funding recorded appears to relate to specific expenditures tied to desegregation purposes.

<sup>5</sup> The Magnet Review Committee (“MRC”) was established by the court in connection with the Settlement Agreement to provide certain monitoring and oversight responsibilities with respect to the Magnet School Funding for the School Districts. The ADE is ordered by the court to annually fund \$92,500 to the MRC to pay for MRC expenditures; accordingly, the ADE prepares a check payable annually for \$92,500 to the MRC, but it is deposited by the PCSSD in its bank account and in APSCN accounting records in Source of Fund code 2014 (Magnet Review) for FY 2006 and FY 2007 and then subsequently in Source of Fund code 386 for FY 2008 to FY 2011. The MRC submits documentation related to expenses incurred to the PCSSD for reimbursement.

Navigant noted that additional funding for the MRC totaling \$675,138 was recorded by the PCSSD in APSCN for FY 2006 to FY 2011. This additional funding was not funded by the ADE and it appears to be additional MRC funding provided by the PCSSD and the other School Districts. Additionally, the \$0.7 million noted in the chart does not include this additional \$675,138 funding by the School Districts. The \$0.7 million only relates to the \$92,500 annual Funding by the ADE for the MRC.

ii. Does not appear related to desegregation purposes

a) Approximately 33% (\$35 million) of the use of the Funding recorded appears to relate to transfers to non-desegregation general unrestricted accounts. Therefore it is unclear as to whether these funds were expended for desegregation purposes.

b) The remaining approximately 9% (\$10.1 million) of the Funding was not accounted for as a specific expenditure or transfer. Therefore, this remaining amount does not appear to be expended for desegregation purposes.

Accordingly, the remaining Desegregation Funding of \$45.1 million (\$35 million and \$10.1 million) described above does not appear to be utilized by PCSSD for its intended purpose.

2. ADE personnel advised that it does not track the use of the Funding it remits to the School Districts or perform any oversight to ensure that the Funding is being used for its intended purposes.
3. There appears to be poor tone at the top and a high degree of nepotism demonstrated by the Superintendent, Board Members and senior level employees, particularly in the hiring of consultants.

In general, there is a lack of documented policies and procedures provided to new and existing employees for guidance, proper segregation of duties and accountability. Specifically with respect to Desegregation Funding, there are no policies and procedures and controls in place at either the ADE or the PCSSD to address the appropriate tracking of the receipt and expenditure related to the Funding.

4. Various departments have the ability to add or modify records in the vendor master list, a material internal control weakness that could result in misappropriation of funds involving the use of fictitious vendors.
5. There is potential for the misappropriation of PCSSD funds or goods by the Maintenance, Transportation and Food Service departments.

### **III. Details of Preliminary Analyses Performed by Navigant**

#### **A. Analysis of Desegregation Funding**

##### **1. The ADE**

Navigant obtained and analyzed a schedule of the Funding payments made by the ADE to the PCSSD. Navigant traced these payments to verify the receipt of the Funding by the PCSSD.

ADE personnel stated that they do not track the use of the Funding remitted to the School Districts or perform any oversight function in connection with the Funding, such as to ensure that the School Districts are accounting for the Funding in the desegregation Source of Fund codes and that the Funding is used for its intended purpose. The ADE stated that they do not independently verify the accuracy and justification of the desegregation transportation expense reimbursement requests submitted by the School Districts. The ADE also does not verify that the Funding is recorded by the School Districts in APSCN in its designated desegregation Source of Fund or Revenue Account codes.

## 2. The PCSSD

The PCSSD utilized the accounting software FinancePlus to maintain its books and records through June 30, 2010. The PCSSD went “live” in APSCN beginning on July 1, 2010 and therefore records and prepares accounting entries directly in APSCN for FY 2011. PCSSD representatives stated that its accounting records prior to July 1, 2010 in FinancePlus were migrated to APSCN.<sup>6</sup>

Navigant’s review of Funding records provided by the ADE and in APSCN<sup>7</sup> noted that the ADE allocated approximately \$124.7 million to the PCSSD, of which approximately \$105.9 million was paid directly to the PCSSD, as summarized in the following chart:<sup>8</sup>

### ADE Desegregation Funding to the PCSSD

FY 2006 to FY 2011

(in millions)

Funding Category	Amount
Magnet School Funding	\$18.8
Health Insurance & Teacher Retirement	\$31.2
M-to-M Revenue	\$56.8
Magnet & M-to-M Transportation	\$17.3
Magnet Review Committee	\$0.6
Total ADE Funding, FY 2006 to FY 2011 (Oct.)	<b>\$124.7</b>

<sup>6</sup> The PCSSD’s information technology (“IT”) personnel and SunGard, a consultant hired by PCSSD, were involved in the migration of the data from FinancePlus to APSCN. The PCSSD Budget Coordinator stated that she only performed manual crosschecks of the migrated budget information for FY 2010 and did not review or verify the integrity or accuracy of the data migrated to APSCN for other years. Navigant did not perform a forensic analysis to confirm that the data was migrated properly, accurately and completely.

<sup>7</sup> Funding records received from the ADE were for payments recorded as of October 25, 2010. Navigant analyzed Funding transactions recorded in APSCN for FY 2006 through current FY 2011 (December 7, 2010).

<sup>8</sup> A summary of the ADE Desegregation Funding and related expenditures by FY recorded by the PCSSD in APSCN is annexed hereto in Appendix A. PCSSD representatives stated that the PCSSD does not receive any funding in connection with desegregation programs from Federal sources.

The Magnet School Funding for the School Districts is calculated by the ADE and the portions allocated to the PCSSD and the NLRSD are sent directly to the LRSD because the six Stipulation Magnet Schools are in the LRSD.<sup>9</sup> Accordingly, the Magnet School Funding allocated to the PCSSD totaling approximately \$18.8 million is not recorded in the PCSSD's APSCN accounting records.<sup>10</sup> Therefore, excluding this \$18.8 million from the total Funding of approximately \$124.7 million, Navigant traced and analyzed \$105.9 million of ADE Funding in the PCSSD's APSCN accounting records.

Navigant noted that the PCSSD's receipt of the \$105.9 million Funding was not always recorded properly with the ADE designated desegregation Source of Fund and related Revenue Account codes in APSCN. Some of the Funding was initially recorded by the PCSSD in a general unrestricted fund and then subsequently reclassified at the end of, or after, the FY end. Navigant's analysis revealed that of the \$105.9 million that the ADE paid to the PCSSD for FY 2006 to FY 2011, the PCSSD APSCN accounting records reflect only approximately \$66.9 million, or 63%,<sup>11</sup> in the appropriate combination of Source of Fund and the associated Revenue Account codes established by the ADE to record the Funding, as noted in the following chart:

**Summary of Funding Currently Reflected in APSCN (in millions)**  
**FY 2006 to FY 2011**

		Source of Fund code		
		Desegregation-Related	Non-Desegregation-Related	
Revenue Account code	Desegregation-Related	\$66.9	\$27.5	
	Non-Desegregation-Related	\$ -	\$11.5	
		\$66.9	\$39.0	\$ 105.9
		63%	37%	100%

<sup>9</sup> The six Stipulation Magnet Schools in LRSD are Parkview High, Mann Middle, Williams Elementary, Carver Elementary, Gibbs Elementary and Booker Elementary.

<sup>10</sup> Navigant will review the total Magnet School Funding during its analysis of the LRSD.

<sup>11</sup> Of the \$105.9 million the ADE paid to the PCSSD, only approximately \$62.2 million, or 59%, was initially recorded by the PCSSD in APSCN with the desegregation Source of Fund and Revenue Account codes. Subsequent reclassifications made by the PCSSD in APSCN resulted in approximately \$66.9 million, or 63%, of the Funding recorded properly with the desegregation Source of Fund and Revenue Account codes, as noted in the chart.

Although Navigant was able to identify the Funding that was recorded in APSCN with only the appropriate desegregation Source of Fund or Revenue Account code, this accounting error results in a lack of reporting transparency and commingling and inaccurate reporting of Desegregation Funding. Accordingly, Desegregation Funding recorded in APSCN without both the appropriate desegregation Source of Fund and related Revenue Account codes are commingled with, and are not apparently distinguishable from, unrestricted revenue funds recorded in APSCN by the PCSSD.

Furthermore, Navigant's analysis revealed that the PCSSD's recording of the receipt of the Funding improved over time. For example, for FY 2010, 100% of the Funding received by PCSSD was recorded with the appropriate desegregation codes, which was in contrast to FY 2006 where the entire Funding received by PCSSD was improperly recorded in APSCN with an unrestricted general operating fund code. Although by FY 2010, 100% of the Funding was recorded with the appropriate desegregation code, it appears that this coincided with the PCSSD's migration of its accounting records in FinancePlus to APSCN, and the PCSSD directly reporting in APSCN in real time beginning on July 1, 2010. Accordingly, based on the trends in the following chart, it is highly probable that the PCSSD also commingled and inappropriately recorded the Funding in the fiscal years prior to FY 2006:

% Recorded in Source of Fund With		
	Desegregation Code	General Operating Fund Code
<b>FY 2006</b>	0%	100%
<b>FY 2007</b>	60%	40%
<b>FY 2008</b>	73%	27%
<b>FY 2009</b>	67%	33%
<b>FY 2010</b>	100%	0%
<b>FY 2011</b>	100%	0%

## B. Analysis of Expenditures Related to Desegregation Funding

Navigant's analysis revealed that expenditures recorded by the PCSSD did not appear to correspond to the respective Desegregation Source of Fund codes used to record the Funding. PCSSD representatives stated that expenditures related to desegregation purposes were recorded to Source of Fund Code 900.<sup>12</sup> PCSSD representatives also stated that beginning in FY 2010, Source of Fund Code 900 was no longer used to record desegregation related expenditures; instead, such expenditures were required by APSCN to be recorded to the related Source of Fund codes that were used to record the receipt of the

<sup>12</sup> Desegregation expenditures related to salaries were recorded to 1900 and operations were recorded to 2900 until FY 2010. The Source of Fund Code 900 did not distinguish among the different types of Desegregation Funding.



corresponding Funding (i.e. 386, 387 and 388).<sup>13</sup> The following chart summarizes the expenditures related to desegregation purposes as recorded by the PCSSD in APSCN:<sup>14</sup>

<b>PCSSD Expenditures Related to Desegregation Recorded by PCSSD</b> <b>FY 2006 to FY 2011</b> (in millions)	
	<b>Amount</b>
Amount in Specific Expenditure Accounts	\$61.5
Transfers to Non-Desegregation General Unrestricted Account(s)	\$35.0
Total Outflows Recorded in Desegregation Accounts	<b>\$96.5</b>

As noted in the chart above, approximately \$61.5 million recorded with desegregation Source of Fund codes appear to relate to specific expenditures.

Other expenditures recorded in these desegregation Source of Fund codes in APSCN were in lump sum<sup>15</sup> amounts totaling approximately \$35 million and were adjustments made at the respective FY ends. These lump sum amounts were recorded with either Expenditure Account code #69310 “To Salary Fund” or #69320 “To Operating Fund.”<sup>16</sup> It appears that the purpose of these lump sum journal entries was to increase the total expenditures in the desegregation Source of Funds at the end of the FY, which in effect increased the available funds to be used in non-desegregation general unrestricted salary and operating fund accounts.

PCSSD representatives stated that the intent of these journal entries is to reclassify amounts to a non-desegregation general unrestricted fund, whereby it is no longer possible to track whether these amounts are expended for desegregation purposes.<sup>17</sup> Accordingly, these reclassified amounts lose its

<sup>13</sup> The PCSSD representatives stated that beginning in FY 2010, expenditures recorded in Source of Fund codes 1900 and 2900 had to be reversed to the specific Desegregation Source of Fund codes established by the ADE (i.e. 386, 387 and 388); otherwise APSCN will not allow the PCSSD to proceed with the fiscal year-end financial reporting close process.

<sup>14</sup> See the summary of the ADE Desegregation Funding and related expenditures by FY recorded by the PCSSD in APSCN in Appendix A.

<sup>15</sup> These lump sum amounts totaling \$35 million do not appear to represent individual expenditures and consist of a total of five journal entries during FY 2007 to FY 2009.

<sup>16</sup> The PCSSD’s Business Procedures Manual noted that these Expenditure Accounts are part of the series “Code 69300 Fund Transfers (Permanent),” which are used to record transfers to another fund.

<sup>17</sup> The PCSSD employees did not refute that the effect of transferring to a non-desegregation general unrestricted fund equates to moving excess funds to a “slush fund.”

restricted purpose identity and can no longer be properly matched with related desegregation expenditures.

The following chart summarizes the Desegregation Funding and the related expenditures recorded in APSCN that Navigant identified:

**Desegregation Funding and Expenditures Recorded by the PCSSD**  
**FY 2006 to FY 2011 (in millions)**

	Amount	Percent
ADE Desegregation Funding	\$105.9	
Magnet Review Committee Revenue (funded by the School Districts) <sup>18</sup>	0.7	
<b>Total Desegregation Funding in APSCN</b>	<b>\$106.6</b>	<b>100%</b>
Less: Amount in Specific Expenditure Accounts	(61.5)	58%
<b>Remaining Desegregation Funding</b>	<b>\$45.1</b>	<b>42%</b>

As noted in the chart above, only approximately \$61.5 million of desegregation expenditures were recorded to specific Expenditure Accounts, or 58% of the Funding were spent and recorded. The remaining Desegregation Funding of \$45.1 million appears to represent the amount that the PCSSD did not spend for its intended purpose. Accordingly, it does not appear that the PCSSD has a process to track the disposition of any remaining Funding balance at the end of each FY.<sup>19</sup> For example, in FY 2006, Funding totaled approximately \$19.3 million and recorded expenditures were \$10.6 million, resulting in a remaining Desegregation Funding balance of \$8.7 million.<sup>20</sup>

### C. Other Preliminary Findings and Observations

During Navigant's interviews of representatives from the PCSSD and the ADE, numerous issues and concerns were expressed regarding potential misconduct, misappropriation of PCSSD assets and significant internal control weaknesses. In response to these issues and Navigant's preliminary assessment of the PCSSD's financial and operational internal control environment, Navigant prepared a preliminary list of recommendations in section VI of this report.<sup>21</sup>

<sup>18</sup> Navigant noted that additional funding for the MRC totaling \$675,138 was recorded by the PCSSD in APSCN for FY 2006 to FY 2011. This additional funding was not funded by the ADE and it appears to be additional MRC funding provided by the PCSSD and the other School Districts.

<sup>19</sup> The PCSSD CFO stated that a Program code in APSCN should be created to account for the Funding surplus.

<sup>20</sup> See the summary of the ADE Desegregation Funding and related expenditures by FY recorded by the PCSSD in APSCN annexed hereto in Appendix A.

<sup>21</sup> See summary matrix of potential issues and observations prepared by Navigant annexed hereto in Appendix B.

## 1. High Degree of Nepotism

PCSSD representatives stated that there is a high degree of nepotism engaged in by the current PCSSD Superintendent, members of PCSSD board (“Board Member,” or collectively, the “Board”) and senior level employees.

### a. Hiring of Employees and Consultants

The PCSSD Chief Financial Officer (“CFO”) stated that there are no written policies and procedures regarding the hiring of consultants. She explained to Navigant that typically before a consultant is hired the following unwritten procedures are followed:

- Verify budgeted funds are available
- Obtain details of consultant services
- Review of contracts by the PCSSD attorney
- Obtain approval from supervisor of division where consultant will provide services
- Obtain approval of the Superintendent
- Obtain approval by the Board

The above procedures notwithstanding, it appears that the Superintendent can and has in fact overridden these procedures. PCSSD employees stated that the Superintendent has been able to place his friends as consultants in departments where there does not appear to be a need. PCSSD representatives interviewed by Navigant stated that there are numerous instances of friends and former associates of the Superintendent, the Board and senior level employees being hired as employees or consultants with the PCSSD. These PCSSD representatives also stated that these employees and consultants may not have the requisite knowledge and experience for their hired roles,<sup>22</sup> and may be paid above the PCSSD’s established salary rate schedule.

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<sup>22</sup> A PCSSD employee stated that consultants hired by the PCSSD are required to have a minimum of ten years of related experience in the services provided to the PCSSD, however, it is not clear whether this requirement is documented.

The following individuals were initially hired as consultants and are currently full-time employees of the PCSSD:

- Director of IT<sup>23</sup>
- Maintenance Support Services<sup>24</sup>

The following individuals were hired as and still are employed as consultants at the PCSSD:

- Temporary Accountant in PCSSD's Accounting department<sup>25</sup>
- Consultant in PCSSD's Human Resource department<sup>26</sup>

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<sup>23</sup> Navigant was informed that the Director of IT worked with the Superintendent when they were both colleagues in Oregon. At the time that the Director of IT was hired as a consultant in the PCSSD's IT department, he was still living in Oregon. It is not clear whether the PCSSD paid for his air travel expenses. Navigant was also informed that the wife of the Director of IT is employed as a teacher in the PCSSD.

<sup>24</sup> Navigant was informed that the Maintenance Support Services employee, a retired Air Force Colonel, was referred to the PCSSD as a consultant in the Maintenance department by the Superintendent. The Maintenance Support Services employee became a consultant to the PCSSD around June 2010 while he was still living in South Carolina where he was also employed in another position in the private sector. Navigant was also informed that the PCSSD paid for his flights to and from South Carolina/Arkansas.

A PCSSD employee provided Navigant with a consulting invoice submitted by the Maintenance Support Services employee to the PCSSD in connection with consulting services he provided during October 1, 2010 to November 7, 2010 totaling \$18,908.24, which represent consulting services for 26 days at a daily rate of \$727.24.

<sup>25</sup> Navigant was informed that the Temporary Accountant, a friend of the Assistant Superintendent for Equity and Pupil Services, was hired as a temporary accountant to fill the role of a PCSSD accountant who was reassigned to another role in the Accounting department. Navigant was also informed that temporary accountants are usually recruited from a temp agency and the Temporary Accountant's hiring was due to a referral from the Assistant Superintendent for Equity and Pupil Services.

<sup>26</sup> Navigant was informed that the Human Resources Consultant, a friend of the Superintendent, was hired as a consultant in the PCSSD's Human Resources department in July 2010. Navigant was also informed that it appeared that the Human Resources department was adequately staffed and did not need the services of a consultant.

A PCSSD employee provided Navigant with documentation related to the PCSSD payments of consulting invoices submitted by the Human Resources Consultant to the PCSSD in connection with consulting services he provided during July 21, 2010 to October 29, 2010 totaling \$43,800 and \$2,772 for mileage.

A copy of the Human Resources Consultant's contract was provided to Navigant, which noted a fixed term of six months (July 21, 2010 to December 21, 2010) at an hourly rate of \$100 for six hour work days. Navigant estimated that on an annualized basis, at an hourly rate of \$100 for six hour work days, this consultant contract can cost approximately \$156,000 (52 weeks x 5 days x 6 hours x \$100). Furthermore, Navigant noted that the Human Resources Consultant's contract was signed by him and the Superintendent. Currently, it is unknown whether the Board approved this consultant contract, and if so what documentation is available to denote Board approval.

PCSSD employees also informed Navigant that other recent consultants hired to provide services to the PCSSD include the following:

- President of Performance Fact, hired by the Board to develop a long term strategic operating plan (approximate fee of \$200,000)
- A diversity training consultant (approximate fee of \$300,000)

b. Travel Advances and Reconciliation of Travel Expenses

i. Travel Advances

The Board voted in June 2010 to discontinue the practice of permitting the issuance of travel advances to Board Members, the Superintendent and employees who travel to out of town conferences or for other business matters for the PCSSD.<sup>27</sup>

In spite of this new policy, the Superintendent still submits travel advance requests to the Accounts Payable department and they continue to be processed and paid. Navigant was informed by PCSSD employees that as recent as late November 2010, the Superintendent submitted a check request in connection with a trip to China to attend an education conference. PCSSD Accounts Payable personnel stated that the travel advances requested by the Board and the Superintendent typically require immediate processing.

Navigant noted that PCSSD Check Request Form B-104 requires numerous signatures including the Principal/Supervisor/Director, the Assistant Superintendent of Division and the Assistant Superintendent-Business Affairs.<sup>28</sup> PCSSD Accounts Payable personnel also stated that they feel uncomfortable voicing their concerns because these check requests are initiated by the Board, the Superintendent and other high level employees. Although the CFO is aware of the new policy, she continues to allow travel advance requests to be processed and paid as denoted by her signature on the check request form. PCSSD employees believe that the CFO also feels pressured by the Board to continue to allow travel advances even though it is apparent that travel advances should no longer be provided to Board Members or employees.

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<sup>27</sup> These travel advances are used to reimburse for expenses incurred prior to the trip (i.e. conference registration fees and airfare) and to pay for anticipated expenses (i.e. lodging and meal expenses).

<sup>28</sup> Navigant noted that Assistant Superintendent-Business Affairs is the PCSSD CFO.

## ii. Reconciliation of Travel Expenses

Accounts Payable personnel stated that when the Board Member, the Superintendent or employee returns from a trip, they should timely submit to the Accounting department an expense report with the related receipts and other supporting documentation and return any unused portion of the travel advance.<sup>29</sup> Accounts Payable personnel also stated that because there is no process in place to require Accounting department personnel to keep track of travel advances issued or follow up with individuals who received travel advances upon their return from the trip, it is based on the “honor system” in which the Accounting department relies on the individuals to timely submit their related travel expense report upon their return. Only when an expense report is submitted will Accounting department personnel be prompted to review the expenses incurred for appropriateness and proper supporting documentation, and to reconcile to the travel advance issued.

Therefore based on this current practice it is possible that there are travel advances issued for which the related expense report have not been submitted and properly reconciled to determine any unused portion of the travel advance that should be refunded to the PCSSD.

## 2. Lack of Operating Policies and Procedures

Based on Navigant’s interviews, PCSSD Accounting department personnel conceded that there are no written operating policies and procedures related to the accounting, utilization and processing of Desegregation Funding. When Navigant interviewed Business Affairs Division personnel about the budgeting and use of the Funding, Navigant was frequently referred to the Assistant Superintendent for Equity and Pupil Services and the Director of Transportation for explanations because they believed they were the only two employees who were familiar and primarily involved with the use of the Funding.

Although the PCSSD developed a Business Procedures Manual effective July 15, 2009, many PCSSD employees interviewed were not aware of this resource.

The following section describes the lack of policy and procedures in connection with accounting for the Funding and other functions based on the interviews conducted by Navigant to date:

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<sup>29</sup> Accounts Payable personnel stated that any unused portion of the travel advance is typically refunded by a personal check issued by the individual who received the travel advance. The check is sent to the Accounting department for deposit to the PCSSD’s bank account, however, Accounts Payable personnel stated that they are not involved with any reconciliations or processing refunds of travel advances after they issue them.

a. Accounting for Desegregation Funding and Related Expenditures

PCSSD Accounting department personnel explained that they typically become aware of the receipt of the Funding sent by wire transfer from the ADE when they see the related deposit reflected in the PCSSD's bank account statement. Accounting department personnel would then locate the remittance documentation sent by the ADE that corresponds to the purpose of the deposit. Sometimes the remittance documentation is received by the PCSSD prior to the deposit to notify accounting personnel about the incoming deposit. Accounting personnel update APSCN to reflect the deposit and the related information on the remittance documentation.

PCSSD Accounting personnel stated that they do not have discretion on how the Funding should be utilized. They only record related expenditures if documents reference Source of Fund code 1900 and 2900.<sup>30</sup> Accounting personnel also stated they were not timely informed by the PCSSD Budget Coordinator<sup>31</sup> who was aware of the ADE established specific desegregation Source of Fund codes (i.e. 386, 387 and 388) in the Arkansas Financial Accounting Handbook for Arkansas Public Schools,<sup>32</sup> which is utilized by the school districts to record activity related to the Funding. Accordingly, accounting personnel continued to use Source of Fund code 1900 and 2900 to record expenses related to desegregation purposes, however, this code does not distinguish and properly allocate the expenditures among the different related Funding categories.

b. Use of Funding for Desegregation Programs

The Assistant Superintendant for Equity and Pupil Services is the primary PCSSD employee with the discretionary authority to determine the use of the Funding. She is the Principal/Division Head approval signer in connection with payment of expenditures with the Funding. Therefore, this practice appears to permit the Assistant Superintendant for Equity and Pupil Services to unilaterally decide how the Funding is used. There are no Accounting personnel or anyone from other

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<sup>30</sup> Per PCSSD employees, Source of Fund codes 1900 and 2900 have historically been used to record all desegregation related expenditures. These codes are no longer used by the PCSSD since it began to report live in APSCN on July 1, 2010.

<sup>31</sup> Navigant was informed that the PCSSD Budget Coordinator is not familiar with the different categories of Funding and therefore would not be aware of the proper use of the related desegregation codes established by the ADE.

<sup>32</sup> This handbook was issued by the ADE to assist educational agencies in collecting, recording and reporting information about its operations and includes a chart of account codes to be utilized for consistency and comparability.



departments who understand or are involved in the decision-making regarding how the Funding should be utilized. Accordingly, there is no proper oversight or checks and balances regarding how the Funding is utilized. Additionally, no one else can independently assess whether the Funding was expended properly and for its intended desegregation purpose.<sup>33</sup>

c. Desegregation Transportation Operating Expenditure Reimbursement

The School Districts receive desegregation Funding from the ADE related to operating expenditures incurred in connection with PCSSD's transportation of its Magnet and M-to-M students.<sup>34</sup> The School Districts are required to calculate and prepare a transportation expenditure reimbursement request to the ADE.<sup>35</sup> PCSSD's Director of Transportation is the only individual who is involved in the collection of data and the preparation of this reimbursement calculation.

The calculation involves allocating a percentage of transportation expenses that are recorded in the general operating fund.<sup>36</sup> PCSSD Accounting personnel conceded that they do not understand how the Magnet and M-to-M transportation reimbursement amount is calculated nor does anyone else in the PCSSD. Accordingly, there is no proper oversight or checks and balances to ensure that the reimbursement request is proper, accurate and complete.

The ADE stated that they do not perform any verification or audit to confirm the validity of the reimbursement amounts requested by the School Districts before the ADE makes the payments.

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<sup>33</sup> For example, the Assistant Superintendant for Equity and Pupil Services determines which teachers' salaries are paid from the Funding.

<sup>34</sup> The desegregation transportation expense reimbursement that is paid by the ADE is referred to as desegregation Source of Fund code 388.

<sup>35</sup> Operating expenses include bus driver salaries, maintenance of buses and overhead. Navigant performed a preliminary review of a sample of transportation expense reimbursement requests from the School Districts and noted that it appears each School District utilized a different methodology to calculate their respective reimbursement amounts and there was no consistency in the supporting documentation submitted.

<sup>36</sup> Navigant learned that there is a degree of subjectivity involved in preparing the reimbursement amount as it involves estimates and assumptions. Because some transportation expenditure categories cannot be directly attributed to transportation of only Magnet and M-to-M students, PCSSD's Director of Transportation's calculation involves applying a percentage, which is derived from the pro-rata number of school bus routes designated to transport Magnet and M-to-M students, to certain transportation expenditure categories.

d. Other Functions

i. Fuel Purchase for School Buses and Fleet

Navigant learned from its interviews that PCSSD Transportation department personnel and school bus drivers utilize a credit card system to purchase petroleum products such as gasoline and diesel fuel for its fleet including school buses. The PCSSD does not have a documented policy and procedure in connection with the issuance and proper use of the cards<sup>37</sup> nor for the review and reconciliation of the monthly invoice of the purchases. Furthermore, there is a lack of proper segregation of duties involved in the custody, recording and reconciliation of the purchases.

PCSSD's Director of Transportation is primarily involved in overseeing the credit card system. He is responsible for deactivating lost cards and issuing temporary spare cards. Furthermore, PCSSD's Director of Transportation stated that he and his secretary review the monthly petroleum products invoices, which average about \$40,000, for reasonableness and to identify any anomalies for follow up.<sup>38</sup> The Director of Transportation's purchases of fuel using his card are also reflected on these invoices. Therefore PCSSD's Director of Transportation reviews and approves his own expenses.

ii. Disposal/Transfer of PCSSD Assets

PCSSD's Director of Transportation explained that some school buses and other fleet vehicles that are fully depreciated or non-operational are either auctioned or sold for scrap metal. He conceded that there are no written policies and procedures in connection with the transfer or disposal of fleet vehicles. PCSSD's Director of Transportation stated that he is only involved with making the arrangements to have the vehicle picked up by the auctioneer (for auction) or by a tow company (to sell for scrap metal).

a) Auction of School Buses

At the sole discretion of PCSSD's Director of Transportation, PCSSD school buses can be disposed of when they are retired, at

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<sup>37</sup> All buses (small and large) run on diesel fuel so the bus drivers' cards can only be used to purchase diesel. A card is issued to each bus and requires a PIN to make a purchase. Transportation office personnel (non-bus drivers), however, have multi-product cards that can purchase both gasoline and diesel fuel.

<sup>38</sup> For example, PCSSD's Director of Transportation stated that a bus fuel tank capacity is 60 gallons, and a driver who purchased 100 gallons of diesel in one transaction may also be fueling a colleague's bus whose card malfunction. In these instances PCSSD's Director of Transportation will follow up with the drivers to confirm.

which point they are then removed from the fleet and auctioned.<sup>39</sup> PCSSD's Director of Transportation initiates the process by email to the PCSSD Accounting Department Secretary to inform her which buses will be sent for auction and request removal from insurance coverage and the fixed asset listing that is maintained by the Accounting department. He further stated that the PCSSD Accounting Department Secretary primarily deals with the auctioneer, and she receives the settlement report and the check payment, net of auctioneer commissions. Navigant noted that the Accounting department does not have any other involvement or oversight responsibilities in connection with auction of PCSSD fleet vehicles. Navigant did not review documentation in connection with any payments from the auctioneer, and it was not confirmed who receives the proceeds from these sales.

#### b) Salvaged Bus Shell and Parts

When school buses are not operational, they can be salvaged for parts to be used on other similar model school buses that still are operational.<sup>40</sup> PCSSD's Director of Transportation stated that after the reusable parts are removed, the remaining bus shell, or metal frame, and other non-reusable metal components are sold to a scrap metal company. PCSSD's Director of Transportation stated that he believes the scrap metal company issues the check payable to the PCSSD when scrap metals are sold.<sup>41</sup> PCSSD's Director of Transportation also stated that he requests the PCSSD Accounting Department Secretary to remove fleet vehicles sold for scrap metal from insurance coverage, and the fixed asset listing that is maintained by the Accounting department.

There does not appear to be an established policy and procedure to document the sale of salvaged fleet vehicles or the spare parts obtained from its disposal. It is unclear whether any departments, other than the Transportation department, keep

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<sup>39</sup> PCSSD's Director of Transportation stated, for example, that buses that cost more to repair and maintain than to purchase are sold by auction. PCSSD's Director of Transportation also stated that the PCSSD utilizes AAA Auction Service as its vendor to auction fleet vehicles that are being disposed of and auctioned off. PCSSD's Director of Transportation also stated that the average sale values for the auctioned school buses are typically less than \$1,500.

<sup>40</sup> PCSSD's Director of Transportation stated, for example, that some non-operational buses are salvaged in which reusable parts or sections (i.e. engine components) are used to repair buses that are operational.

<sup>41</sup> PCSSD's Director of Transportation stated that the PCSSD typically receives \$410 (\$500 less \$90 towing fee) for the sale of a bus shell.

track of which fleet vehicles are sold as scrap metal. Navigant noted that the Accounting department does not have any other involvement or oversight responsibilities in connection with the scrap metal sales of fleet vehicles. Navigant did not review documentation in connection with any payments from the scrap metal company, and it cannot be confirmed who receives the proceeds from these scrap metal sales.

### 3. Governance and Tone at the Top

Navigant identified the following preliminary issues related to the tone at the top and governance at the PCSSD:

#### a. Board, Superintendent and Senior Level Override

PCSSD employees stated that Board Members, the Superintendent and senior level employees tend to override or circumvent existing protocols involved with the Accounts Payable department's processing of certain payments. These PCSSD employees also stated that certain Board Members, the Superintendent and senior level employees still request and receive travel advances although the Board voted in June 2010 to discontinue this practice.<sup>42</sup>

#### b. Perceived and Actual Abuse of Power/Position

Accounts Payable personnel stated that Board Members, the Superintendent and other senior level employees frequently utilize their position and authority to circumvent certain processes. For example, these individuals frequently request "emergency" checks to be processed by the Accounts Payable department in connection with travel advances, reimbursement of travel expenses and invoice payments to certain vendors and consultants. Accounts Payable personnel are pressured to process such requests immediately because in certain instances the requestor would remain in the Accounts Payable department until the check is issued. Accordingly, Accounts Payable personnel are intimidated and feel compelled to process these requests without challenging their authority or fully reviewing the request. Accounts Payable personnel also stated that they process approximately three such emergency check requests daily.

Board Members, the Superintendent and other senior level employees also potentially abuse their position to have the PCSSD hire their friends as consultants. According to PCSSD employees, they believe that these consultants lack the requisite experience and knowledge required for their hired positions and may be overpaid.

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<sup>42</sup> The most recent travel advance request was in connection with the Superintendent's trip to China in late November 2010.

c. Lack of Channels for Reporting Concerns and Suspicious Behavior

PCSSD employees typically perform the duties similar to their predecessors in the same roles and are not encouraged to question suspicious requests or activities. Some PCSSD employees described the work culture as “don’t ask, don’t tell,” whereby employees are expected to fulfill their daily job functions and not question authority.<sup>43</sup> There does not appear to be an appropriate channel in which employees can safely and anonymously voice their concerns regarding improper practices and suspicious behavior in the PCSSD.

4. Accounts Payable Department

Accounts Payable department personnel stated that they do not have any particular procedures in connection with processing expenditures paid with Desegregation Funding. The Accounts Payable personnel typically record the payments with the Source of Fund referenced on the payment documentation by the individual or department requesting the payment.

Accounts Payable personnel process payments by either of the following:

- Check request
- Purchase Order

There are two clerks in the Accounts Payable department that process payment requests; one is primarily responsible to process check request payments and the other to process purchase order payments.

a. Payment by Check Requests

Accounts Payable personnel conceded that although check requests should only be used for payments of amounts up to \$500<sup>44</sup> for items such as employee expense reimbursements and for payment of expenses related to professional services, these procedures are not frequently followed.

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<sup>43</sup> Navigant learned that a staff accountant had expressed concerns to the former PCSSD CFO regarding the accounting treatment of certain transactions. According to the staff accountant, the former PCSSD CFO dismissed the concerns and reassigned the staff accountant to work on an unrelated assignment. Subsequently, during the PCSSD’s annual financial statement audit by its independent auditors, the staff accountant employee informed the independent auditors regarding her concerns, which resulted in an update to the notes to the financial statement audit report.

<sup>44</sup> This policy was noted in the PCSSD’s Business Procedures Manual, which was noted with an effective date of July 15, 2009.

Accounts Payable personnel explained that check requests are accompanied with a check request form, invoice and/or other supporting documentation. This documentation is initially submitted to the Budget Coordinator to verify that there are available funds in the budget code referenced by the check payment requestor. The request is then approved by the CFO denoted by her signature on the form and then forwarded to Accounts Payable personnel to process the request for payment and input the payment in APSCN.

Check request payments for goods or services purchased by a PCSSD department or individual are typically submitted to expedite payment and do not require review by Purchasing department personnel to match the invoice with any associated approved purchase order. Because check requests circumvent any oversight by the Purchasing department, instances of duplicate payments occurred when a check request is processed simultaneously with a possible purchase order payment for the same goods and services.<sup>45</sup> A duplicate payment is made because the Accounts Payable clerk responsible for processing payment on purchase orders was not aware that a check payment on the same invoice was previously issued.<sup>46</sup> Navigant was informed by the Director of Purchasing that there has not been any formal audit conducted to identify these duplicate payments. Therefore, there may be vendors who received duplicate payments from the PCSSD that were not detected.

Accounts Payable personnel stated that a majority of the duplicate payments involve invoices submitted by the Maintenance department. Check batches are printed twice a week.<sup>47</sup> The checks are printed with the signature plates of the Superintendent and the Board President. It does not appear that there are any additional reviews, approvals or authorizations before the checks are issued.

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<sup>45</sup> Purchasing department personnel stated that because check payment requests for vendor invoices do not require a purchase order number, they cannot look up and verify there was a previous payment by purchase number before the check is issued.

<sup>46</sup> A contributing factor to duplicate payments to vendors is that invoices are not always directly sent to the Accounts Payable department. The department that initiated the purchase can receive the invoice from the vendor and can subsequently submit the invoice and related supporting documentation to the Accounts Payable department for payment twice, by check request and another with the associated purchase order. Additionally, the vendor payment files in the Accounts Payable department are maintained by check number order. Therefore, previous payments for a vendor are not readily apparent.

<sup>47</sup> Accounts Payable personnel stated that check runs usually occur on Tuesdays and Fridays, however, there are instances where checks are printed three to four times in one day to accommodate urgent check requests. These urgent check requests usually originate from the Superintendent, Board Members and the Assistant Superintendent for Equity and Pupil Services.

Accounts Payable personnel stated that they do not always mail processed checks directly to vendors or employees. Accounts Payable personnel also stated that checks to vendors are typically held for pickup if payments were overdue, or if the vendor needed to deposit the check as soon as possible. Checks that are not mailed by Accounts Payable personnel and held for pick up can present an opportunity for misappropriation.<sup>48</sup>

Accounting department personnel stated that in October 2010 the Board approved a policy that purchases more than \$500 require the preparation of a purchase requisition, which is reviewed by the Purchasing department before an approved purchase order is issued. As a result of the new purchasing policy, payments by check requests have decrease significantly; however, this new purchasing policy still appears to be circumvented by the Superintendent, Board Members and senior level employees.

#### b. Payments of Purchase Orders

The purchase process begins with a need to purchase goods or services by an employee. Typically a bookkeeper, secretary or a department supervisor will submit a purchase requisition in the PCSSD's online requisition system. The Purchasing department reviews the purchase order details such as price and vendor information to determine if it was properly authorized and appropriate. Purchasing department personnel stated that, for example, requested goods or services that are estimated to cost more than \$5,000 are required to be accompanied by written quotes for price comparison or have solicited bids, however, there is no written policy to document this requirement.

When the goods or services are received, the Accounts Payable clerk would match the invoice to the purchase order and other related documentation such as the shipping/receiving documentation to ensure the validity of the requested payment.

#### c. Vendor Master List

Navigant's preliminary observations noted that APSCN, by design default, either allows full write-access or only read-only access to the vendor master list. There does not appear to be any consideration on proper segregation of duties when assigning write-access to certain departments or employees. Therefore, PCSSD's process creates an internal control weakness which could permit an employee to add a fictitious or a related party vendor to the vendor master list, and then submit fictitious invoices to the Accounts Payable department for payment.

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<sup>48</sup> Accounts payable personnel stated that checks issued for employee expense reimbursement are commonly held for pick up by the employee or their designee.



Additionally, APSCN does not permit the deletion, deactivation or suspension of vendors that are no longer used to purchase goods or services. Navigant noted that there are multiple vendor ID numbers issued for the same vendor.<sup>49</sup> Therefore, for these inactive vendors or vendors with multiple vendor IDs, PCSSD employees denote in a field in the vendor master list with “DO NOT USE.” This, however, will not prevent an employee from using these vendors for fraudulent purposes such as to manipulate funds or to erroneously pay vendors. Accounts Payable personnel stated that there are instances where an employee still referenced these “DO NOT USE” vendors when requesting payment for goods or services purchased.

Currently, Accounts Payable personnel can add new vendors and admitted that they regularly do so. Accounts Payable and Purchasing personnel conceded that there is no segregation of duties nor written policies and procedures in connection with adding a new vendor.

Accounts Payable personnel explain that when they process a vendor invoice, they first perform a query in APSCN to determine whether the vendor is in APSCN’s vendor file. If the vendor is not in APSCN, Accounts Payable personnel create a new vendor file using the information on the invoice (i.e. company name, address, telephone number). If the vendor’s EIN is not noted on the invoice, it will not preclude the creation of a new vendor ID. Furthermore, currently there is no requirement to perform any due diligence vetting procedures on a new vendor to confirm its identity, existence and other information regarding the nature of its business and identification of potential related parties. Additionally, there are no requirements for a completed W-9 to be submitted before or after a payment has been processed and made to a new vendor.

## 5. Procurement

Navigant’s interviews reveal that there are potential risks present in the Maintenance, Transportation, Food Service, Courier and Warehouse departments. PCSSD Accounting personnel informed Navigant the following two procurement methods were discontinued as of July 1, 2010:<sup>50</sup>

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<sup>49</sup> For example, two different vendor ID numbers are issued for the same vendor due to a different mailing address or a slight variation in the spelling of the vendor name, which may be indicative of a fictitious vendor.

<sup>50</sup> According to the PCSSD’s CFO, there is a proposed policy before the Board that will require all procurement requests to be approved by the Director of Purchasing.

a. Blanket Purchase Orders

The PCSSD previously allowed its departments to procure goods and services using blanket purchase orders. Blanket purchase orders are created to be utilized for frequently purchased items or services and designed to eliminate processing of multiple one-time purchase orders. Typically, a blanket purchase order allows purchases of goods or services without any pre-approval at a particular vendor, up to a fixed dollar amount and over a period of time. PCSSD Accounting personnel stated that blanket purchase orders were frequently used by the Maintenance, Transportation, Courier and Food Services departments.

The use of blanket purchase orders may have exposed the PCSSD to fraud, waste and abuse. For example, a PCSSD employee informed Navigant that some Maintenance department employees run their own maintenance business outside of their full-time PCSSD employment, and therefore some goods purchased using blanket purchase orders may have been diverted by these Maintenance department personnel for their personal use in their own businesses.

Typically, the invoice for the related purchase sent by the vendor includes a reference with the blanket purchase order number, which is then processed and paid by the Accounts Payable department.

b. MD and TD Purchase Orders

Navigant was informed by Purchasing department personnel that the PCSSD previously allowed the Maintenance and Transportation departments to use purchase order forms specifically for their departments called “MD” (for Maintenance department) and “TD” (for Transportation department) to expedite the payment of vendor invoices related to these departments’ purchases. When these departments needed goods or services, they would initiate the purchases with vendors directly. Subsequently, these departments would directly receive the goods or services along with the related invoice and other documentation (i.e. shipping document). Then department personnel would prepare a payment request package that consist of a completed MD or TD purchase order form and the invoice and other related documentation. The MD or TD purchase order form would include a reference number that is assigned by the department and the form would be signed by the department supervisors to denote authorization for the purchases and approval for payment. This payment request package is then submitted to the Accounts Payable department for payment processing.

Accordingly, purchases made by the Maintenance and Transportation departments using the MD and TD purchase order forms lack appropriate checks and balances because they bypassed any review and

approval process of the Purchasing and Accounting departments.<sup>51</sup> Furthermore, there is no segregation of duties because the Maintenance and Transportation departments essentially had the ability to initiate, authorize and approve payment of its purchases.

c. Vendor Access

During Navigant's visit to the PCSSD's administrative offices in early December 2010, it was determined that the Purchasing department is currently not the only department to have authorization to change vendor details. Navigant learned that Accounts Payable personnel and anyone else with access to vendor information can make changes to vendor record information.

d. Long Term Vendor Relationships

A PCSSD employee stated that there are certain vendors that have provided goods and services to the PCSSD for numerous years. Many of these vendors may have developed a long relationship with certain employees. These employees can become complacent when dealing with these vendors.<sup>52</sup> Additionally, there is a potential for employees to enter into a kickback arrangement with these vendors.

e. Potential Misappropriation in Food Services Department

A PCSSD employee stated that Food Services Department employees may have ordered additional perishable foods from an outside food vendor that normally supplies the schools' lunch menu items. The additional perishable foods were delivered to the Food Services warehouse and were not part of the school's lunch menu.

6. High Employee Turnover

Some PCSSD employees expressed concerns regarding the loss of historical institutional knowledge. For example, in the past five years, the PCSSD has had three CFOs and four Superintendents. Some employees are concerned about the high employee turnover and the loss of continuity. Additionally, the scarcity of experienced personnel in the PCSSD can potentially be disruptive to the integrity of PCSSD's operations. The risk of fraud, waste and abuse can increase during the transition periods.

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<sup>51</sup> PCSSD employees explained to Navigant that the use of MD and TD purchase order forms are similar to check payment requests in that the related purchases do not involve review and approval by the Purchasing Department.

<sup>52</sup> Purchasing department personnel stated that they were aware of a vendor who charged \$400 for a toner that can be purchased elsewhere for \$40.

## 7. Insufficient Staff Levels

Employees in the Accounts Payable and Purchasing departments feel that they are understaffed and under immense pressure to properly perform their duties. Both departments feel that it would be beneficial to increase staffing so that the departments can function more effectively and efficiently with the necessary checks and balances and segregation of duties in place to deter and detect any potential instances of fraud and misconduct.

## 8. Misappropriation/Embezzlement of Proceeds from Disposal of PCSSD Assets

### a. Maintenance Department

A PCSSD employee expressed a concern that Maintenance department personnel may be misappropriating PCSSD funds. Additionally, the PCSSD employee believes that the Maintenance department maintains a separate checking account to deposit proceeds from the sale of maintenance scrap material and/or supplies. PCSSD employee also stated that some Maintenance department employees run their own maintenance-related businesses (i.e. plumbing and painting) outside of their full time PCSSD employment and may have misappropriated supplies ordered by the Maintenance department for use in their own businesses.

### b. Transportation Department

Navigant learned that the Director of Transportation has the sole discretion to decide how fully depreciated or non-operational fleet vehicles should be disposed of either by auction or salvaged for parts and the remaining metal frame sold as scrap metal. Additionally, it is unclear who receives and accounts for the proceeds from the auction and scrap metal sales of the PCSSD's fleet vehicles. Furthermore, there is no documented process to determine how fleet vehicles should be disposed of and how the proceeds are received by PCSSD and accounted for.

## IV. Limitations

The preliminary observations and assessments detailed in this report are based on Navigant's methodology, data collection, interviews, analyses and the procedures performed to date. Navigant relied on the quality, availability and veracity of the information and data provided by the ADE, the PCSSD and third parties during the course of its work.

Navigant's preliminary observations and analyses do not constitute legal advice or a legal opinion.

Navigant based its preliminary observations and analyses solely on the information and documents provided and has not verified the information and documents or otherwise sought independent confirmation thereof. In making observations and analyses, Navigant has, in part, relied on assertions made by the representatives of the PCSSD and the ADE.

Given the limitations discussed above, the procedures performed by Navigant, and the extent of the information collected, Navigant cannot be certain at this time that all of the information collected is accurate or complete. Had Navigant performed additional procedures beyond those described, it is possible that additional information may have come to Navigant's attention that would have been relevant to its efforts.

The preliminary findings and observations set forth herein are based solely on the work performed through the date of this report. As work progresses, it is possible that the analyses and findings may change as additional information is obtained and additional procedures are performed.

Navigant did not conduct an audit, compilation or review of PCSSD's financial statements or financial information as those terms are understood in the United States and defined by professional guidance promulgated by the American Institute of Certified Public Accountants. Accordingly, Navigant does not express an opinion or other form of assurance on any financial statements or financial information. Navigant's findings are limited to the information reviewed and the procedures performed.

## **V. Procedures Performed to Date**

Navigant performed the following procedures to date:

### **A. Interviews Conducted**

1. Representatives of the PCSSD
  - a. Accounting/Auditing Department
    - i. Chief Financial Officer
    - ii. Acting Director of Accounting and Auditing
    - iii. Staff Accountant
    - iv. Accounts Payable Specialist
    - v. Accounts Payable Clerk
    - vi. Payroll Specialist II

- b. Purchasing Department
  - i. Director of Purchasing
  - ii. Buyer
- c. Business Office
  - i. Coordinator of Budget Management
  - ii. Federal Programs & Special Education Budget Manager
- d. Other Departments
  - i. Assistant Superintendent for Equity and Pupil Services
  - ii. Director of Transportation
- 2. Representatives of the ADE
  - a. LEA Financial Analyst
  - b. Assistant Director, APSCN
  - c. Associate Director for Finance
  - d. Senior Transportation Manager, Public School Academic and Facilities and Transportation

**B. Meeting with Representatives of the ADE**

- 1. Assistant Commissioner, Division of Fiscal and Administrative Services
- 2. Coordinator, Fiscal Distress
- 3. Public School Program Coordinator
- 4. Accounting Coordinator

**C. Documents and Information Reviewed**

- 1. ADE Funding summary schedule.
- 2. PCSSD journal entries recorded in APSCN for FY 2006 to FY 2011 (as of December 7, 2010) to known Desegregation codes.

3. PCSSD accounting department organization chart.
4. Arkansas Financial Accounting Handbook for Arkansas Public Schools, Arkansas Educational Service Cooperatives and Open Enrollment Public Charter Schools dated July 1, 2010.
5. Business Procedures Manual for Budget Coding: Expenditure Classification for the PCSSD effective July 15, 2009.
6. Legislative Audit Investigative Report, dated May 14, 2010, regarding review of selected PCSSD transactions.

## **VI. Recommendations**

To assist the PCSSD in mitigating fraud, waste and abuse risk going forward, Navigant has compiled the following preliminary list of recommendations based on the interviews conducted and the review of relevant documentation and information to date:

### **A. Separate Reporting of Desegregation Funding**

Navigant recommends that the PCSSD record and maintain its financial information and the related transactions in connection with the Funding in accordance with the appropriate desegregation codes established by the ADE. The Funding and related expenditures should not be commingled with general unrestricted fund accounts and should be transparent.

### **B. Train Employees on the Proper Use of Desegregation Funding**

PCSSD finance, accounting and budgeting employees should be familiar with the purpose of the Desegregation Funding and how the Funding should be properly utilized for desegregation programs.

### **C. Retain an Independent Monitor**

Retain an independent monitor to execute anti-fraud programs for the purpose of deterring, preventing, uncovering and reporting unethical and illegal conduct, particularly over PCSSD's processes related to financial reporting and operations.<sup>53</sup>

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<sup>53</sup> For example, an independent private sector inspector general ("IPSIG") is a mechanism often used by government entities involved with large contracts to monitor an organization's compliance with relevant laws and regulations and to prevent, uncover and report illegal acts. IPSIG services involve the design and execution of fraud prevention and detection programs customized to respond to particular fraud, abuse, waste, corruption or other illegal conduct. See the International Association of Independent Private Sector Inspectors General's website at <http://www.iaipsig.org>.



#### **D. Conduct Annual Audits on the Use of Desegregation Funding**

Separate annual audits should be conducted related to Desegregation Funding by PCSSD accounting personnel, Legislative Audit, the independent monitor or another independent third party.

#### **E. Establish, Implement and Communicate Policies and Procedures**

Navigant recommends that formal internal control structure policies and procedures be implemented in connection with the following:

##### **1. Establish and communicate written policy and procedures**

Written accounting policies and procedures should be created to document the proper procedures to record financial transactions, process and approve expenditures, and review and audit of the books and records. These policies and procedures should be communicated to all employees who are involved with the accounting function and they should receive formal training and updates at least annually. Furthermore, these policies and procedures should be communicated to new employees during the on-boarding process.

Relevant, documented and practical operating policies and procedures that are communicated to PCSSD personnel can minimize ambiguity, promote consistency in carrying out one's functions and establish accountability.

##### **2. Hiring of consultants or employees**

A prospective employment candidate—whether a consultant or employee—should be processed through the Human Resources function and no one should be allowed to override any existing controls to circumvent the hiring process, particularly for candidates referred by a current employee, Board member or Superintendent.

A formal questionnaire should be formulated and required of all prospective hires to complete as part of the application process. The questionnaire should require detailed information related to the prospective hire's relevant work experience. Additionally, the Human Resources function should perform comprehensive background checks on all prospective hires. The results of the background checks should be reviewed in conjunction with the information provided on the questionnaire for corroboration and to identify any potential conflicts of interest or other issues that may disqualify hiring. Complete personnel files should be maintained by the Human Resources function for all new employees and consultants should properly include documentation and approvals regarding status (full time or part time), pay rate, start date, Form W-4 and other requirements.

### 3. Vendor master list

#### a. Restrict write-access

The Accounts Payable and operation departments such as Transportation should only have read-only access to the vendor master list because they process payments and purchase goods and services from vendors, respectively. Accordingly, these departments should not have the ability to add vendors or modify vendor information. The Purchasing Department should be responsible for adding or modifying vendor records and maintaining the vendor master files.

#### b. Establish and implement a formal due diligence process for new vendors

Before a new vendor is added to the vendor master list, an employee should prepare a documentation folder to include the vendor's Form W-9 and other due diligence documentation that verifies the identity and existence of the vendor, and to identify any potential affiliations with PCSSD employees or Board Members.

A formal questionnaire should be formulated to require detailed information related to the prospective vendor including names of principals, address, EIN and Tax ID #s, contact person(s), industry code and other pertinent information. This questionnaire should be required to be completed by the employee who request approval of a new vendor. The completed questionnaire should be submitted to the Purchasing department who should review and perform due diligence vetting procedures to corroborate the information provided. If approved, a different Purchasing department employee should add the new vendor to the master vendor list.

#### c. Implement segregation of duties

There should be a formal vetting process for vendors with the approval process segregated from the employee requesting the addition of the vendor to the vendor master list.

For example, when a new vendor is requested to be entered into the vendor master file, an employee should prepare a request to enter the new vendor into the vendor master list and provide any supporting documentation. A Purchasing department employee should review the request, obtain a completed W-9, conduct due diligence, prepare a vendor folder and approve the request only if no exceptions are found.

Once the new vendor is approved, another employee should enter the vendor into the vendor master list. No employee with the capacity to process checks or make payments should be allowed to modify vendor

information. Only Purchasing department personnel should have the authority to add vendors to or update the vendor master list.

Currently, there is no apparent audit trail of when a new vendor was added to the vendor master list in APSCN and by whom.<sup>54</sup>

#### **F. Conduct an Independent Inspection of the PCSSD's Fleet Vehicles**

An independent third party should perform an inspection of the PCSSD's fleet vehicles to assess its condition, and to determine which vehicles should be sold by auction or salvaged for parts and the remaining metal frame sold as scrap metal. This assessment should be documented and a copy should be sent to the Accounting department to update its insurance coverage and fixed asset records.

#### **G. Board Independence**

Require an affirmation by Board Members and the Superintendent to attest that there were no conflicts of interest or to disclose any related party transactions at least annually. This affirmation should be required to be submitted to the AG.

#### **H. Establish a Good Control Environment at the Top**

The strength of internal controls in any organization starts at the "top of the organization." Board Members and senior level employees should encourage acceptable behavior among its constituents through its actions and communication of effective policies and procedures as well as codes of ethics.

#### **I. Establish, Implement and Communicate a Code of Ethics and a Employee Handbook**

##### **1. Code of Ethics**

The PCSSD should ensure it has a Code of Ethics (the "Code") that is distributed and signed by the Board, the Superintendent and all employees. This Code should be reviewed and approved by the Board. To strengthen the governance of the School District, it is imperative that identified violations of the Code are addressed timely and appropriately. Senior level employees should be responsive to issues raised by employees. There should be training sessions at least annually to communicate the Code and it should also be signed annually by all employees to affirm their understanding. The Board should also review the Code at least annually and incorporate updates or modifications.

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<sup>54</sup> A forensic analysis of the vendor file's metadata may reveal this information.

Additionally, the Board should be required to complete an annual affirmation regarding adherence to its compliance to the Code as well as the disclosure of potential conflicts of interest.

## 2. Employee Handbook

The School District should establish and distribute a handbook to provide information to all employees, Board Members and the Superintendent. This handbook should highlight the contractual terms and conditions of employment as well as the policies and procedures that everyone is expected to adhere to. The handbook also may include the PCSSD's policies, practices, procedures and details of miscellaneous provisions relating to employment. Penalties and ramifications for violating the Employee Handbook should be clearly stated and strictly enforced.

Furthermore, all employees should provide a signed acknowledgement to document that they read and understood the handbook.

## J. Consider Additional Staffing

The PCSSD should assess staff levels in the Accounts Payable and Purchasing departments to ensure that current employees can adequately perform their duties without compromising the PCSSD's fiscal and operational integrity.

## K. Establish an Employee Hotline and Post Office Box

An anonymous reporting hotline and a post office box should be established to provide a channel for employees to escalate issues related to potential fraud, waste, abuse and misconduct. Employees should be informed about this hotline and post office box and be encouraged to be forthcoming in raising concerns or questions about compliance principles or policies.

It is therefore important to establish a means whereby employees can anonymously submit reports to document instances of potential risks and misconduct.

Navigant recommends that an independent firm be utilized to follow up on issues submitted to the hotline and the post office box. The hotline should have procedures established regarding how to respond to inquiries or reports. Hotline personnel should have the necessary and appropriate qualifications and experience to respond to concerns raised, be able to solicit necessary information from the caller (i.e. who, what when, where, why and how) and maintain the confidentiality and the callers' anonymity. A log should also be maintained to document the caller's allegation(s) and the disposition. The PCSSD's Legal and Human Resources departments should be aware of the issues reported on the Hotline and be involved in the resolution and follow up processes.

A strict non-retaliation policy should also be communicated and enforced. Above all, the PCSSD should publicize the existence of the hotline and the post office box through means of posters, wallet cards, and other communications, including on employee paystubs.

**L. Mandatory Rotation of the PCSSD's Independent Financial Statement Auditor Every Five Years**

Establishing mandatory rotations of independent auditors may help to maintain the auditor's independence in fact and appearance. The new auditors' testing approach may identify potential risk areas that may have been overlooked by the previous auditors.

Term limits may encourage auditors to be more thorough and accountable, because of potential reputational damage if subsequent auditors discover deficiencies in prior year audits. Lastly, rotating independent auditors may prevent Board Members and other high-level PCSSD employees from developing relationships with auditors to a point that may be perceived by others as impacting independence.

# Appendix A



Arkansas Department of Education - Desegregation Funding Analysis  
Pulaski County Special School District  
Appendix A: Summary of Desegregation Funding and Expenditures by Fiscal Year

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 <sup>2</sup>	Grand Total	%
<b>ADE Desegregation Funding:</b>								
387 - Health Insurance & Teacher Retirement	\$ 4,426,814	\$ 5,810,592	\$ 4,760,153	\$ 6,313,112	\$ 6,538,422	\$ 3,394,655	\$ 31,243,748	29.3%
387 - Majority to Minority Incentive	11,617,363	11,056,440	9,275,397	11,204,951	10,478,331	3,143,499	56,775,981	53.3%
388 - Magnet & M-to-M Transportation	3,142,012	3,263,248	3,257,653	2,922,700	3,482,737	1,219,560	17,287,911	16.2%
Magnet Review Committee Revenue	92,500	92,500	92,500	92,500	92,500	92,500	555,000	0.5%
<b>Total ADE Desegregation Funding</b>	<b>\$ 19,278,689</b>	<b>\$ 20,222,781</b>	<b>\$ 17,385,703</b>	<b>\$ 20,533,263</b>	<b>\$ 20,591,990</b>	<b>\$ 7,850,214</b>	<b>\$ 105,862,639</b>	
Magnet Review Committee Revenue (School Districts) <sup>1</sup>	73,816	110,931	63,062	241,777	93,000	92,552	675,138	0.6%
<b>Total Desegregation Funding in APSCN</b>	<b>\$ 19,352,506</b>	<b>\$ 20,333,711</b>	<b>\$ 17,448,765</b>	<b>\$ 20,775,040</b>	<b>\$ 20,684,990</b>	<b>\$ 7,942,765</b>	<b>\$ 106,537,777</b>	<b>100.0%</b>
<b>Less Expenditures Recorded in Desegregation Funds:</b>								
Salaries	4,365,174	4,365,546	4,191,938	4,839,815	8,297,021	2,268,590	28,328,084	46.1%
Employee Benefits	1,184,761	1,157,819	1,124,868	1,272,925	1,755,991	649,453	7,145,816	11.6%
<b>Purchased Services:</b>								
Advertising	8,002	9,676	8,672	21,270	13,803	50	61,473	0.1%
Fleet Insurance	88,421	102,645	-	-	202,642	-	393,708	0.6%
Legal Fees	-	101,145	86,473	94,592	343,658	52,214	678,081	1.1%
Maintenance And Repairs	11,714	10,488	8,846	8,031	94,566	192,897	326,542	0.5%
Other Professional Services	133,987	73,003	508,255	28,898	43,072	3,956	791,170	1.3%
Rent	-	450	900	3,550	5,650	-	10,550	0.0%
Services Purchased from Other LEAs in State	-	-	-	202,632	117,400	63,950	383,982	0.6%
Travel	16,780	11,160	3,611	14,204	11,327	3,304	60,385	0.1%
Tuition to Other LEAs in State	3,918,743	4,255,559	3,545,208	2,174,509	3,437,508	1,151,998	18,483,525	30.1%
Gasoline	418,380	330,436	-	-	1,318,658	-	2,067,474	3.4%
Supplies, Books and Materials	200,937	244,935	96,463	155,482	492,029	35,224	1,225,070	2.0%
Equipment	49,182	43,495	22,957	49,450	60,262	112,401	337,747	0.5%
Heating Oil	-	-	-	-	26,239	-	26,239	0.0%
Dues and Fees	4,595	2,309	1,704	6,004	1,693	955	17,260	0.0%
Magnet Review Committee Expenditures	200,295	203,431	187,940	209,399	217,729	109,500	1,128,294	1.8%
<b>Total Expenditures Recorded in Desegregation Funds</b>	<b>\$ 10,600,971</b>	<b>\$ 10,912,097</b>	<b>\$ 9,787,834</b>	<b>\$ 9,080,760</b>	<b>\$ 16,439,247</b>	<b>\$ 4,644,492</b>	<b>\$ 61,465,400</b>	<b>100.0%</b>
<b>Remaining Desegregation Funding Balance</b>	<b>\$ 8,751,535</b>	<b>\$ 9,421,614</b>	<b>\$ 7,660,931</b>	<b>\$ 11,694,280</b>	<b>\$ 4,245,743</b>	<b>\$ 3,298,274</b>	<b>\$ 45,072,377</b>	
<b>Less Transfers to Non-Desegregation Funds:</b>								
Transfer To Salary Fund (1000 - General Unrestricted)	-	-	-	11,515,475	-	(650)	11,514,825	
Transfer To Operating Fund (2000 - General Unrestricted)	-	12,131,399	11,337,842	-	-	-	23,469,241	
<b>Net Desegregation Funding Balance</b>	<b>\$ 8,751,535</b>	<b>\$ (2,709,784)</b>	<b>\$ (3,676,911)</b>	<b>\$ 178,804</b>	<b>\$ 4,245,743</b>	<b>\$ 3,298,924</b>	<b>\$ 10,088,311</b>	

Notes:

- 1) Additional school district funding for Magnet Review Committee reflected in APSCN and not funded by the ADE.
- 2) Transactions recorded in APSCN as of December 7, 2010.



# Appendix B



Arkansas Department of Education - Desegregation Funding Analysis  
Pulaski County Special School District  
Appendix B: Matrix of Potential Issues Identified During Desegregation Funding Analysis

Potential Issues Identified	Potential Misconduct	Potential Fraud	Lack of Segregation of Duties	Lack of Written Policies & Procedures	Lack of Additional Review, Oversight and Compliance
<b>A. Nepotism:</b>					
Nepotism / Hiring of Friends & Family	X			X	X
<b>B. Lack of Policies &amp; Procedures:</b>					
Understanding of Mandates Surrounding Desegregation Funding	X	X	X	X	X
Culture of "Following Precedence"	X			X	X
Lack of Procedures for Review & Reconciliation of Gas Cards				X	X
<b>C. Governance / Tone At The Top:</b>					
Board, Superintendent & Senior Level Employee Override	X	X		X	X
Perceived and Actual Abuse of Power/Position	X			X	X
Lack of Channels for Reporting Concerns and Suspicious Behaviors				X	X
<b>D. Accounts Payable:</b>					
Pre-populated Signature Blocks		X	X	X	X
Changes to Vendor Master List	X	X	X	X	X
Check Requests & Duplicate Payments	X	X	X	X	X
Holding Checks for Pickup	X	X	X	X	X
Invoices Not Sent Directly to Accounts Payable	X	X	X	X	X
<b>E. Procurement:</b>					
Blanket Purchase Orders and MD & MT Forms <sup>1</sup>	X	X	X	X	X
Procurement Does Not Exclusively Maintain Vendor Master List	X	X	X	X	
Long Term Vendor Relationships	X	X		X	X
Misappropriation in Food Services Department	X	X	X	X	X
<b>F. Embezzlement/Misappropriation of Proceeds:</b>					
Embezzlement/Misappropriation of Proceeds from Asset Disposal	X	X	X	X	X
<b>Count:</b>	14	12	10	17	16

Notes:

1) Per PCSSD employees, use of blanket purchase orders and MD & MT Forms have been disallowed as of July 1, 2010.

**Arkansas Department of Education Rules Governing  
Athletic Revenues and Expenditures for Public School Districts**  
~~September 2007~~ May 2011

**1:00 Regulatory Authority**

- 1.01 These rules are enacted pursuant to the authority of the Arkansas State Board of Education ~~authority~~ under ~~A.C.A. Ark. Code Ann. §§ 6-11-105, and 6-20-417, 6-20-2001 6-20-2000 et seq., and 6-16-137; and Act 255 of 2007 Regular Session.~~
- 1.02 These rules shall be known as the Arkansas Department of Education Rules Governing Athletic Revenues and Expenditures for Public School Districts (districts).

**2:00 Purpose**

- 2.01 The purpose of these rules is to establish the procedures to be followed by public school districts in coding and implementing financial reporting of athletic expenditures.

**3:00 Definitions**

For the purposes of this rule, the following terms shall mean:

- 3.01 "Adjusted square footage of athletic buildings" means the total square footage of all athletic buildings per the most current property insurance statement of values, less any square footage required for physical education courses by the most recent Program of Requirements of the Arkansas School Facility Manual, as published by the Division of Public School Academic Facilities and Transportation.
- 3.02 "Arkansas Activities Association" means the organization which serves as the centralized governing agency for all interschool athletic competitions.
- 3.023 "Athletic Coach" ~~An~~ means an employee of a district who is assigned direct responsibility for guiding a team engaged in an athletic program and competing with other schools subject to the regulations of the ~~AR~~ Arkansas Activities Association.

3.034 “Athletic Expenditures” means all direct and indirect expenses related to interschool athletic programs, prorated if necessary, including without limitation:

3.04.1 The proportion of salaries or supplemental pay for staff for or related to interschool athletic programs;

3.04.2 The proportion of fringe benefits, including without limitation medical and dental insurance, workers’ compensation, pension plans, and any other costs associated with employment of staff for interschool athletic programs;

3.04.3 Travel, including bus-related operation and maintenance, to and from any interschool athletic program event for students, faculty, spirit groups, band, or patrons of the school district;

3.04.4 Equipment;

3.04.5 Meals;

3.04.6 Supplies;

3.04.7 Property and medical insurance;

3.04.8 Medical expenses;

3.04.9 Utilities; and

3.04.10 Maintenance of facilities related to interschool athletic teams and spirit groups, excluding bands; and

3.04.11 Construction and renovation of athletic buildings and outdoor playing fields.

~~“Classroom Teacher” means an individual who is required to hold a teaching license from the Department of Education and who is engaged directly in instruction of students in a classroom setting for more than seventy percent (70%) of the individual’s contracted time.~~

3.05 “Athletic Building” means an enclosed facility, or a portion of an enclosed facility, built for, renovated for, or used or intended to be used by an interschool athletic program.

- 3.05.1 An Athletic Building includes without limitation: gymnasiums, whether in use or not; field houses; indoor practice facilities; offices for athletic directors and coaches; concession stands; press boxes; playing field dressing rooms/restrooms; and athletic equipment storage buildings.
- 3.05.2 An Athletic Building does not include an Outdoor Playing Field.
- 3.046 “Interschool Athletic Program” means any athletic program which is organized primarily for the purpose of competing with other schools, public and/or private, or any athletic program subject to regulation by the Arkansas Activities Association, including organized physical activity courses as defined by Ark. Code Ann. §6-16-137 and designed or implemented for participation in interschool athletics.
- 3.07 “Net athletic event gate receipts” means the amount remaining from fees collected for admission to a school district athletic event less any expenses paid by the school district from those gate receipts.
- 3.07.1 “Net athletic event gate receipts” include revenues generated from the sale of reserved seating and the amount collected for admission to a school district athletic event, less any expenses, including any rental fee for a facility used for an athletic event.
- 3.07.2 “Net athletic event gate receipts” do not include any portion of admission fees charged by a school district, for an athletic event held at the school district or at a facility leased or rented by the school district, and remitted or passed through to another entity outside the district.
- 3.08 “Outdoor Playing Field” means a non-enclosed area used for an interschool athletic program.
- 3.08.1 An Outdoor Playing Field includes without limitation: football fields, baseball fields, softball fields, soccer fields, and track and field areas.
- 3.09 “Public School District” includes, for purposes of this rule, all open-enrollment public charter schools.

3.0510 “State Funds” means all money derived from state revenues, ~~specifically~~ specifically including without limitation but not limited to, distributions from the Arkansas Department of Education (ADE) and ad valorem property taxes distributed to a public School district.

#### 4:00 Financial Coding Requirements

4.01 ~~These financial coding requirements shall be in effect for the 2007-2008 school year.~~

4.021 All athletic expenditures must be charged to a budget unit containing the appropriate fund, source of fund, function, and location codes.

4.032 The program code 115 must be used for all athletic expenditures.

4.04 ~~Salaries and benefits of a classroom teacher assigned to a class of students participating in an interschool athletic program must be coded as an athletic expenditure even if the course is offered for physical education credit.~~

4.053 Expenditures for property insurance, utilities, and all other maintenance ~~expenditures~~, including salary and benefits for ~~non-licensed~~ employees providing janitorial or maintenance services, must be charged to athletics based upon the portion of the expenditures used to support athletic activities adjusted square footage of athletic buildings as a percentage of total square footage of all buildings.

4.03.1 The square footage of all buildings shall be obtained from the most current property insurance statement of values.

4.03.2 The adjusted square footage of athletic buildings shall be divided by the total square footage of all buildings to determine the percentage of square footage used for athletics.

4.03.3 The percentage determined in 4.03.2, carried to five decimal places, shall be applied to the total cost of property insurance, utilities and all other maintenance costs to determine the amount applicable to athletics.

- 4.03.4 The amounts determined in 4.03.3 shall be recorded by posting a journal entry prior to each year-end final close and prior to submitting the Annual Financial Report to the ADE. Documentation supporting the journal entry shall be retained for review by the Division of Legislative Audit.
- ~~4.06 Districts may use an allocation method to identify the portions of district expenditures used to support athletic activities. The allocation method approved by ADE is to allocate these costs based on the percentage of athletic salaries paid from the teacher salary fund compared to total salaries paid from the teacher salary fund.~~
- ~~4.07 All allocation methods are subject to Legislative Audit review and must be well documented.~~
- ~~4.08 All travel, including bus related operation and maintenance, to and from any interschool athletic program event for students, faculty, spirit groups, band, or patrons of the district must be coded as athletic expenditures. Travel shall be based on logged miles times the current state average transportation cost per mile unless the district's cost per mile is higher than the state's average.~~
- 4.094 When district owned vehicles are used for transporting students, faculty, spirit groups, band or patrons of the school district to any interschool athletic program event, the district must shall use the state-wide average student transportation cost per mile as determined by ADE. Districts must maintain all documentation supporting any all logged athletic transportation miles.
- 4.05 Expenditures for the construction or renovation of athletic buildings shall be charged to athletics, minus the construction and renovation costs of square footage required for physical education courses by the most recent Program of Requirements contained in the Arkansas School Facility Manual published by the Division of Public School Academic Facilities and Transportation.
- For example, if a school district already has the physical education square footage required and builds a new gymnasium, the entire construction cost of the new gymnasium shall be charged to athletics.
- 4.06 Expenditures for the construction or renovation of outdoor playing fields shall be charged to athletics.



## **5.0 Salaries and Benefits for Coaches**

- 5.01 Coaching stipends and related benefits must be charged to athletics.
- 5.02 All pay for extended contract days pertaining to athletics and the related benefits to those days of pay must be charged to athletics.
- 5.03 The base salary contract and related benefits for athletic coaches as indicated by the district's base teacher's salary schedule must be allocated between athletics and nonathletics if during the school day, the athletic coach is assigned to classes for students participating in an interschool athletic program.
- 5.04 For purposes of allocating salaries and benefits of athletic coaches, preparation periods in excess of one period must be allocated to athletics unless the additional preparation period is clearly documented to pertain to non-athletic duties.
- ~~5.05 Current year salaries and benefits should be used by districts for allocation calculations. The allocation percentage can be determined immediately following the last payroll for the current school year.~~
- 5.065 Salaries paid to interschool athletic program personnel in positions requiring a teaching license must be paid from the teacher salary fund and will, therefore, always be considered paid from state funds.

## **6.00 Required Reporting**

- 6.01 School districts must provide to the Department of Education an annual report of prior year athletic expenditures and current year budgets by September 15 of each year.
  - 6.01.1 Prior to submitting the report to the Arkansas Department of Education, the school district's board of directors shall review and approve the report at a legally held meeting of the board.

- 6.01.2 Following approval by the school district's board of directors, the report shall be posted on the school district's web site and electronically submitted to the Arkansas Department of Education in a format approved by the Department. The report shall remain posted on the school district's web site for a minimum of three years following the year approved by the school district's board of directors.
- 6.02 The content for the required athletic expenditure report ~~is~~ shall be obtained from information districts submit to the Arkansas Department of Education in cycle 1 for the current year budget and cycle 9 for the prior year actual expenditures.
- ~~6.03 ADE shall produce the required report and budget required in Section 6.01 from information submitted by the districts regarding athletics expenditures and district budgets.~~
- 6.043 The report shall include athletic expenditures from state funds only and budgets from state funds only.
- 6.054 The athletic expenditure report shall include the total number of coaches ~~assigned per~~ employed by the district during the previous school year and the athletic Full-time Equivalency (FTE) of each as submitted to the Arkansas Department of Education in cycle 8.

## 7.0 Revenues

- 7.01 Gate receipts, private donations made directly to the school district, revenues from fund raisers, and any other non-state revenue pertaining to the athletic programs shall be deposited in the activity fund (Fund 7). ~~Funds raised for shared building projects or shared equipment purchases may be transferred to the appropriate fund.~~
- 7.02 School districts shall establish a separate Source of Funds code for athletic event gate receipts.
- 7.02.1 Revenues and expenditures from the athletic event gate receipt funds shall be tracked and reported.
- 7.02.2 The local school board of directors must approve the use of net athletic event gate receipts to purchase athletic awards for students participating in school-sponsored activities.

7.02.3 The school district shall not expend from net athletic event gate receipts more than an average of \$100 per student participating per activity.

7.02.4 School districts may access private funds to purchase athletic awards.

## **8.00 Required Reviews**

- 8.01 The Division of Legislative Audit (Legislative Audit) shall conduct a review of athletic expenditure reports and Department of Education rules.
- 8.02 Legislative Audit shall ~~annually review twenty percent (20%) of the districts to evaluate the district's implementation of current laws and rules~~ conduct an annual review of the reports required by these Rules on a rotating basis so that each public school district is evaluated at least one (1) time every five (5) years.
- 8.03 If Legislative Audit determines that for any given year the Division has insufficient staff to conduct the reviews as required by ~~Act 255 of the regular 2007 session~~ Ark. Code Ann. § 6-20-2003, then the Division may establish the number of districts that will be reviewed for that year.

## **9.00 Sanctions**

- 9.01 Any school district failing to comply with the provisions of ~~A.C.A. § 6-20-2003(b) and Ark. Code Ann. § 6-20-2001 et seq. or the these rules adopted by the state board for the implementation of required reporting of athletic expenditures~~ shall be identified by the Department of Education to be in fiscal distress in accordance with ~~A.C.A. Ark. Code Ann. § 6-20-1901 et seq.~~