

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



WASHINGTON COUNTY SCHOOLS

PLYMOUTH, NORTH CAROLINA

INVESTIGATIVE REPORT
JANUARY 2016



NCOSA
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

In response to a Hotline allegation regarding expenditures of the former Superintendent of Washington County Schools (School), the Office of the State Auditor initiated an investigation. During the investigation of the initial allegation, concerns about other expenditures and violations of School policies were identified.

BACKGROUND

Washington County Schools is a public school district headquartered in Plymouth, North Carolina. A five member Board of Education (Board) is elected to establish a vision and strategic plan for the school district. Among the responsibilities of the Board are hiring a Superintendent. The School's former Superintendent signed a four-year employment agreement for which he was paid a base salary of \$125,000 annually beginning September 17, 2012, and ending June 30, 2016. The original employment agreement was extended for two additional years (ending June 30, 2018) on October 28, 2014. The former Superintendent resigned his position effective June 30, 2015.

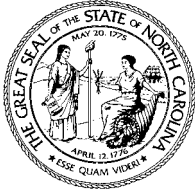
KEY FINDINGS

- Former Superintendent spent over \$94,000 without prior written authorization from Board Chairs, a documented business purpose, or expenditure receipts
- Board members and administrative employees spent nearly \$40,000 without prior written authorization, a documented business purpose, or expenditure receipts
- Former Superintendent misspent \$15,800 of federal funds on entertainment

KEY RECOMMENDATIONS

- The Board should implement policies and procedures to ensure expenses incurred by the Superintendent are authorized, documented, reasonable in cost, and support School objectives.
- The Board should monitor travel, meals, and merchandise expenses incurred by the Superintendent for compliance with School policies and procedures.
- The Superintendent should implement policies and procedures to ensure expenses incurred by Board members and employees are authorized, documented, reasonable in cost, and support School objectives.
- The Board should establish a policy and procedure to facilitate notification to the Board of possible noncompliance with program requirements involving the Superintendent or other School officials.

Office of the State Auditor



Beth A. Wood, CPA
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AUDITOR'S TRANSMITTAL

January 5, 2016

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Dr. June Atkinson, State Superintendent, North Carolina Department of Public Instruction
Dr. Delilah Jackson, Superintendent, Washington County Schools
Mr. Ruffin Gill, Jr., Board of Education Chair, Washington County Schools

Ladies and Gentlemen:

Pursuant to *North Carolina General Statute §147-64.6(c)(16)*, we have completed an investigation of allegations concerning Washington County Schools. The results of our investigation, along with recommendations for corrective action, are contained in this report.

Copies of this report have been provided to the Governor, the Attorney General and other appropriate officials in accordance with *G.S. §147-64.6(c)(12)*. We appreciate the cooperation received from the management and employees of Washington County Schools during our investigation.

Respectfully submitted,

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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Article 5A, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



BACKGROUND

In response to a Hotline allegation regarding expenditures of the former Superintendent of Washington County Schools (School), the Office of the State Auditor initiated an investigation. During the investigation of the initial allegation, concerns about other expenditures and violations of School policies were identified.

Our investigation of these allegations included the following procedures:

- Review of applicable Federal regulations, North Carolina General Statutes, State and School policies and procedures
- Interviews with employees (including former Superintendent), members of the School's Board, and employees of North Carolina's Department of Public Instruction
- Examination and analysis of available documents and records related to the allegations

North Carolina provides a general and uniform system of public schools throughout the State. Local education boards have general control and supervision of all matters pertaining to public schools in their respective school districts. Washington County Schools is a public school district headquartered in Plymouth, North Carolina. A five member Board of Education is elected to establish a vision and strategic plan for the School district. Hiring a Superintendent to oversee the daily operations of the School is one of the responsibilities of the Board.

The School's former Superintendent signed a four-year employment agreement for which he was paid a base salary of \$125,000 annually beginning September 17, 2012, and ending June 30, 2016. The original employment agreement was extended for two additional years (ending June 30, 2018) on October 28, 2014. The former Superintendent resigned his position effective June 30, 2015.

This report presents the results of our investigation. The investigation was conducted pursuant to *North Carolina General Statute § 147-64.6 (c) (16)*.



FINDINGS AND RECOMMENDATIONS

1. FORMER SUPERINTENDENT SPENT OVER \$94,000 WITHOUT PRIOR WRITTEN AUTHORIZATION FROM BOARD CHAIRS, A DOCUMENTED BUSINESS PURPOSE, OR EXPENDITURE RECEIPTS

Without prior written authorization, a documented business purpose, or expenditure receipts, Washington County Schools' (School) former Superintendent spent over \$94,000 on travel, meals, and merchandise over a 33-month period.

Travel

The former Superintendent spent \$48,021 on hotel accommodations, airline tickets and fees, and car rental fees. The former Superintendent rarely provided a documented business purpose, was regularly reimbursed above the School's per diem rates, and infrequently submitted itemized receipts. Moreover, the majority of expenditures had no evidence of prior written authorization.

The former Superintendent's travel included 23 out-of-state destinations and 38 in-state destinations.¹ For example, the former Superintendent traveled to Nashville, Tennessee four times and Asheville, North Carolina seven times. There was no written evidence the former Superintendent received prior approval from the Washington County Schools Board of Education (Board) Chair for any of the eleven trips. Also, a business purpose was not documented for ten of the eleven trips.

Meals

Another \$27,380 was spent by the former Superintendent for food and beverage purchased during travel, local meetings, and events. The former Superintendent purchased meals on the School-issued credit card while meeting with employees or Board members locally, as well as during travel. The receipts provided by the former Superintendent were not itemized and rarely documented a business purpose for local meals.

Merchandise

Additionally, \$18,800 was spent by the former Superintendent without sufficient documentation to support legitimate School purposes.² The former Superintendent made merchandise purchases on the School-issued credit card. The receipts provided did not state a business purpose. Further, no written evidence existed that showed the Board Chair reviewed or approved the merchandise purchases.

Without prior authorizations, documented business purposes, and expenditure receipts, the School was unable to determine that the \$94,201 spent on travel, meals, and merchandise:

- Actually occurred; i.e., did the former Superintendent actually incur an expense?
- Was properly valued; i.e., was payment made in the amount incurred by the former Superintendent?
- Was a School obligation; i.e., was the former Superintendent authorized to incur the expense and was the expense for a bona fide School purpose?

¹ See Appendix A

² See Appendix B

While other school systems have established travel policies, the Board has not established such a policy for the Superintendent. Instead, oversight of travel costs is left to the individual discretion of the Board Chair.

The former and current Board Chairs failed to require proper documentation from the former Superintendent for travel, including the purpose of the expenditure and itemized receipts. The former Board Chair stated he only looked at approximately six months of receipts per year. The current Board Chair stated he only performed a cursory review of receipts.

Internal documents at the School indicated that travel expenses should receive prior approval, have a documented business purpose, and require itemized receipts. Specifically, the former Superintendent's employment contract charged the Board Chair with approving normal business expenses and itemized travel-related expenses.

However, as noted above, the Board did not establish written policies to ensure that the superintendent followed best practices for travel expenses.

Other local school boards have established written policies to ensure the Superintendent follows best practices for travel expenses. For example, Pender County Board of Education policy number 7650 requires the Superintendent's travel to receive prior approval from the Chair of the Board of Education on the approved Travel Authorization Form.

RECOMMENDATIONS

- The Board should implement policies and procedures to ensure expenses incurred by the superintendent are authorized, documented, reasonable in cost, and support School system objectives.
- The Board should monitor travel, meals, and merchandise expenses incurred by the Superintendent for compliance with School policies and procedures.

2. BOARD MEMBERS AND ADMINISTRATIVE EMPLOYEES SPENT NEARLY \$40,000 WITHOUT PRIOR WRITTEN AUTHORIZATION, A DOCUMENTED BUSINESS PURPOSE, OR EXPENDITURE RECEIPTS

Without prior written authorization, a documented business purpose, or expenditure receipts, Washington County Schools Board of Education (Board) and administrative employees spent nearly \$40,000 on travel over a 33-month period.

The Board and administrative employees spent \$39,929 on hotel accommodations and airline tickets for travel that included eight out-of-state destinations and 17 in-state destinations.³ The Board and administrative employees rarely provided a documented business purpose, were regularly reimbursed above Washington County Schools' (School) per diem rates, and infrequently submitted itemized receipts. The majority of expenditures had no evidence of prior written authorization.

³ See Appendix C

Without prior authorizations, documented business purposes, and expenditure receipts, the School was unable to determine that the \$39,929 spent on travel, meals, and merchandise:

- Actually occurred; i.e., did the Board and administrative employees actually incur an expense?
- Was properly valued; i.e., was payment made in the amount incurred by the former Board and administrative employees?
- Was a School obligation; i.e., was the Board and administrative employees authorized to incur the expense and was the expense for a bona fide School purpose?

While other school systems have established travel policies, the Board has not established such a policy for Board members and School employees. Instead, oversight of travel costs is left to the individual discretion of the Superintendent.

The former Superintendent failed to require proper documentation for travel, including the purpose of the expenditure and itemized receipts from employees under his charge, despite having a mechanism in place to ensure compliance with School guidelines (travel request form⁴).

Internal documents at the School indicated that travel expenses should receive prior approval, have a documented business purpose, and require itemized receipts. Specifically, a travel request form for employee use requires prior approval for travel, a stated business purpose, submission of original receipts, and per diem rates for lodging and meals.

However, as noted above, the Board did not establish written policies to ensure that Board members and administrative employees follow best practices for travel expenses.

Other local school boards have established written policies to ensure school officials follow best practices for travel expenses. For example:

- Wake County Board of Education policy number 2130 requires all out-of-county travel on behalf of the Wake County Board of Education by an individual Board member receive prior approval by the Chair of the Board of Education on the approved travel authorization form.
- Durham County Board of Education policy number 7630 requires Durham Public Schools employees to be reimbursed for transportation, subsistence, or registration expenses incurred while traveling on official business. Reimbursement must be authorized in advance by the Superintendent or designee.

RECOMMENDATIONS

- The Superintendent should implement policies and procedures to ensure expenses incurred by Board members and employees are authorized, documented, reasonable in cost, and support School objectives.
- The Superintendent should monitor travel, meals, and merchandise expenses for compliance with School policies and procedures.

⁴ See Appendix D

3. FORMER SUPERINTENDENT MISSPENT \$15,800 OF FEDERAL FUNDS ON ENTERTAINMENT

The former Superintendent spent approximately \$15,800 of Title I and Title II funds on entertainment without federal authorization. The amounts spent from each federal program were as follows:

- Title I funds
 - Extreme Bouncer – inflatable bounce houses (6 events) - \$9,025
 - Rocking Game Party – video game trailer (1 event) - \$600
 - Food (7 events) - \$2,785
- Title II funds
 - Food (10 events) - \$3,140
 - Gift cards (Christmas party) - \$250

Inappropriate spending of Title I and Title II funds resulted in less funding for programmatic purposes.

Title I funds help local educational agencies improve teaching and learning in high-poverty schools in particular for children failing, or most at-risk of failing, to meet challenging state academic achievement standards.⁵

Title II funds provide grants to State educational agencies, local educational agencies, State agencies for higher education (SAHEs) and, through SAHEs, to eligible partnerships of institutions of higher education and high-need local educational agencies, in order to increase student academic achievement through such strategies as improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom.⁶

Title I and Title II funds were misspent due to management override. The former Superintendent hired personnel that he tasked with learning the guidelines of Title I and Title II expenditures. Title I and Title II personnel advised the former Superintendent to not spend program funds on entertainment. However, the former Superintendent disregarded their advice on spending for certain events.

When spending Title I and Title II funds, the Washington County Schools Board of Education (Board) was required to follow Federal regulation 2 CFR 200.438 regarding entertainment costs. The regulation states costs of entertainment, including amusement, diversion, social activities, and any associated costs are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency.

⁵ Catalog of Federal Domestic Assistance, Title I Grants to Local Educational Agencies, Number: 84.010

⁶ Catalog of Federal Domestic Assistance, Improving Teacher Quality State Grants, Number: 84.367

RECOMMENDATION

The Board should establish a policy and procedure to facilitate notification to the Board of possible noncompliance with program requirements involving the Superintendent or other school officials.

OUT-OF-STATE TRAVEL (former Superintendent)			
DESTINATION	# OF TRIPS	* TRAVEL COSTS	Note(s)
Atlanta, GA	2	\$ 2,895	
Bedford Park, IL	1	\$ 1,077	
Boston, MA	1	\$ 574	** Administrative employees attended trip
Washington, DC	2	\$ 1,492	
Detroit, MI	1	\$ 2,730	
Houston, TX	1	\$ 1,533	
King of Prussia, PA	1	\$ 387	
Los Angeles, CA	1	\$ 1,948	
Myrtle Beach, SC	1	\$ 603	
New Orleans, LA	1	\$ 2,012	** Board members attended trip
Nashville, TN	4	\$ 8,398	** Board members attended 1 trip
Orlando, FL	1	\$ 217	
San Antonio, TX	1	\$ 1,012	
San Diego, CA	4	\$ 9,004	
Trenton, NJ	1	\$ 998	
Total	23	\$ 34,880	

* Travel costs include flights, fees, accommodations, and car rental fees. Meals are not included in travel costs.

** Travel costs of Board members and administrative employees are recorded on Appendix C.

IN-STATE TRAVEL (former Superintendent)			
DESTINATION	# OF TRIPS	* TRAVEL COSTS	Note(s)
Atlantic Beach	1	\$ 156	
Asheville	7	\$ 5,162	** Board Chair attended 1 trip
Carolina Beach	1	\$ 87	
Chapel Hill	4	\$ 641	
Concord	1	\$ 175	
Durham	5	\$ 586	
Greensboro	2	\$ 422	
Morrisville	3	\$ 2,126	
Pinehurst	1	\$ 112	
Raleigh	10	\$ 3,022	** Administrative employee attended 1 trip
*** Wilmington	1	\$ 321	** Administrative employees attended trip
Winston-Salem	1	\$ 175	
Wrightsville Beach	1	\$ 157	
Total	38	\$ 13,141	

* Travel costs include flights, fees, accommodations, and car rental fees. Meals are not included in travel costs.

** Travel costs of Board Chair and administrative employees are recorded on Appendix C.

*** Wilmington trip was an employee retreat and travel costs for employees are recorded on Appendix C.

Merchandise	Amount
Apple Store (Phone Accessories; iTunes)	\$ 1,120
Best Buy (Phone Accessories)	\$ 619
Verizon Wireless (Phone Accessories)	\$ 171
Barnes & Nobles (No receipts or purpose; Gift Cards)	\$ 3,011
Amazon (No receipts or purpose)	\$ 754
Walmart (No receipts or purpose; Gift Cards)	\$ 3,059
Frames by James (Personal frames)	\$ 250
Staples (No purpose; Briefcase; Wireless Router)	\$ 940
Personal Magazines bought on travel	\$ 32
Cellular Sales (Phone Accessories)	\$ 64
Memberships	\$ 2,800
Various Other Merchandise (No detail)	\$ 4,475
Late Fees	\$ 747
Other items with no detail and unknown purpose	\$ 758
TOTAL	\$ 18,800

OUT-OF-STATE TRAVEL (Washington County Board & Administrative Employees)			
DESTINATION	# OF TRIPS	* TRAVEL COSTS	Note(s)
Boston, MA	1	\$ 6,986	** former Superintendent attended trip
Indianapolis, IN	1	\$ 365	
Jacksonville, FL	1	\$ 5,170	
Myrtle Beach, SC	1	\$ 456	
New Orleans, LA	1	\$ 6,996	** former Superintendent attended trip
Nashville, TN	1	\$ 2,626	** former Superintendent attended trip
NY, NY	1	\$ 1,147	
San Antonio, TX	1	\$ 696	
Total	8	\$ 24,442	

* Travel costs include flights, fees, accommodations, and car rental fees. Meals are not included in travel costs.

** Travel costs of former Superintendent are recorded on Appendix A.

IN-STATE TRAVEL (Washington County Board & Administrative Employees)			
DESTINATION	# OF TRIPS	* TRAVEL COSTS	Note(s)
Asheville	2	\$ 389	** former Superintendent attended 1 trip
Chapel Hill	2	\$ 145	
Dunn	1	\$ 72	
Durham	4	\$ 3,463	
Gastonia	1	\$ 112	
Raleigh	4	\$ 518	** former Superintendent attended 1 trip
*** Wilmington	2	\$ 10,316	** former Superintendent attended 1 trip
Wrightsville Beach	1	\$ 471	
Total	17	\$ 15,487	

* Travel costs include flights, fees, accommodations, and car rental fees. Meals are not included in travel costs.

** Travel costs of former Superintendent are recorded on Appendix A.

*** One Wilmington trip was an employee retreat with total travel costs of \$10,081 for the employees. Costs for the former Superintendent on the Wilmington retreat are recorded on Appendix A.

Travel Request Form - Washington County Schools

Revised 1/7/14

GUIDELINES

1. Approval must be granted before engaging in staff development activity.
2. Out-of-state and overnight travel requires Superintendent's approval and signature in advance.
3. Expense allowances for travel and subsistence are as follows:
 - a. Mileage for private automotive is \$.56 per mile.
 - b. Other forms of travel (air, rail, bus, taxi, rent-a-car) are reimbursed at actual cost.
 - c. Lunch is not reimbursed for day trips
 - d. Meals: Breakfast - \$8.20, Lunch - \$10.70, Dinner - \$18.40 (In-State)
Breakfast - \$8.20, Lunch - \$10.70, Dinner - \$20.90 (Out-of-State)
 - e. Hotel/Motel expenses are reimbursed: \$65.90 (In-State) \$77.90 (Out-of-State)
4. **Meals included in the attended programs will not be reimbursed in the per-diem-cost:**
5. Registration is reimbursed at the actual cost.
6. Reimbursement request for motel/hotel rooms, registration, parking, tolls, air, rail, bus, taxi, and rent-a-car must have "original receipts."
7. Breakfast may be reimbursed only if departure is before 6:00 AM. Dinner may be reimbursed only if return is *after* 8:00 PM.
8. A copy of the agenda, registration information, or a conference flyer must be attached to approval form prior to approval being given **A copy must be attached to this form for meal reimbursement!**
9. Reimbursement must be requested within 30 days after travel period ends.

Name _____ Last 4 SSN _____

Depart. Time ____ AM/PM Arrival Time ____ AM/PM Depart. Time ____ AM/PM Arrival Time ____ AM/PM

Function _____ Date(s) of Meeting _____

Location of Meeting _____ Sponsoring Agency _____

How will information be used? _____

Contact Hours _____ Renewal Credits Requested _____ Approved By _____

ESTIMATED TRAVEL EXPENSES		COSTS		ACTUAL TRAVEL EXPENSES		COSTS		BUDGET CODE
Sub Days #				Sub Days #				
Auto Miles		\$ 0.560	\$ -	Auto Miles		\$ 0.560	\$ -	
Other Travel				Other Travel				
Registration - Attach Receipt				Registration - Attach Receipt				
Breakfast #		\$ 8.20	\$ -	Breakfast #		\$ 8.20	\$ -	
Lunch #		\$ 10.70	\$ -	Lunch #		\$ 10.70	\$ -	
Dinner #		\$ 18.40	\$ -	Dinner #		\$ 18.40	\$ -	
Lodging #				Lodging #			\$ -	
Other Expenses				Other Expenses				
Total Cost		\$ -		Total Reimbursement		\$ -		
Signature of Applicant			Date	Signature of Applicant			Date	
Signature of Principal or Supervisor			Date	Signature of Principal or Supervisor			Date	
Signature of Superintendent (If Required)			Date	Signature of Superintendent (If Required)			Date	
Signature of Central Off. Director			Date	Signature of Central Off. Director			Date	

This instrument has been pre-audited in the manner required by the School Budget and Fiscal Control Act.



WASHINGTON COUNTY SCHOOLS

802 Washington Street • Plymouth, North Carolina 27962
Phone: 252.793.5171 Fax: 252.793.5062

Dr. Delilah Jackson
Superintendent

December 17, 2015

Ms. Beth A. Wood, CPA
State Auditor
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Ms. Wood,

Thank you for your letter dated December 3, 2015 and for the work of your staff regarding the investigation of expenditures and violations of school policies by the former Superintendent of Washington County Schools.

Our district accepts the findings and recommendations with no exception. Attached you will find the report of our responses to the findings as well as corrective actions, responsible parties and timelines. Also included, you will find the forms and guidelines that accompany the recommendations.

Thank you for your attention to this matter. Our district takes this matter seriously and we will continue to improve our processes and procedures related to expenditures and record keeping to conform to the state guidelines.

Sincerely,

Mr. Ruffin Gill
Chairman
Washington County Board of Education

RESPONSE FROM WASHINGTON COUNTY SCHOOLS

Corrective Action	Responsible Party	Completion Date	Finding Addressed
Money will not be reimbursed until the completion of the Travel Request Form with all designated signatures and authorization	Employee, Direct Supervisor, Superintendent, Board Chair	July 2015 to present Ongoing	Finding 1 & 2
The Board Chair will sign all Travel Request Forms submitted by the Superintendent for reimbursement	Superintendent Board Chair	July 2015 to present Ongoing	Finding 1
A policy will be developed and implemented that addresses Approval for Travel and Reimbursements	Superintendent Washington County Board of Education	February 2016 (In process)	Finding 1 & 2
Procedures will be followed regarding the spending of federal dollars. Designated purchases will not be allowed without the authorization of the Federal program designee	Federal Program Director/Designee Finance Officer	July 2015 (In process) Ongoing	Finding 3
Policy Code 1750/7220 Grievance Procedures for Employees will be revised to include language regarding grievances against the Superintendent	Policy Committee Washington County Board of Education	January 2016 (In process)	Finding 3

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

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For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513



This investigation required 822 hours at an approximate cost of \$77,500