



**CUYAHOGA HEIGHTS LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

SPECIAL AUDIT

FOR THE PERIOD JULY 1, 2007 THROUGH FEBRUARY 22, 2011



Dave Yost • Auditor of State

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Cuyahoga Heights Local School District
4820 East 71st Street
Cuyahoga Heights, Ohio 44125

We conducted a special audit of the Cuyahoga Heights Local School District (the District) by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period July 1, 2007 through February 22, 2011, (the Period) solely to:

- Identify District payments made to vendors related to former Information Technology (IT) Director, Joseph Palazzo, and determine whether corresponding goods or services were received by the District.
- Identify District payments made to other vendors for IT equipment and determine whether invoiced goods or services were received by the District or diverted to unauthorized individuals for purposes unrelated to District operations.
- Determine the disposition of used laptops and other District computer equipment allegedly shipped to an IT equipment disposal company.

This engagement was conducted in accordance with the Quality Standards for Inspections established by the President's Council on Integrity and Efficiency (January 2005). The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and significant results is as follows:

1. We examined District payments to vendors related to former IT Director, Joseph Palazzo, to determine whether invoiced goods or services were received by the District.

Significant Results – The District made 436 payments totaling \$3,844,155 to seven companies related to Joseph Palazzo for which the District received no apparent goods or services. Additionally, a review of bank records disclosed 347 payments totaling \$1,308,194 from four of these companies to Mr. Palazzo after District payments were received by the vendors.

The District made four payments totaling \$14,663 to two companies for goods and services received for personal use by Joseph Palazzo for which the District did not receive reimbursement from Mr. Palazzo.

The District also made a payment in the amount of \$4,499 to a District teacher assistant, as initiated and approved by Joseph Palazzo, for which the supporting documentation was falsified to represent an employee expense reimbursement for training related costs that were not actually incurred by the employee.

For these instances, we issued ten findings for recovery totaling \$3,863,317.

We also issued a management recommendation regarding developing policies and procedures to add new vendors.

2. We examined District payments made to vendors for IT equipment to determine whether invoiced goods or services were received by the District or diverted to unauthorized individuals for purposes unrelated to District operations.

Significant Results - We examined 1,555 transactions recorded on 717 voucher packets. Of the 1,555 transactions examined, 179 totaling \$336,495 represented goods or services purchased which were diverted for purposes unrelated to District operations. Additionally, 30 of those 179 transactions were supported by altered documents.

We issued a finding for recovery for these items totaling \$336,495.

Additionally, we issued a noncompliance citation pertaining to the District's record retention and three management recommendations regarding segregation of duties, inventory policy and oversight, and cellular phone policy and usage oversight.

3. We examined District records and inquired with District personnel to determine the disposition of used laptops and other District computer equipment allegedly shipped to an IT equipment disposal company.

Significant Results – The District did not maintain documentation of items disposed of as part of the shipment in question. Given the District's lack of documentation of the disposed inventory, we were unable to prepare a listing of disposed equipment.

The District did receive a payment totaling \$6,375 from Ideal Technologies LLC as apparent compensation for the disposed inventory. The company also provided a spreadsheet listing items that were shipped from the District. However, we were unable to compare this shipment information to District records since the District did not maintain any such documentation.

We issued a management recommendation regarding the disposal of District assets.

4. On October 8, 2012, we held an exit conference with the following individuals representing the School:

Dr. Stephen Kenzig, Board Member
Reno Contipelli, Board Member
Gary Suchocki, Board Member
Dr. Edwin Holland, Superintendent

Dr. Holly L. Thacker, Board Member
Roylene Sample, Board Member
Colin Jennings, Board Counsel
Debbie Herrmann, Treasurer

The attendees were provided an opportunity to respond to this special audit report. However, a response was not received.



Dave Yost
Auditor of State

October 8, 2012

Supplement to the Special Audit Report

Background

In February 2011, a District Board member contacted our office via telephone to express concerns over District Information Technology purchases. Additionally, the District Treasurer met with representatives of the Auditor of State's (AOS) Cleveland Regional Office to express similar concerns. The District's Director of Information Technology, Joseph Palazzo, used companies owned or operated by his brother, Dominick Palazzo, or companies otherwise related, as primary IT vendors over the past four years. The District expended an estimated three million dollars to these companies over this time period. Of these companies, two used post office boxes as mailing addresses and another used the home address of Dominick Palazzo.

The District also noted payments to vendors for IT equipment, including laptops and BlackBerry devices, for which the goods or services were diverted to unauthorized individuals for purposes unrelated to District operations. Additionally, the District noted a shipment of used laptops and other IT equipment allegedly sent to an IT equipment disposal company for which no documentation was available to verify the equipment was properly sent to the disposal company.

A preliminary examination was conducted by the AOS and the results were forwarded to the AOS Special Audit Task Force. On March 1, 2011, the AOS initiated a special audit of the District.

Supplement to the Special Audit Report

Objective No. 1 - Related Vendors

PROCEDURES

We obtained District vendor history reports to identify payments made to companies known to be related to the former IT Director Joseph Palazzo and payments made to other companies in question.

We examined voucher packages, invoices, and checks for payments made to determine whether goods or services indicated were received by the District.

RESULTS

We identified seven vendors which were related to former IT Director Joseph Palazzo either through ownership by his brother, Dominick Palazzo, or ownership by friends of the Palazzo family. During the Period, the District made 436 payments totaling \$3,844,155 to these vendors for which no apparent goods or services were received by the District.

A review of the vendors' bank records disclosed 347 payments to Joseph Palazzo totaling \$1,308,194 from four of the seven vendors after the vendors received payments from the District. Additionally, there was no evidence that Mr. Palazzo disclosed these relationships to the Board.

We also identified four payments totaling \$14,663 made to two companies for goods and services received for personal use by Joseph Palazzo for which he did not reimburse the District.

We noted one payment in the amount of \$4,499 made to a District teacher, as initiated and approved by Joseph Palazzo, for which the supporting documentation was falsified to represent an employee expense reimbursement for training related costs that were not actually incurred by the employee.

FINDINGS FOR RECOVERY

Finding for Recovery - Laptops and More, Inc.

During the Period, the District issued 156 checks totaling \$1,629,474 and incurred nine credit card transactions totaling \$31,517 to Laptops and More, Inc. Based on a search of the Ohio Secretary of State website, this company was registered with the Ohio Secretary of State on August 22, 2007 and the registering agent and incorporator was Dominick Palazzo.

The documented purposes of such payments included technology support, laptop computers, servers and other technology related items. On several of the purchase orders and invoices for this vendor, we identified the same spelling errors on both documents. The purchase requisitions for these transactions were initiated and approved by Joseph Palazzo, and the purchase orders were initialed by Joseph Palazzo indicating receipt of goods or services and approval of payments. However, there was no evidence to support that any goods or services purchased had been received by the District.

Documents obtained through subpoenas, revealed the checks issued to this company were deposited into bank accounts in the name of Laptops and More, Inc. Dominick Palazzo was the authorized signatory included on the signature cards for these accounts. Upon deposit of the District checks into the Laptops and More, Inc. account, subsequent payments were issued payable to Joseph Palazzo from Laptops and More, Inc. totaling \$660,795. Our review of the vendor's bank account revealed there was no apparent business activity for Laptops and More, Inc. other than with the District.

Supplement to the Special Audit Report

Additionally, Laptops and More, Inc. issued payments to three individuals that were considered District volunteers. Checks written to these individuals from the Laptops and More, Inc. account were marked as payroll. Payments were made to Michelle Protiva in the amount of \$73,600, Alysse Kuznik in the amount of \$55,200 and Cristina Rinella in the amount of \$18,000. Each of these women completed applications on file with the District in which they specifically stated they were applying for volunteer positions within the IT department. Additionally, District Board minutes approved each of them as volunteers for the technology department.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Laptops and More, Inc., Dominick Palazzo and Joseph Palazzo, jointly and severally, in the amount of \$1,660,991 and, jointly and severally, against Michelle Protiva in the amount of \$73,600, Alysse Kuznik in the amount of \$55,200, and Cristina Rinella in the amount of \$18,000, in favor of the District.

Finding for Recovery - DDR Technology Co.

From January 2009 through January 2011, the District issued 73 checks totaling \$648,035 to DDR Technology Co. Based on a search of the Ohio Secretary of State website, this company was registered with the Ohio Secretary of State on January 12, 2009 and the registering agent was David Donadeo (also known as David Rupp), a Palazzo family friend.

The documented purposes of such payments included technology support, computers, software licenses and other technology related items. On three of the purchase orders and invoices for this vendor, we identified the same spelling errors on both documents. The purchase requisitions for these transactions were initiated and approved by Joseph Palazzo, and the purchase orders were initialed by Joseph Palazzo indicating receipt of goods or services and approval of payments. However, there was no evidence to support that any goods or services purchased had been received by the District.

Documents obtained through subpoenas revealed the checks issued to this company were deposited into a bank account in the name of DDR Technology Co. which was opened in January 2009, the same time the District began making payments to this company. David Donadeo was the authorized signatory included on the signature card for this account. Upon deposit of the District checks into the DDR Technology bank account, subsequent payments were issued payable to Joseph Palazzo from DDR Technology totaling \$350,090. Also, there was no apparent business related activity noted within the DDR Technology bank account other than with the District.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against DDR Technologies, David Donadeo and Joseph Palazzo, jointly and severally, in the amount of \$648,035, in favor of the District.

Finding for Recovery - Forte Promotions Group, Inc.

During the Period, the District issued 62 checks totaling \$491,604 to Forte Promotions Group, Inc. Based on a search of the Ohio Secretary of State website, this company was registered with the Ohio Secretary of State on October 11, 2005 and the registering agent was Dominick Palazzo.

The documented purposes of such payments included web design and voice-over talent. The purchase requisitions for these transactions were initiated and approved by Joseph Palazzo, and the purchase orders were initialed by Joseph Palazzo indicating receipt of goods or services and approval of payments. However, there was no evidence to support that any goods or services purchased had been received by the District.

Documents obtained through subpoenas revealed the checks issued to this company were deposited into bank accounts in the name of Forte Promotions Group, Inc. Dominick Palazzo was the authorized signatory included on the signature cards for these accounts. Upon deposit of the District checks into the Forte Promotions Group, Inc. bank account, subsequent payments were issued payable to Joseph Palazzo from Forte Promotions Group, Inc. totaling \$178,688.

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In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Forte Promotions Group, Inc., Dominick Palazzo and Joseph Palazzo, jointly and severally, in the amount of \$491,604 in favor of the District.

Finding for Recovery - Impact Global LLC

From August 2009 through December 2010, the District issued 32 checks totaling \$268,913 to Impact Global LLC. Based on a search of the Ohio Secretary of State website, this company was registered with the Ohio Secretary of State on April 27, 2009. The registering agent was David Donadeo and the incorporator was Dominick Palazzo.

The documented purposes of such payments included maintenance agreements, servers, software renewals and other technology related items. The purchase requisitions for these transactions were initiated and approved by Joseph Palazzo, and the purchase orders were initialed by Joseph Palazzo indicating receipt of goods or services and approval of payments. However, there was no evidence to support that any goods or services purchased had been received by the District.

Documents obtained through subpoenas revealed the checks issued to this company were deposited into a bank account opened in June 2009 in the name of Impact Global LLC dba The JumpYard. Dominick Palazzo and David Donadeo were the authorized signatories included on the signature card for this account. There was no apparent technology related business activity noted within the Impact Global LLC bank account other than with the District.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Impact Global LLC, David Donadeo, Dominick Palazzo and Joseph Palazzo, jointly and severally, in the amount of \$268,913 in favor of the District.

Finding for Recovery - Bernie King

During the Period, the District issued 49 checks totaling \$391,959 to Bernie King, a Palazzo family friend. Based on a search of the Ohio Secretary of State website, there was no company in the name of Bernie King registered with the Ohio Secretary of State.

The documented purposes of such payments included computers, servers, technology support and other technology related items. The purchase requisitions for these transactions were initiated and approved by Joseph Palazzo, and the purchase orders were initialed by Joseph Palazzo indicating receipt of goods or services and approval of payments. However, there was no evidence to support that any goods or services purchased had been received by the District.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Bernie King and Joseph Palazzo, jointly and severally, in the amount of \$391,959 in favor of the District.

Finding for Recovery - MacWin-Protocol Technology Services, Inc.

From January 2008 through December 2010, the District issued 35 checks totaling \$260,167 to MacWin-Protocol Technology Services, Inc. Based on a search of the Ohio Secretary of State website, this company was registered with the Ohio Secretary of State on February 11, 2008, and the registering agent and incorporator was Dennis Boyles, a Palazzo family friend.

The documented purposes of such payments were for software and other technology related items. The purchase requisitions for these transactions were initiated and approved by Joseph Palazzo, and the purchase orders were initialed by Joseph Palazzo indicating receipt of goods or services and approval of payments. However, there was no evidence to support that any goods or services purchased had been received by the District.

Supplement to the Special Audit Report

Documents obtained through subpoenas, revealed the checks issued to this company were deposited into a bank account opened in February 2008 in the name of MacWin-Protocol Technology Services. Dennis Boyles was the authorized signatory for this account. Upon deposit of the District checks into the MacWin Protocol Technology Services, Inc. bank account, subsequent payments were issued payable to Joseph Palazzo from this account totaling \$118,621. Also, there was no apparent business related activity noted within the MacWin-Protocol Technology Services, Inc. bank account other than with the District.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against MacWin-Protocol Technology Services, Inc., Dennis Boyles and Joseph Palazzo, jointly and severally, in the amount of \$260,167 in favor of the District.

Finding for Recovery - Independent Cable

From March 2009 through December 2010, the District issued 20 checks totaling \$122,486 to Independent Cable. Based on a search of the Ohio Secretary of State website, this company was registered with the Ohio Secretary of State on May 22, 1996, and the registering agent was Michael James, a Palazzo family friend.

The documented purposes of such payments included television mounts, fiber cable and service hours. The purchase requisitions for these transactions were initiated and approved by Joseph Palazzo, and the purchase orders were initialed by Joseph Palazzo indicating receipt of goods or services and approval of payments. However, there was no evidence to support that any goods or services purchased had been received by the District.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Independent Cable, Michael James and Joseph Palazzo, jointly and severally, in the amount of \$122,486 in favor of the District.

Finding for Recovery - Customized Phone System

During the Period, the District issued 31 checks totaling \$111,934 to Customized Phone Systems. Based on a search of the Ohio Secretary of State website, this company was registered with the Ohio Secretary of State.

The documented purposes of such payments included building wiring and on two invoices for this vendor, we identified labor and installation costs for installing three flat panel televisions and equipment associated with the installation of the televisions. The purchase requisitions for these transactions were initiated and approved by Joseph Palazzo, and the purchase orders were initialed by Joseph Palazzo indicating receipt of goods or services and approval of payments. However, there was no evidence to support that the goods or services totaling \$10,643 had been received by the District. There was no documentation showing Joseph Palazzo reimbursed the District for this equipment.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Joseph Palazzo in the amount of \$10,643 in favor of the District.

Finding for Recovery – Netknowledge Inc. dba Thinsolutions

During the Period, the District issued 20 checks to Netknowledge Inc. dba Thinsolutions totaling \$271,407. Based on a search of the Ohio Secretary of State website, this company was registered with the Ohio Secretary of State.

Supplement to the Special Audit Report

The documented purposes of the payments included computer equipment and service hours. On March 30, 2010, the District issued a check to Netknowledge Inc. dba Thinsolutions totaling \$12,341; however, the District did not receive all of the goods or services for which they paid. Equipment valued at \$4,020 was installed in the home of Joseph Palazzo. The purchase requisition for this transaction was initiated and approved by Joseph Palazzo, and the purchase order was initialed by Joseph Palazzo indicating receipt of goods or services and approval of payments. There was no documentation showing Joseph Palazzo reimbursed the District for this equipment.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Joseph Palazzo in the amount of \$4,020 in favor of the District.

Finding for Recovery – Shirley Boyles / Joseph Palazzo

On May 28, 2010, the District issued a check in the amount of \$4,499 to Shirley Boyles, who at the time was a teacher assistant for the District and is the wife of Dennis Boyles of MacWin-Protocol Technology Services, Inc. Ms. Boyles then endorsed and deposited the check. The documentation submitted for payment to the treasurer's office alleged the purpose of such payment represented reimbursement to Ms. Boyles for a training received from an information technology company. This documentation included a requisition created by Joseph Palazzo, an invoice allegedly from the company approved for payment by Joseph Palazzo, and a credit card statement allegedly representing an account of Ms. Boyles showing payment of \$4,499 to the company.

However, through inquiry with the company and review of actual invoice documentation received from the company, the invoice submitted for payment was determined to be falsified as the actual invoice was issued to an individual unrelated to the District. Also, through an interview of Ms. Boyles, Ms. Boyles stated she never attended such training nor did she ever make any payment of \$4,499 to the company. She further advised that she did not have the credit card account as represented by the credit card statement submitted as supporting documentation to the treasurer's office.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Shirley Boyles and Joseph Palazzo, jointly and severally, in the amount of \$4,499 in favor of the District.

MANAGEMENT RECOMMENDATION

Vendor Policies and Procedures

During the Period, the District did not have a written policy establishing procedures for the addition of new vendors to its standing electronic information.

The lack of a written policy for establishing new vendors increases the likelihood of the District paying fictitious vendors with inappropriate relationships to District personnel.

We recommend the District create a written policy establishing procedures for the addition of new vendors. This policy should contain such points of focus as documentation required to request the addition of a new vendor and the designation of separate District personnel responsible for reviewing and approving the new vendor. We further recommend the treasurer periodically review the vendor listing to verify the accuracy and legitimacy of the vendors and information listed. Prior to adding a vendor to the approved vendor list, the treasurer's office should verify the legitimacy of the vendor through an internet search, a search of the Secretary of State website, contacting the vendor, or other reasonable means.

Supplement to the Special Audit Report

Objective No. 2 – Diverted Equipment

PROCEDURES

We obtained District vendor history reports and other relevant financial ledgers to identify payments made to legitimate companies for computers, cellular phones, and other IT related equipment.

We obtained voucher packages, invoices, and checks for payments made to determine whether goods and services indicated were received by the District or diverted to unauthorized individuals for purposes unrelated to District operations.

RESULTS

During the Period, of the 1,555 transactions examined, there were 179 instances totaling \$336,495 where the District issued payment to legitimate companies for goods or services diverted for purposes unrelated to District operations. The District's purchasing procedures allowed for the same individual to initiate equipment purchases, receive the items and approve the invoice for payment. Also, purchase requisitions, which represent the original record of approval for purchases, were not maintained in District voucher packages and were only maintained for a period of two years. Additionally, packing slips for equipment shipments were discarded and not maintained by the District.

Of the 179 transactions noted above, 30 instances totaling \$76,214 represented purchases in which the item description on the invoice submitted for payment was altered and differed from the invoice we obtained directly from the vendor. These items included purchases of televisions, GPS devices, cameras, digital picture frames, and other items which were modified and listed as smartboards and other District related items.

Also included in the 179 transactions, the District paid for the cellular phones, laptop equipment and related service plans for individuals not employed by the District, including friends and family of Joseph Palazzo.

FINDING FOR RECOVERY

Finding for Recovery - Diverted Equipment

During the Period, the District issued payments totaling \$336,495 to legitimate vendors for goods or services unrelated to District operations. Invoices directly signed by Joseph Palazzo signifying receipt of the items and approval of payments totaled \$325,100. Additionally, Thomas Burton, Director of Administrative Services, signed one invoice totaling \$499 signifying receipt of an Apple iPad and approval of payment. These purchased items were not located at the District. Certain individuals not employed with the District received equipment, cellular phones, accessories, and related service plans costing \$13,670 paid for by the District. These people were personal associates of Joseph Palazzo.

Of these payments, we identified 30 transactions in the amount of \$76,214 in which the item description on the invoice submitted to the treasurer's office for payment was altered and differed from the actual invoice obtained directly from the company.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Joseph Palazzo in the amount of \$336,495 and, jointly and severally, against Thomas Burton in the amount of \$499, Alysse Kuznik in the amount of \$3,346, Nathan Costello in the amount of \$2,792, Cristina Rinella in the amount of \$1,590, Cassandra Glowik Palazzo in the amount of \$2,028, Michelle Protiva in the amount of \$1,389, Joseph Pflug in the amount of \$1,154, and Peter Guerrera in the amount of \$1,371, in favor of the District.

Supplement to the Special Audit Report

On June 6, 2012, Thomas Burton issued a check to the District in the amount of \$499 in response to this Finding for Recovery. Mr. Burton indicated this payment did not represent an admission of guilt or any impropriety on his part, but instead represented his desire to make the District whole related to any missing equipment for which he was responsible when it went missing.

NONCOMPLIANCE CITATION

Records Retention

Ohio Revised Code 149.351(A) states, in pertinent part, that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Sections 149.38 to 149.42 of the Revised Code.

The District's established record retention policy indicates packing slips are to be maintained for one year after being provided to audit while requisitions are to be maintained for one year after fiscal year end. Vouchers, invoices, and purchase orders are to be maintained for a period of ten years.

During the Period, contrary to the established policy, the District did not retain packing slips for any equipment shipments received from vendors. The District also disposed of purchase requisitions after two years pursuant to established policy. Purchase requisitions represent the original record of approval for purchases and generate the creation of purchase orders within the treasurer's office. As a result, the District was unable to identify who originally approved generating purchases beyond the most current two years.

Failure to maintain complete voucher packets, including packing slips, increases the likelihood the District will pay an invoice more than once or will pay an amount that is incorrect or not for a proper public purpose. This also limits the ability of District management to ensure purchased equipment is actually received by the District.

We recommend the District maintain all records and supporting documentation until such records have been subject to auditing procedures and only dispose of records in accordance with a board approved record retention policy. We further recommend the District revise the current record retention policy to establish retention periods for requisitions and packing slips that coincide with the ten year period established for vouchers, invoices, and purchase orders.

MANAGEMENT RECOMMENDATIONS

Segregation of Duties

During the Period, former IT Director Joseph Palazzo was able to order goods and services, acknowledge receipt of such goods or services, and approve the invoices for District payment. Established procedures at the District allowed Mr. Palazzo to control all aspects of the purchasing process without compensating internal controls and without any or only limited oversight by the Superintendent's office upon approval of the purchase requisition. The lack of segregation of duties for purchasing at the District allowed Mr. Palazzo exclusive control over transactions and resulted in the loss of District assets and the issuance of the findings for recovery contained in this Special Audit Report.

We recommend an adequate segregation of duties be established to prevent one employee from being able to initiate purchases, acknowledge receipt of goods or services, and approve payments to vendors. District procedures over purchasing should be reviewed in each department to ensure any one employee is unable to control all aspects of purchasing.

Supplement to the Special Audit Report

Inventory Policy and Oversight

The District did not have a written policy regarding asset management or controls over non-capitalized inventory. Failure to establish a policy with specific procedures to safeguard assets limits the ability of management to ensure District assets are appropriately accounted for and increases the likelihood of inventory being removed for purposes unrelated to District operations.

Additionally, the District had no written policy regarding the personal use of its assets. We identified several instances in which District assets were taken by employees to their personal residences, including laptops with wireless services billed to the District. Multiple District cellular telephones were used for personal calls resulting in overage charges billed to the District that were not reimbursed by the employees.

We recommend that the District develop a written asset policy to include the following:

- Designation of an individual or individuals to be responsible for the preparation and recording of the District's inventory;
- Tagging of inventory identifying it as property of the District with its own numerical identifier;
- Performance of a physical inventory of all assets at least annually by an individual independent of preparing the inventory list;
- Preparation of an asset listing to include, but not be limited to, the following: location, tag number, description, and date of acquisition;
- Implementation of procedures to record inventory additions and deletions as items are acquired or disposed of, preferably through the use of asset addition and deletion forms. When these forms are completed, the information should then be added to or deleted from the District's inventory listing, as appropriate;
- Language which prohibits the personal use of District assets to ensure those assets are only used for business related purposes. If the District chooses to permit employees to use its assets for personal reasons, the policy should address how employees will reimburse the District for expenses incurred.

We further recommend the Board review and periodically update the inventory policies as needed.

Cellular Phone Policy and Usage Oversight

The District did not maintain a listing of cellular phones and personal digital assistants (PDAs) provided to its employees. In addition, the District did not track the reassignment of these items when an employee discontinued employment with the District.

Failure to maintain and periodically update an inventory of these items increases the likelihood of a loss or misappropriation of District assets without management's detection.

We recommend the District inventory all of its cellular phones and PDAs, update the inventory on a periodic basis and verify all items have been returned to the District when an employee leaves employment.

Additionally, we recommend the District establish a policy addressing usage of cellular telephones for personal calls and requiring reimbursement for personal use. Monthly telephone bills should be reviewed by each employee to verify calls made were for District purposes. These reviews should occur each time the telephone bills arrive and any personal use should be reimbursed to the District for the costs incurred.

Supplement to the Special Audit Report

Objective No. 3 - Disposal of District Equipment

PROCEDURES

We attempted to obtain District records pertaining to the disposition of used laptops and other District equipment allegedly shipped to an IT equipment disposal company.

We inquired with District personnel and reviewed District ledgers to determine whether the District received a payment for the shipment of the equipment.

RESULTS

The District was unable to provide a listing of the disposed equipment. We interviewed District personnel, including former Treasurer Mike Rock and Network Technician David Wallis. The only record of the disposed equipment was a vendor prepared spreadsheet provided with payment from Ideal Technologies LLC, a company located in Dallas, Texas. The District was unable to verify completeness of the shipment due to the District's lack of documentation pertaining to the disposed equipment.

MANAGEMENT RECOMMENDATION

Disposal of District Assets

During the Period, the District disposed of technology related assets by shipping the items to a company in Texas that buys used computers and computer equipment. The District did not maintain a listing of the specific assets that were included in the equipment disposal. Although the vendor provided a spreadsheet of the items received from the District with payment, the District was unable to verify the items included in the payment agreed to items designated for disposal and shipped.

Without the appropriate documentation regarding the disposal of assets, the District cannot verify that adequate compensation was received or that all items included in the disposal were shipped as intended and not unknowingly diverted.

We recommend the District maintain documentation of disposed equipment to verify adequate compensation is received and all items designated for disposal were shipped as intended.



Dave Yost • Auditor of State

CUYAHOGA HEIGHTS LOCAL SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 16, 2012**