

DEPARTMENT OF FINANCE AND SUPPORT SERVICES

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STEVEN A. ACHRAMOVITCH
SUPERINTENDENT OF SCHOOLS

MEMORANDUM

August 12, 2008

TO: Board of Education

FROM: Steven A. Achramovitch
(Prepared by Louis J. Alaimo, School Business Administrator)

RE: Appointment of Forensic Auditor

Attached for your reference is the engagement letter drafted by James Marasco, Partner, Forensic and Litigation Services of Eldredge, Fox & Porretti, LLP (EFP Group). This letter outlines the proposed scope of services to be performed as part of a forensic audit. With this, we recommend the Board act to approve the EFP Group to conduct a forensic audit in response to the Report of Examination issued by the Office of State Comptroller:

RESOLVED: That the Board of Education of the Greece Central School District hereby appoints the certified public accounting firm of Eldredge, Fox & Porretti, LLP (EFP Group) to conduct a forensic audit to review findings documented in the Report of Examination issued by the Office of State Comptroller. The Board hereby authorizes the Superintendent of Schools to enter into a professional service contract with the EFP Group at a cost not to exceed \$35,000.

Attachment



May 27, 2008

Mr. Steve Achramovitch, Superintendent
Greece Central School District
P.O. Box 300
N. Greece, NY 14515-0300

RE: Greece Central School District Forensic Audit

Dear Mr. Achramovitch:

We are pleased to have the opportunity to provide forensic audit services for the Greece Central School District. Included is a description of our firm's service philosophy, background and plan for servicing this engagement.

This letter will describe the terms under which our firm will provide services to you and our fee arrangements.

FIRM QUALIFICATIONS

EFP is a 25-year old Rochester based CPA firm with approximately eighty-five (85) professionals, including thirteen (13) partners. EFP currently has three offices in the region; Rochester, Canandaigua and Elmira. The *Rochester Business Journal* has identified our firm as one of the largest CPA firms in the Rochester area.

EFP specializes in providing all aspects of forensic accounting, fraud auditing and investigative services to various types of businesses, governmental entities and non-profit organizations. We have worked on numerous high-profile cases involving bankruptcy fraud, embezzlements, securities fraud, shareholder disputes, etc. Our work product has been used in civil and criminal matters.

Our professional certifications require us to maintain a high standard of ethics and confidentiality in servicing our clients and our professional reputation is known both locally and nationally. We also have a working relationship with the Federal Bureau of Investigation, Internal Revenue Service Criminal Investigative Division, local District Attorney's offices, as well as other investigators and resources developed through past collaborations.

Specific to School Districts, our firm has and continues to provide accounting, auditing and internal audit services to nearly a dozen school districts in Western, New York. We are familiar with Capital Project's and Expense Reimbursement policies within districts and the State Education Department's recommended procedures governing these activities. Within our Litigation and Forensic Support Group, we have recently provided similar forensic services to clients.

ELDREDGE, FOX & PORRETTI, LLP
CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

BUSINESS VALUATION, FORENSIC AND LITIGATION SERVICES GROUP

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OTHER OFFICES: | CANANDAIGUA | CORNING | ELMIRA

INDIVIDUAL QUALIFICATIONS

We have identified that the following individuals from our Forensic and Litigation Support Group are available to work on this engagement. A brief introduction is listed below and more detailed curriculum vitae can be provided.

James I. Marasco, CPA, CIA, CFE, Partner, Forensic & Litigation Services - Jim brings over eighteen years of public accounting and auditing experience with him. He has practiced as a full-time forensic accountant since 1996 and travels extensively throughout the country. He has assisted in the design and implementation of audit and compliance programs for numerous organizations. He has personally conducted and supervised more than four hundred separate litigation and recovery audits, identifying various systems problems and millions of dollars owed to the affected organizations. In addition to being a Certified Public Accountant and Certified Fraud Examiner, Jim is also a Certified Internal Auditor. Affiliations include the American Institute of CPAs, NYS Society of CPAs, Institute of Internal Auditors, Association of Certified Fraud Examiners and the Turnaround Management Association. Jim is also a court-recognized expert witness; lecturer on varying subjects of fraud and forensic auditing; and has published 18 articles in the past three years covering these topics.

Kevin L. Beach, CPA, CIA, CFE (Manager) Kevin has over eight years of public accounting and auditing experience. He is a full-time forensic and compliance auditor and travels regularly throughout the country conducting audits. He has assisted in the design and implementation of audit and compliance programs for various organizations such as franchisors, manufacturers and group purchasing organizations. He is also a SAS-70 auditor specialist and is also is a Certified Fraud Examiner and Certified Internal Auditor.

PROPOSED SERVICES

As a result of our conversations and meetings with you, we propose to provide the following consulting services to the Greece Central School District:

- ◆ **A forensic review of transactions related to certain agreements, procedures and practices of the Greece Central School District.** It is our understanding that the Greece Central School District is interested in retaining EFP to perform a forensic review of several specific areas of significant financial exposure to the District. The items we intend to review will include, but not be limited to:

- **Capital Improvement Project (CIP) 2001 - 2007**

EFP is not proposing to determine whether or not problems with the CIP exist. The issues at hand are well-documented in the report issued by the State Comptroller's Office, and we are aware that certain controls were bypassed by GCSD personnel involved with the CIP. Rather, we intend to determine whether or not there existed a willful intent to frustrate or circumvent the controls and procedures in place designed to reasonably ensure that the project funds were spent correctly and in the taxpayers' best interests.

Without going into specific detail, the following is a summary of procedures to be performed. It is our intent to examine activity with key vendors and contractors, starting with a review of any initial bids or proposals for services accepted by GCSD to the associated invoices and disbursements. We will examine instances of procedural noncompliance and attempt to identify patterns among vendors or District employees. Additionally, we will follow up on the work performed by the Comptroller's Office with respect to the change orders submitted and attempt to determine why District procedures were circumvented.

Additionally, EFP will look into the backgrounds of selected GCSD personnel and vendors utilized for the CIP to determine if there existed a relationship outside the scope of the project. This will involve researching specific records for information on the vendors and their businesses and an examination of specific GCSD personnel files to glean additional information. We also anticipate interviewing key personnel involved in this project or those with information beneficial to this engagement. We will report and substantiate our findings, as we recognize the potential for use in litigation.

o **Expense Reimbursements and Fringe Benefits**

EFP will review employee expense report reimbursements for selected District personnel and determine whether or not there exists adequate documentation to support reimbursement. Of particular interest will be travel and entertainment expenses. We will review the supporting documentation to ensure that the expenses being claimed had a legitimate purpose relevant to the Greece Central School District.

With respect to employee fringe benefits, EFP will follow-up on the findings of the Comptroller's audit of the District. EFP will attempt to determine how compensation related to vacation payouts and other benefits were paid without board authorization. EFP will attempt to determine if there was a pattern with contracts identified as having "vague contract language" with respect to vacation proration. Additionally, EFP will follow up on the intent of specifically identified benefits afforded certain District employees, including the forgiveness of tuition reimbursements and the existence of an employee "lunch fund".

o **Cabinet Member Compensation**

EFP will expand on the District's testing of Employment-Related Agreements, to assess whether or not supplemental compensatory agreements were properly approved by the Board. Again, EFP will attempt to determine if there existed a pattern between any agreements that were not, or have not been, properly authorized.

o **Hiring Practices**

It is our understanding that, with respect to reviewing District hiring practices, the District is concerned with the potential for nepotism to have impacted the hiring of new employees. EFP will review the facts and circumstances surrounding the hiring of certain District employees, to determine whether or not these appointments were legitimate.

o **Other Areas**

As we conduct our engagement, there exists the possibility of uncovering situations or relationships that may warrant further investigation. EFP will immediately notify the Board of any information that should warrant expansion of the identified items to be reviewed. Prior to our continued investigation, EFP will attempt to provide the Board with an estimate of the time required to investigate. We will not proceed on any expanded review or testing without the explicit approval of the Board.

FEES AND HOURLY RATES

Based on the information provided to us and our own review of the State Comptroller's report, charges for our services are based upon the amount of time estimated to be expended at a discounted hourly billing rate of \$100 per hour. We anticipate our time for this engagement to range between 300 - 350 hours (See table below). Estimated fees for this engagement will approximate \$30,000 - \$35,000. As noted, if results warrant expanded testing or investigation beyond the estimated range, we will only proceed with your prior approval.

| Project | Estimated Hours |
|----------------------------------|------------------------|
| Capital Improvement Project | 200 - 250 |
| Expense Reimbursement and Travel | 60 |
| Cabinet Member Compensation | 30 |
| Hiring Practices | 10 |

INDEPENDENCE OR CONFLICTS OF INTEREST

Based upon our preliminary review of the information provided to us, we are not aware of any matters which would result in circumstances that would result in us not being independent.

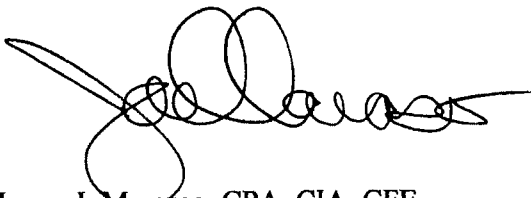
TIMING

Upon your acceptance, we are available to commence work on this matter within the next three weeks. As discussed, we will issue our final report in August. You will find our work product and the reports we produce will be accurate, thorough and delivered timely.

We trust this proposal covers the issues that are relevant to your needs. If you have any questions, please call us. Thank you for the confidence you have expressed in our firm, and we look forward to working with you toward a successful conclusion of this matter.

Sincerely,

ELDREDGE, FOX & PORRETTI, LLP

A handwritten signature in black ink, appearing to read 'James I. Marasco', with a long horizontal flourish extending to the right.

James I. Marasco, CPA, CIA, CFE

ACCEPTANCE

Name, Title

Date

JIM/klb