

Bill Mudge
710 Old Baptist Road
N. Kingstown, RI
02852

16 September, 2006

North Kingstown Town Council

Attn: Town Council President Anthony Miccolis

The below outline “ **A willful, unethical cycle to misappropriate School Funds**” is provided with regard to past and current improprieties that have taken place and continue to be practiced by the North Kingstown School Department concerning Fiscal Year 03, 04, 05 and 06 procurement actions which I believe to be illegal. These practices were brought to your attention over two years ago and despite again being made aware last year of the continued unethical transitions by the School Department, you failed to exercise your fiduciary responsibility to have either B&E Consulting or Prescott-Chatellier-Fontaine-Wilkinson investigate my allocations.

I believe that the award, in excess of \$1.5 M dollars, of Purchase Orders(P/O's) were issued during this same period of time in violation of School Committee procurement policies, the NK Town Charter and Rhode Island General law. Also, the receipt and expenditure of over \$4 M dollars of Medicaid revenue from 1996 to 2004 went unrecorded in North Kingstown's Annual Financial Report. Between 2002 and 2004 over \$2.2M alone went unreported in the Town's Annual Financial Report, thereby understating the expenditures of the North Kingstown School Department. Accordingly, to restore confidence in the operations of our local government, its employees and elected officials, I find it imperative that an outside auditor be engaged to view and assess the questionable accuracy of Town's Financial Statements dating back to Fiscal Year 1999.

Furthermore, I believe that more than \$500,000 of FY06 monies was spent for material and services required for the operation of the School Department in FY07 (not FY06 year). Specifically, the NKSD prepared and issued over \$500,000 of FY06 Purchase Orders after the end of the fiscal year (June 30, 2006) and covertly and unethically back dated the P/O's with a FY06 order date. This practice has been going on for many years, and has been condoned by certain Town Officials, including the former Town Manager (R. Kerbel), current interim Town Manager and former Financial Manager (C.Olobri), Superintendent of Schools, (Dr James Halley), and the School Departments Director of Administrative Services (M. Buck). Please be apprised, that on August 28, 2006, I call and reported to Acting Town Manger, Mrs. Olobri that the School Department's was again backdating P/O's(FY06) and she stated, among other things, that I should take my complaint to the School Committee. She refused to take any action to investigate or follow up on my complaint that school officials were falsifying town documents.

In addition, upon past advice, I am appalled that certain past and current Town Council and School Committee members have knowingly allowed this practice to occur and have taken little or no action to stop these illegal practices during the past several years. Even the belated slow roll formulation of a first ever town audit committee, has only recently speeded up due to a written warning from the Auditor General concerning a potential exposure to “past and future” fraudulent actions and of course, good old election time politics.

A consequence and an example of the unethical spending of FY 06 surplus school funds results in the abrogation of S/C authority and precludes the committees option of using a portion of these funds to mitigate the unsafe transportation plan, including unsafe walking routes and bus stops, which has also adversely impacted our school start and dismissal times, and the health and safety of the children of our community.

Finally, the Council under your leadership has lost the trust of our community to oversee and investigate these matters with integrity and dispatch. Accordingly, I demand that an independent audit committee be **immediately** appointed with subpoena powers and the authority to retain independent legal counsel as necessary to investigate the operations of any and all Town and School Department affairs. It is time to stop your slow roll tactics to cover-up the many years of poor, inept, vindictive, and unprofessional and the unethical management of our local government, only to retain political control of the government of North Kingstown.

The following documents are provided as noted:

- Auditors FY04 Statement On Auditing Standards # 61 & 89 - See below
- List of Purchase Orders Related to Audit Adjustments of \$77,471- See attachments
- Mudge ltr to Editor dated 2 August, 2005 - See below
- Mudge Viewpoint dated 2 Nov 2005 - See attachments
- Mudge/Miccolis E-mail of 24 July 2005 - See below
- Mudge/Olobri E-mail of 27 Sept 2004 – FY04 P/O's paid with FY05 funds – see below
- Mudge/Town Council E-mail August 20, 2006 (Financial Statements –Medicaid)- see below

“A willful, unethical cycle to misappropriate School Funds”

1) On November 22, 2004 the North Kingstown's Auditor PRESCOTT •CRATELLIER FONTAINE • WJLKINSON identified and cited 57 Purchase Orders (**Totaling \$77,471.20**) that were improperly funded with FY05 funds. As such, they directed that the transactions be recorded as a FY04 encumbrance because the orders had been placed/issued as a FY04 school budgetary expense. Substituting FY05 funding to pay for FY04 purchase order obligations was done willfully, deceitfully and unethically by the School Department. This practice continues today, despite my effort to bring it to a halt.

2) Dr. Halley did not ask or inform the School Committee of his intention to expend FY05 funds to pay for these FY04 obligations, a blatant violation of his fiduciary responsibilities.

3) The School Department willfully violated School Department Policy, the Town Charter and RIGL by attempting to use FY05 School Funds to pay for FY04 procurement contracts. Similarly, these practices have been on going for many years.

4) The Town's Auditor did not inform the School Committee that a pattern of illegal transactions had occurred and failed to recommend that measures should be put in place to insure and prevent this improper action from occurring again, this despite my forewarning of this practice (see attached Mudge/ Olobri E-mail)

5) The Town's Auditor did not inform the School Committee that, of the cited **57** Purchase Orders at least **46 (Totaling \$42,923.64)** were recorded as being cancelled on the last day of FY04 (**June 30, 2004**). Therefore, regardless of year funding, the subsequent payment for the material and services received was done without a valid P/O or contract, in violation of School Department Policy, the Town Charter and RIGL.

6) In addition, it was not revealed in the Town Audit or by Dr. Halley that the vendor's/bidders who had been awarded the 46 cancelled Purchase Orders in question, **HAD NOT BEEN NOTIFIED** that the contracts had been cancelled, which may well indicated that North Kingstown's contract process is at best, out of control, incompetently management or at worst, is riddle with fraudulent actions by the NKSD.

7) Also not recorded or revealed was that at least 41 other FY04 Purchase Orders, **valued at approx. \$162K**, may have been cancelled on 6/30/2004, yet the material/services were subsequently received and paid for with FY05 School Funds, absent a valid Purchase Order and in violation of S/C Policy, the Town Charter and RIGL.

8) Not identified was the violation of S/C Policy, the Town Charter and RIGL to award sole source contracts and purchase orders exceeding \$5,000 without School Committee approval.

9) On October 24, 2005 the NK Town Council discussed the issue of conducting an audit of the School Department. During this meeting I identified that the \$77,471 re-designated by **PRESOTT • CRATELLIER FONTAINE • WJLKINSON** as an audit adjustment, and encumbered as a FY04 expense, needed further investigation because the use the FY05 funds was a willful attempt to misappropriated and divert FY05 School Department money to fund FY04 obligations. In addition it was identified that **PRESOTT • CRATELLIER FONTAINE • WJLKINSON** failed to uncover that another \$161,000 of FY05 funds may have been expended for FY04 obligations.

During this same meeting I identified and provided the council with a copies of FY05 school department purchase orders totaling \$365,000 that were issued on the final day of FY05. Again, the P/O's were prepared after the end of the fiscal year and unethically back dated with a FY05 order date to spend surplus FY05 funds for FY06 School department obligations.

Why is this cycle of deceit so import to understand? Assuming I am correct over \$565,000 (\$365K and \$204K) of potential FY05 surplus funding was misappropriated by the administraion. In addition, the FY04 Audit Report recorded an undesignated fund balance of \$682,000. This very same year, FY05, Dr Halley and a School Committee who has turned their backs on the parents, children and taxpayer's of our community, closed Wickford Elementary School for a lack of funding which today has resulted in overcrowded schools, significant school start time and dismissal problems, safety issues and increased transportation cost exceeding \$200,000.

10) Separately in Fiscal Year 2003 approximately \$300,000 was used to pay for various procurements that were authorized by the School Committee to be paid as FY04 expenditures. This very same year, FY03, the "Kindergarten" at Fishing Cove was closed for financial reasons.

11) As noted above, the cycle continues, the NK School Department has unethically and illegally spent over \$500,000 of FY 06 surplus funds for FY07 School Year obligations. Again shame on those officials, School Committee and Town Council alike, who knowingly have allowed these unethical practices to go unchallenged for the past 10 years and as such, turned their back of our community.

Respectfully,

Bill Mudge

Member, North Kingstown School



PRESCOTT • CRATELLIER
FONTAINE • WJLKINSON • LLP
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BUSINESS & FINANCIAL ADVISORS

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**COMMUNICATION OF MATTERS PRESCRIBED
BY STATEMENT ON AUDITING STANDARDS #61 & 89**

To the Members of the Honorable Town Council Town of North Kingstown

We have audited the financial statements of the Town of North Kingstown for the year ended June 30, 2004, and have issued our report thereon dated November 22, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 31, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute,

assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with US. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Town of North Kingstown's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered 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 and to test and report on internal control over compliance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Town of North Kingstown's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Town of North Kingstown's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Town of North Kingstown's compliance with those requirements. *While* our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the *Town* of North Kingstown's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. in accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Town of North Kingstown are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during June 30, 2004. We noted no transactions entered into by the Town of North Kingstown during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We noted no significant accounting estimates affecting the financial statements.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Town of North Kingstown's financial reporting process (that is, cause future financial statements to be materially misstated). The following audit adjustment in our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Town of North Kingstown indicate matters that could have a significant effect on the North Kingstown Town's financial reporting process.

To record additional encumbrances to school budgetary expenses.....\$77,471

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town of North Kingstown's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Town Council, and management of the Town of North Kingstown, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



PRESCOTT CHATELLIER FONTAINE WILKINSON LLP

November 22, 2004

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2 August, 2005

Bill Mudge
710 Old Baptist Road
N. Kingstown, RI
02852

To the Editor:

During last night's (Aug 1) Town Council work session it was very apparent that the Council was struggling to determine what type of an audit should be performed on the North Kingstown School Budget. The topic has been discussed on different occasion during the past couple of months and last night, further discussion center on what type of audit action should be taken; conduct a compliance audit, a performance audit and/or a forensic audit or some other assessment.

It appears that the Council now wants to review and consider the merits of conducting a Caruolo type audit (performance) similar to that undertaken for the City of Cranston. This action implies that it will be several months before the Council takes any meaning full action to review the school department's books. It should also be mentioned that Mr. Kerbel did not advise the Council that the resolution of the funding issues concerning the Cranston School budget were not reconciled with the results of the Caruolo audit, but rather by an independent audit assessment directed by the Court and performed by Bacon & Edge.

We need immediate action to assess our budgeting and accounting practices. In order, to assist the Council in their efforts to determine a timely course of action, I respectively submit the following;

- 1) Have a forensic auditor determine why a FY04 audit adjustment of \$77,471 was made regarding School Budget.
 - a. Determine who in the school department authorized the expenditure of FY05 funds for FY04 purchase orders, when if fact the school department recorded a FY04 surplus of about \$682,000. Determine if these transactions were in compliance with the Town Charter, State and Federal Law and accepted accounting practices.
 - b. Determine why the majority of the purchase orders were cancelled, yet the materials were magically received.
 - c. Determine if the vendors were given notice of the cancellations and/or if this was just a paper cancellation only and the material were received without a valid purchase order

d. Determine what advice and measures, if any, did the town auditor recommended to insure that these unauthorized transfer of funds would not occur again.

2) Have a forensic auditor determine why the FY04 audit did not revealed another 41 FY04 purchase orders valued at about \$161,000 that were actually paid for with FY05 funds.

a. Para 1a and 1b comments apply

3) Determine if the town's procurement and expenditure policies were violated regarding the above and if there were additional FY04 purchase orders cancelled, but not discovered.

4) Determine the amount and validate the reason for issuing FY05 purchase orders during the last three weeks of the fiscal year.

Sincerely,

Bill Mudge

Member, NK School Committee

----- Original Message -----

From: [Cindy Olobri](#)

To: [bill mudge](#)

Sent: Tuesday, September 28, 2004 12:58 PM

Subject: RE: School Department Audit

Mr. Mudge,

I have forwarded this request to Mr. James Wilkinson, Partner in Charge, Prescott Chatellier Fontaine Wilkinson LLP. I have asked that he and his staff review this matter as part of the June 30, 2004 audit process currently underway.

[Cindy Olobri](#)

-----Original Message-----

From: bill mudge [mailto:bmudge2@cox.net]

Sent: Monday, September 27, 2004 6:57 PM

To: Cindy Olobri

Cc: Zaccaria, M; Anthony F. Miccolis; Dale Grogan; John A. Patterson; Elizabeth S. Dolan; Watkins, Patricia; Mulvey, Kevin; Martasian, Barry; DeFedele, Don; Coppa, Denise; Carol Hueston

Subject: School Department Audit

Mrs. Olobri

I've just completed another review of the FY02 and FY03 Audit, because I recently received a report from Mrs. Buck that showed that this year, FY04, we will show an encumbrance of only about \$34K. This figure was about \$1.9M for FY02 and FY03.

I'm concerned about this very drastic change and I would like for the Auditor to be able to address this question when we meet with him to discuss the completed FY04 audit.

Obviously, only a few things could attribute to this difference. One, all material and services were expeditiously provided by the end of June 30, 2004 and the books were closed with a minor \$34K encumbrance; second, contracts commitments had to be deleted because the requirement went away, three, some reason there was over and it had to be balance with available budgeted revenue or four, a combination of the three.

Because Dr Halley has refused to provide me with a list of issued purchase orders/contracts for May and June of 2003 and 2004 for review, I suspect that second aforementioned item most likely occurred. **If this is true, I think we need to ask the auditor two questions, what was cancelled and why; and/or were the FY04 requisitions reissued as FY05 requisitions to provide the services/items with FY05 funds?** While this may in fact be technically ok, what it suggests is, that if it did occur, then last minute transactions (contract cancellations) were made with an attempt to avoid an over expenditure of the FY04 Budget.

The sudden \$2M dollar encumbrance decrease needs to be examined carefully and explained with impeccable clarity, including compliance with our local procurement regulations and GAAP.

Please address these issues with the auditor in anticipation of our school committee meeting with him, I do not want to blind side him, with my questions.

Additionally, because School Committee Chairman, Mr. Defedele has given me the ok to discuss my budget concerns with the auditor, I would be most willing to meet with you and him with regard to my questions.

Thank You

Bill Mudge

----- Original Message -----

From: [bmudge](#)

To: [CAMARRA, Muriel](#) ; [Benson, Melvoid](#) ; [Coppa, D](#) ; [DeFedele, Don](#) ; [Janice Defrances](#) ; [Cockerill, Renee](#) ; [Martasian, Barry](#) ; [Bill Mudge](#) ; [TC President Miccolis](#) ; [Patterson John](#) ; [Cooney, Ed](#) ; [Henseler, Sue](#) ; [Zaccaria.M](#)

Cc: [Chris P](#) ; [Machado Chris](#) ; [Davis Paul](#) ; [Bryan Lucier](#)

Sent: Sunday, August 20, 2006 2:24 PM

Subject: Town Financial Statements

Council Members

I would like to inform the Council that your auditor, Cayer Prescott Clune & Chatellier, failed to accurately reflect the revenues and expenditures of the North Kingstown School Department in their annual financial audit/statments from 1996 to 2004.

Specifically, School Department expenditures from 1996 to 2004 totaling \$4,140,224 were not disclosed in the annual town financial report prepared Cayer Prescott Clune & Chatellier. It is my believe, although not an accountant, that all expenditures of the school department must be properly recorded in our financial statements.

1996 \$240,031
1997 \$285,455

1998	\$315,775
1999	\$249,323
2000	\$341,435
2001	\$479,108
2002	\$678,483
2003	\$774,427
2004	\$776,187
Total	\$4,140,224

I highly recommend that this matter be brought to the attention of the appropriate federal regulatory agency which has oversight regarding such matters. In addition, to my knowledge, the NK Town Council and/or School Committee did not approve or authorize the expenditures of these funds by school department officials and, as such an accountability of these funds is necessary.

Please note this is not the first time that these audit irregularities have been brought to the attention of our public officials. Further, I believe that a portion of these funds may have been illegally transfer from the custody of the School Committee, a violation of RIGL and any such transfers be return to a school committee "controlled" account.

Thank You,

Bill Mudge

CC School Committee

Dr. Camarra
P. Davis
C. Machado
B. Lucier

----- Original Message -----

From: [bill mudge](#)

To: [Anthony Miccolis](#)

Sent: Sunday, July 24, 2005 1:42 PM

Subject: Emailing: Copy of FY04 PURCHASE ORDERS 77,000 1 (version 1)

Anthony:

Copy of FY04 PURCHASE ORDERS 77,000 1 (version 1) attachment

Please read the Mudge Findings at the end of the spread sheet. Just hit the print button and a readable copy will be made.

We need an audit - badly. I may take this to court as evidence that the school committee has know idea about the School Budget - which they don't.

Lets get together so I can explain all, I would like to work this out and come up with a game plan, behind the scenes with the council, but I'll go it alone if I am forced to.

I will also contact Mrs. Henseler to give her an overview.

billm