

INTERNAL AUDITING

Memorandum



"Making a Positive Difference"

TO: Escambia County School Board
Superintendent Jim Paul

FROM: Samuel S. Scallan, Director
Internal Auditing

DATE: April 3, 2003

SUBJECT: Invoice Analysis - Aon Consulting, Inc.

APPROVED
School Board of Escambia County

APR 17 2003

JIM PAUL

Superintendent of Schools
Information provided in analysis to be
turned over to law enforcement.

As directed by the Board during a meeting held on February 26, 2002, we have performed a detailed analysis of invoices submitted for payment by Aon Consulting, Inc. This analysis covers the period of July 1, 2000 through the current period and serves as a follow up to a similar analysis of current year invoices requested by Cary Stidham earlier this year. The purpose of our analysis was to determine whether Aon Consulting, Inc. was complying with the terms and conditions of their contract and to identify whether the district may have been over billed for services and/or expenses. Our analysis was conducted in accordance with Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.

We obtained copies of invoices submitted to the Finance Department for the two and one half year period covered by our analysis. As we noted in the first analysis, these invoices consisted of two lines of information; one line showing the total amount due for "labor" and the other for "expenses." We requested detailed records directly from Aon Consulting, Inc. relating to these invoices.

Findings

General Contract Provisions

Contract language is quite clear regarding what constitutes adequate information on invoices:

"Invoices. Itemized invoices must be submitted quarterly minimum, and within 60 days after each annual anniversary date of the prior year. Invoices must detail the type of activity, by whom, and the project name. Travel expense shall be itemized and receive prior travel authorization."

Invoices provided to the district for the three-year period we examined were not in sufficient detail to verify compliance with the terms and conditions of the consulting contract. Neither the contract administrator nor Finance Department staff had performed an adequate reconciliation of billings to the terms and conditions of the contract (nonfeasance). In addition, invoices submitted in September 2002 contained billing for expenses that went back two fiscal years.

Travel and Related Expenses

Hotel and airline expenses were reasonable and documented. Car rental was well documented but on at least two occasions, the district was billed for several days of car rental where it appeared that the consultant stayed longer for personal reasons (\$190 over billed.) Many refueling charges were excessive in that the consultant normally did not refuel the car prior to returning it (approximately \$300 over billed.) Mileage reimbursements for trips to and from the airport were billed at the federal reimbursement rate vs. the rate provided by Florida Statute (\$55.00 over billed.)

Regarding meal expenses, Aon is not billing for reimbursement in accordance with Florida Statutes. Meal reimbursements were based on actual amounts rather than the state allowance. In addition, other expenses reimbursed to the firm included meal expenses for district employees and their guests. Expense reimbursements billed to the district ranged from business lunches to dinners and included a retirement gift for the former Director of Risk Management and cigars for the current Director and a former Finance Department staff member. Based on receipts and expense records provided to us by Aon Consulting, Inc, it appears that the current Director of Risk Management and his guest were furnished meals (a minimum of \$1,775.00) while in town and on three different occasions (two of which were personal) while in Atlanta. Several receipts reviewed included not only the cost of meals for the consultant but his spouse as well. An invoice dated March 21, 2001 contained a meal charge for a meal for \$722.00 on February 22, 2000 with no receipt or indication of purpose or attendees. In addition, total amounts billed for meals with insufficient documentation of purpose or attendees totaled \$1,935.00.

For the period examined, we calculated the travel (meal allowance) expense that would have been authorized according to current rates of reimbursement contained in Florida Statutes. Meal expense for the consultant's spouse, the Director of Risk Management, his guest and other district employees were subtracted from the amounts billed. Based on our analysis, Aon Consulting, Inc over billed the district \$5,057.00 for these meals.

In discussing this issue with the current consultant, Mr. Mike Jones, he explained that these billing practices are not authorized under company policy but were, instead, the responsibility of a former consultant no longer with the firm.

Labor Billings

Due to the limitations in the firm's timekeeping and billing system (the inability to adjust rates per hour to contract amounts), Aon Consulting, Inc. developed a mechanism to charge a portion of hours worked on the district's account to an overhead account thereby reducing the effective rate for hours billed directly to us. However, without records from an independent source, we are unable to confirm that hours and rates billed were in accordance with the terms of the contract. In addition, questionable billing practices mentioned previously and the lack of detailed descriptions of projects billed place additional uncertainty over billings for labor costs.

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Summary

We wish to acknowledge the full and complete cooperation of Aon Consulting, Inc in providing copies of all information requested. In reviewing Aon Consulting's business conduct guidelines, there is clear language establishing an ethical corporate climate. We have also reviewed the corporate expense policy on travel, gift and meal expenses and believe that the charges incurred and billed back to the district were the result of inappropriate actions of a former employee of the company and not the policy of Aon Consulting. However, Aon Consulting, Inc should address these over billings and the ethical considerations they raise.

Ethical considerations related to the expenses discussed in the preceding paragraphs have a direct bearing on the district as well. Florida Statute 212.313 addresses standards of conduct for public officers and employees and specifically address accepting anything of value including gifts, etc. A casual reading of the statute would guide a normal person to a clear understanding regarding the acceptance of gifts. School Board Policy 6Gx17-3.08(1) also prohibits district employees from receiving gifts or anything of value from vendors.

The total amount over billed is contained in the attached exhibit.

Recommendations

As mentioned in our previous report, the issues addressed on the preceding page are similar to those identified in 1994 when this office was asked to conduct a similar analysis of invoices for the former consulting firm to the Risk Management Department at that time. Now as before, we recommend that firms be required to provide adequately detailed and auditable invoices that are sufficient to determine whether such billings are in accordance with contract requirements. The district should also clearly define whether the contract administrator or the Accounting Department is responsible for auditing invoices against the contract prior to authorizing payment, if not both. Such direction should be included in operating manuals for the respective departments.

The district should seek reimbursement from Aon Consulting, Inc. for the amounts identified above. The Superintendent may wish to consider whether any ethical violations have occurred by district staff in the acceptance of meals identified above.

Finally, we recommend that the Board take this opportunity to emphasize the need for a district policy on professional ethics.

Please see responses from Aon Consulting Inc. and district management, attached.

SSS/sfr

Attachments

c: Joe Bernard
Barbara Linker

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Superintendent of Schools

**School District of Escambia County
Internal Auditing Department
Detailed Analysis of Aon Consulting Invoices
For the Period July 1, 2001 through December 31, 2002**

Total Amounts Over Billed to the District

| | |
|---|------------------------|
| Retirement gift to the former Director of Risk Management | \$ 100 |
| Excessive mileage using Federal vs. Florida reimbursement rates | \$ 55 |
| Personal use of car rental by the consultant | \$ 188 |
| Excessive car rental refueling charges | \$ 308 |
| Excessive or inappropriate meal allowances | \$ <u>5,057</u> |
| TOTAL | \$ <u>5,708</u> |

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Superintendent of Schools



Employee Benefits Consulting

April 2, 2003

Mr. Jim Paul, Superintendent
School District of Escambia County
215 West Garden Street
Pensacola, Florida 32501

Re: *Response to April, 2003 Escambia County School District Internal Audit Report*

Dear Mr. Paul:

As I indicated in my previous letter to Mr. Scallan, Aon values the relationship it has enjoyed with the School District. We are disappointed that the actions of your former Aon Account Manager have placed this relationship in the spotlight for such trying reasons.

Travel Expense Charges

Based on Mr. Scallan's analysis, the School District was overcharged a total of \$5,708 for travel and entertainment expenses from July 1, 2000 through December 31, 2002. In order to fully indemnify the School District, Aon will issue a refund of this amount.

Labor Charges

Over the course of our relationship with the School District, we have provided written budget estimates for most projects prior to commencing the work. Based on feedback I've received from School District representatives, you have been pleased with the work performed and you were satisfied that you were quoted, and charged, a fair price.

I assure you that in the future our invoices will include sufficient time charge detail to ensure compliance with the terms of our contract with the School District.

Conclusion

Thank you for your patience while we have worked through these difficult issues. We are anxious to resolve any outstanding questions as quickly as possible and return our attention to the School District's Employee Benefit Plan. Please do not hesitate to call if you require anything further.

Sincerely,

D. Michael Jones, ASA, EA, MAAA
Assistant Vice President

cc: Mr. Sam Scallan

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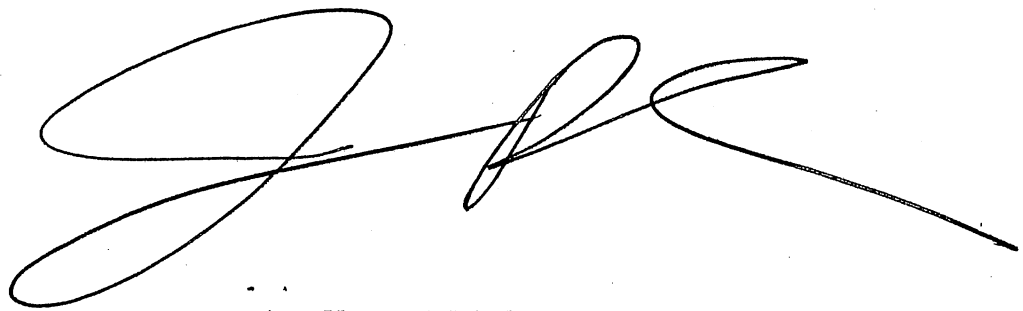
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**Response to Board Auditor's Review
of
Billing Practices
for
AON Consulting, Inc.**

A large, stylized handwritten signature in black ink, appearing to read 'Jim Paul', is centered on the page.

April 4, 2003

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Superintendent of Schools
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My staff and I had an opportunity to meet with the Board's auditor and discuss the work directed by the Board regarding billing practices with AON Consulting, Inc.

Response to the Findings:

General Contract Provisions

I concur with the findings of the Board's auditor regarding the proper handling of invoices. The supervisor responsible for authorizing the payment of an invoice should insure that the appropriate detail appears on the billing statement to comply with the contract requirements for payment.

I am confident that the Finance Department's role in payment reconciliation was properly performed in that the receiving report was entered by the Risk Management Department and the invoice was submitted and approved by the Director of Risk Management.

Travel and Related Expenses

Having reviewed the travel records provided by AON, I agree that there were certain expenses that were not in accordance with the contract regarding car rental. The auditor identified a total of a "\$545 over billing" of the District for rental car expenses. I will request of AON that these expenses be reimbursed.

Regarding meals and other expenses, again I concur with the auditor's findings that the expenses charged to the District were not in accordance with the contract and were quite excessive.

AON has expressed their willingness to repay all of these expenses, as these charges were not in compliance with their company policy.

I will ask AON to reimburse the District \$5,057 for over-billed meal expenses.

I concur with the auditor in his statement that several meals submitted for payment were exorbitant; however, the auditor's directive was to determine if AON "was complying with the terms and conditions of the contract and to identify whether the District may have been over billed for services and for expenses."

I am concerned that the "due process right" of our employee is not being considered in this audit review.

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**Response to Board Auditor's Review
of Billing Practices for
AON Consulting, Inc.
Page 2**

Upon receipt of the AON billing statements, I immediately ordered an investigation into allegations of the acceptance by an employee of gifts and gratuities from a company with which we do business. The investigation affords the employee(s) rights to representation a forum in which to present evidence regarding the allegations, and the presumption of innocence until allegations are proven to be true.

Although the individual is not named in this report, the position is named by title, and there is only one person in the District with this title.

Labor Billing

I concur with the auditor's findings that AON's timekeeping and billing process is confusing in the methods by which they adjust rates. We will ensure that future billing include specific time allocated to projects and services performed by each AON representative and that these rates and times are in agreement with the contract.

Response to Recommendations:

With regard to the auditor's recommendations:

1. Members of my staff, at my direction, have been in contact with AON, requesting reimbursement for over-billed expenses.
2. I have ordered a full investigation into allegations of an employee accepting inappropriate gifts and gratuity which may have been a violation of state law and/or local Board policy.
3. I have further directed my staff to include in their departments operating procedures, the proper methods for reconciliation of billings for payment in accordance with the specific contractual requirements.

In conclusion, a crisis in confidence exists with a company that provides us with a valuable service associated with the management of our health insurance trust fund. The crisis is further complicated by possible inappropriate behavior on the part of a District employee.

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I reserve my recommendations with regard to AON Consulting, Inc. until I get a full investigative report. At present, the actions of one or a few regretfully have tainted the hard work of many in an important area like employee health care.

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