

Wednesday, March 28, 2007

GOVERNANCE and POLICY VIOLATIONS

FROM: Randall (Randy) W. Pugh
1604 Stone Ct
Keller, TX 76248

Dear Dr. Jo Frazier:

The Governance Division of the TEA has recently received requests from three (3) members of the KISD Board to intervene and/or investigate Keller ISD and its Board of Trustees. I, too, am requesting that the TEA give serious consideration to investigating improprieties that have occurred. Those improprieties not only include detrimental actions by certain Board members but, more importantly, include four (4) potential violations of the legal and local policies of this District by Dr. James Veitenheimer and some members of his Administrative Cabinet.

KISD's attorney is currently gathering information regarding the most recent violation of Policy CH (Legal) and Policy CH (Local) regarding the Administration's use of an unapproved vendor, Mechtrend Solutions, LLC, and unapproved expenditures in excess of \$74,000 with that vendor. I have attached news articles about this incident and another incident which is described below.

The other two incidents governed by CH (Legal) and CH (Local) that occurred are as follows:

On Feb. 27, 2006, the Board was shown, at a public meeting, that the administration had exceeded authorized expenditures by \$121,000 to The School Business Group (a consulting firm hired to help the Maintenance Department). This firm was approved by the Board on September 26, 2005 based upon the Administration's recommendation. However, the administration did not tell the Board that this company had received its certification from Tarrant County only 74 days earlier on July 14, 2005.

The administration attempted to justify the unapproved expenditure of \$121,000 by publicly showing that the district would save \$2.1 million dollars. The majority of the Board emphatically stated that this type of unapproved expenditure violated the policies of the district, primarily CH Legal and should not happen again. The Board voted to take money out of savings to pay this company.

Eleven (11) days later on March 10, 2006, Dr. Veitenheimer signed and submitted a contract to the TEA committing the district to spend more than \$400,000, without Board knowledge or Board approval. The purpose of this contract was to correct Office of Civil Rights (OCR) infractions. Eight (8) months after signing the contract, in November, 2006, the administration told the Board about the OCR contract/costs and asked the Board to take \$400,000 out of savings because these items had not been included in the Budget approved in August, 2006. Once again, the administration had, in my opinion, usurped State Law, District Policy and Board approval.

NOTE: Less than 1 month after publicly stating the district would save \$2.1 million dollars with The School Business Group, the administration sent an email to the Board on March 24,

2006 in response to my questions. Contained within that email were the following statements:

Regarding Savings Item #1 – Non-Productive Hours Savings of \$687,120, the memo states, "...We're not saying that the district is going to save the amount of money shown, because it's not. The money is already committed...".

Regarding Savings Item # 7 – Contract Management Savings of \$500,000, the memo states, "...It was not intended to attribute this savings to either SBG's efforts or the overall transition itself...".

In summary, this email told the Board that the \$2.1 million savings shown to the Board and to the public was, in actuality, less than \$1 million dollars. This type of action erodes the trust between the Superintendent and the Board.

In my opinion, the administration continues to display a pattern of behavior that violates law and jeopardizes the District financially and legally, thus, prohibiting the Board from performing its governance and oversight responsibilities.

In addition to the above administrative improprieties, in late 2004 and early 2005, information was obtained by the Board that a direct family member of Dr. Veitenheimer was hired by a large vendor to the District. The family member was hired by this vendor in another city in late August or early September of 2004 *after* Dr. Veitenheimer was hired by KISD in July, 2004. Dr. Veitenheimer did not notify the Board of this business relationship until after the Board confronted him with the information. During this period of time, the vendor was under scrutiny by the Board and the Administration. Eventually, in September, 2005, the vendor's contract was cancelled. I believe these actions violate BBFA Legal – Conflict of Interest.

Regarding improprieties by Board members, I would first like to say that I would welcome the opportunity to defend myself against the allegations stated in the letters you received from Board members Linn Jencopale, Bob Apetz and Cindy Lotton should the TEA decide to investigate.

I would also appreciate the TEA's assistance regarding the following Board member actions:

Cindy Lotton – (3 verifiable incidents)

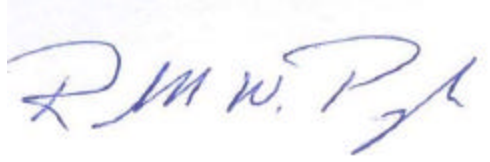
Shortly after being elected to the School Board in 2004, Ms. Lotton contacted me, and other Board members, numerous times, asking that we consider changing local policy so that a family member of hers could be employed by the District.

Last year, Ms. Lotton sent emails directly to a District employee asking that a certain vendor be approved to present an abstinence program throughout the district. Ms. Lotton continued to send emails directly to the employee even though the District's Health Advisory Committee had already chosen another vendor. The employee reported how uncomfortable this made her feel to Dr. Veitenheimer. Dr. Veitenheimer did not notify the Board President nor the remainder of the Board of these contacts.

Recently, Ms. Lotton repeatedly contacted a KISD employee asking this employee to use his political connections to help one of Ms. Lotton's family members secure a job outside the district. These contacts by Ms. Lotton made the employee very uncomfortable.

Bob Apetz – (At least 1 verifiable incident)

Mr. Apetz has on several occasions directly contacted KISD employees and asked them to perform specific research and/or generate reports in order to refute other Board members.



Randall (Randy) W. Pugh
Secretary – KISD Board of Trustees
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Attachments (2)

Papers show policy bypassed

By SARAH BAHARI

KELLER -- The Keller school district violated its own policy -- and possibly state law -- by paying a Mansfield company more than \$75,000 for repairs to heating and air-conditioning units without seeking bids or getting school board approval, documents show.

Dozens of invoices obtained by the *Star-Telegram* through the Texas Public Information Act detail transactions between the district and Mechtrend Solutions from June 2006 to February 2007, when school officials learned of the problem.

Several district workers said top administrators have intimidated and bullied employees to keep the problem quiet. Many invoices show scratched-out approval signatures.

Most of the employees interviewed by the *Star-Telegram* requested anonymity because they fear retaliation from superiors. Employees say certain administrators are trying to find leaks rather than investigate the Mechtrend situation.

"Everyone is walking on eggshells," said an employee who works in the administration building. "People who just want to do the right thing feel like they're standing before a firing squad."

Mechtrend is the latest in a string of district conflicts. Tension has been building for months as the school board and Superintendent James Veitenheimer have battled over various oversight issues. Last week, the board hired an outside attorney to negotiate Veitenheimer's resignation or termination.

Veitenheimer did not return a phone call to his office Friday seeking comment.

Mechtrend -- which, by all accounts, is a reputable company that completed the work the district hired it to do -- now finds itself caught in the middle of the district's troubles. The district still owes the company \$25,000 for completed work, but payments are on hold pending an internal investigation.

"Something took place that shouldn't have, and we've got to figure out why," said Bill Stone, assistant superintendent of business operations.

It is unclear who initially hired Mechtrend or why routine financial procedures were circumvented. Most of the money was paid without purchase orders, which violates district policy. School officials say the company was never on the list of authorized vendors.

District policy previously required purchases of more than \$10,000 to have the school board's approval. That has changed to purchases of more than \$15,000. For purchases of more than \$25,000, state law requires competitive bidding and board approval.

The problems came to light in late February, when the purchasing department received nine purchase orders for completed work, said Denise Sullivan, purchasing director. Purchase orders typically come in one or two at a time and almost always before the work is done.

After investigating, officials found that the district had already paid the company \$75,000 without purchase orders.

Sullivan said she shared her concerns with Stone, her supervisor.

For the \$25,000 worth of invoices that have not been paid, two purchase orders were generated for each transaction.

On each of the original purchase orders, dated Feb. 27, Sullivan's electronic signatures are scratched out, but she re-signed them and Stone initialed them. On March 6, those purchase orders were reprinted, with Sullivan's electronic signatures. Her signatures were scratched out, and someone wrote "Cancel per Bill Stone 3/6/07."

Trustee Randy Pugh said he was told that Sullivan felt coerced by Stone into signing off on the purchases.

"I find that deeply distressing," he said. Pugh, a frequent critic of the administration, said he is frustrated because he has asked for the Mechtrend documents but has not received anything.

Stone declined to comment on whether he or other officials pressured or coerced anyone into providing signatures.

In a letter to Mechtrend, Sullivan wrote: "We appreciate your efforts to provide good customer service by promptly helping Keller ISD with our needs. However, in doing so, you provided a service that had not been authorized as a district-approved expense."

The letter also says the district does not assume responsibility for payments for services completed without purchase orders.

Wes Moore, one of the company's owners, said he and his workers did only the tasks the district asked for, including emergency and routine repairs to heating and air-conditioning units at Keller schools.

"I'm pretty much in the dark with what's going on," Moore said. "But this is a burden to me financially. I've got a pretty big hole in my wallet right now."

School officials say they are trying to determine what went wrong and how to prevent it from happening again.

Trustees say they have asked Keller school district attorney Tom Myers to investigate whether district policies or state laws were broken.

Trustee Cindy Lotton said the district made a mistake using an unauthorized vendor. But she said she is concerned that two trustees, whom she declined to name, knew of the problems months ago and withheld information for political purposes.

"That's the real problem," she said. "This could have been fixed a long time ago."

Board President David Farmer said he is concerned about the Mechtrend situation and the fallout.

"Anybody can make an honest mistake," Farmer said. "But if you're dealing with taxpayer money, you have to have a high level of trust and integrity."

What's wrong?

The Keller school district violated its own policy -- and possibly state law -- by paying a Mansfield company more than \$75,000 for repairs to heating and air-conditioning units without seeking bids or getting school board approval. Much of the work was done without purchase orders, which also violates district policy.

How was it discovered?

Problems came to light in late February, when Denise Sullivan, the district's purchasing director, received nine purchase orders for work already completed by Mechtrend Solutions. Purchase orders typically come in one or two at a time and almost always before the work is done. After investigating, school officials learned that Mechtrend was not a district-approved vendor.

What is the law?

State law requires purchases or services that exceed \$25,000 during a 12-month period to be competitively bid and approved by the school board.

What is the Keller school district's policy?

At the time of the Mechtrend transactions, district policy required purchases that exceed \$10,000 during a 12-month period to receive school board approval. That has recently changed to purchases or services worth more than \$15,000.

What's next?

The school district owes Mechtrend \$25,000 for completed work. Payments are pending an internal investigation. The school district's attorney, Tom Myers, will report to the school board in coming weeks on whether district policy or state laws were broken.

Board not consulted on funding

By SANDRA ENGELLAND

The Keller Citizen

March 3, 2006

Keller ISD officials have committed more money than trustees approved for the transition of the maintenance and operations department from contract management to in-house supervision.

In September, trustees terminated the contract of Aramark Management Services to oversee the department and hired School Business Group of Fort Worth to help supervise workers, organize the transition and assess the methods that were in place:

Trustees approved an expenditure of \$164,000. Of that, \$84,000 was for temporary supervisors and \$80,000 was for a comprehensive review of the state of the department.

At the Feb. 27 board meeting, Bill Stone, assistant superintendent of school business operations, told trustees that the cost of the work had increased by \$121,000.

Stone said, "I'll just tell you up front that we significantly underestimated the difficulty of making the transition to in-house management."

Problems encountered included the misuse of overtime, inadequate equipment and a lack of night-time supervision.

Philip "Red" Whiddon of School Business Group said that the original estimate was based on 140 person days of work, but district officials asked them to continue working until new supervisors were hired, more than doubling the original number of days.

Stone said that with the changes recommended by School Business Group, the district would save more than \$2 million.

Board President David Farmer said, "Undoubtedly there are gains, but those are overshadowed by the board being left out of the loop."

Stone said that the district has paid School Business Group \$156,000 so far but still owes them for work already performed.

Trustee Scott Brown asked Stone why he did not come to the board for more money when he realized the depth of the problems.

Stone said, "That was not a good call on my part."

He said that he got caught up trying to deal with a problem that was much bigger than anticipated.

According to KISD policy, any transaction of more than \$10,000 requires board approval before it can take place. The same policy also states that the district is not responsible for debts incurred that were not under board control.

Trustee Randy Pugh asked attorney Tom Myers to examine the district's legal options.

Pugh, who also chairs the district budget committee, said that the problem came to the board's attention when the district's payments approached the \$164,000 contract amount.

If the billing had been separated between the \$84,000 for management and the \$80,000 for the review, the administration's checks and balances would have kicked in sooner, he said. Officials would have been forced to come and ask for more funds much earlier.

Some trustees focused on the savings compared to the over-expenditure, while others expressed frustration.

Pugh said, "I don't know that we're allowed to say the ends justify the means."

Farmer said, "Where the heart-burn comes from is it looks like district funds were committed without board approval."