

## **Introduction**

In May 2003, an employee of the City of Providence Parks Department admitted to embezzlement from accounts she managed in the course of her work duties. A brief internal investigation uncovered a number of “off-book” accounts, bank, fund and/or investment accounts that were established by Parks Department personnel and/or affiliates, not under the care, custody, control and scrutiny of the appropriate City fiscal officers. Concerned about the plethora of accounts operating outside the City’s normal fiscal controls, as well as the apparent lack of documentation, the City’s Law Department engaged Hagen, Streiff, Newton & Oshiro, Accountants, PC (hereafter referred to as “HSNO”) to probe the accounts and review recent financial transactions by the Parks Department.

The “off-book accounts” (hereafter, “OBAs”) were maintained in the names of both incorporated and non-incorporated external entities. Some of the money flowing through these accounts was generated from City activities and/or the use of City property, and through work performed by both City and non-City employees. Other monies flowing through OBAs may have been generated by non-City employees for non-City sanctioned activities. Some of the monies were generated by external parties or organizations acting with the apparent authorization of the Parks Department. Donations, grants, rents, tennis court proceeds, sale of park passes, Carousel Village operations and insurance proceeds are some of the sources of the monies processed via the OBAs.

This report contains various observations and recommendations set forth by HSNO, some of which are based solely upon interviews with City employees and other persons. During the course of the forensic accounting review, HSNO reported various findings to City officials. HSNO did not corroborate some information received through interviews where City officials determined the area did not warrant further review by HSNO, the documentation to do so was not available, or the matter was deemed immaterial.

On January 19, 2004, representatives from the City Solicitor’s Office and the forensic accountants conducted an interview of Nancy Derrig, the former Superintendent of the Parks Department. The purpose of the interview was to provide Ms. Derrig an opportunity to provide her input in regards to some of the more significant aspects identified.

The “Report on Forensic Accounting Review” of the City of Providence’s Parks Department is presented in several sections. The various sections are as follows:

Engagement and Scope  
Executive Summary

General Description of the City’s Parks Department  
Review Work Performed  
Findings  
Recommendations  
Exhibits  
Addendum

The “Engagement and Scope” section provides information as to who engaged the external accountants, the general objectives of the engagement and a general description of the scope of the review and areas examined.

The “Executive Summary” provides the reader, in a bullet point format, brief summaries of the findings made during the course of the forensic accounting review.

The section entitled “Review Work Performed” lists the individuals contacted and/or interviewed during the review process as well as a general listing of the review procedures employed. Please be advised the listing of procedures is not all-inclusive, but is intended to give the reader a broad overview of the work performed.

The “Findings” segment contains detailed information on all of the reported topics. In some cases, in order to present the essential chronological and biographical development of a matter, it is necessary to include some information previously mentioned in the summary section.

The “Recommendations” section suggests corrections for some of the issues noted during the review and addresses strengthened internal controls that may prevent some of these situations from recurring or provide a means to identify them on a timely basis. These recommendations are not comprehensive, but are offered as a possible guide and starting point for corrective action. It is HSNO’s understanding that the City has already taken steps to effect changes in the operation of the Parks Department.

The “Exhibits” section contains copies of documents, memoranda, and miscellaneous materials that were identified and examined by us. Some of the observations contained herein are based upon and supported by information contained in these exhibits.

The “Addendum” section of the report contains a more detailed discussion of the various observations and findings noted throughout the report. See Exhibit 40.

## **Engagement and Scope**

HSNO has been engaged by the Law Department of the City of Providence, Rhode Island (hereafter referred to as the “City”), to perform a forensic accounting review of an alleged fraud perpetrated by a City employee in the Parks Department (hereafter referred to as the “Department”). The engagement was also to include a forensic accounting overview of the operations of the Parks Department as they pertain to what are generally referred to as “off-book accounts”.

The objectives of the engagement were addressed in two stages, the first stage being a general information gathering process from which HSNO was to identify areas to be examined and propose recommendations regarding such.

On two occasions following the completion of the first stage, representatives of HSNO met with City officials. The purpose of the meetings was to discuss the initial findings, recommendations pertaining to such, and to develop a plan as to how Phase Two of the examination was to proceed.

In Phase One, HSNO identified several situations that should be mentioned to City officials. Upon reviewing and evaluating these situations, City officials instructed HSNO to investigate the alleged fraud, which may include interviews of the alleged perpetrator, and to cooperate and share information with Providence Police Detectives. HSNO was also instructed to perform general reviews of all the off-book accounts and related non-profit incorporated entities associated with some of these accounts. HSNO was further instructed not to examine the Concession Fund, the Coca Cola Restricted Fund and the Zoo Gate Fund, all of which are in the custody and control of the Rhode Island Zoological Society. In addition, HSNO was instructed not to review the Parks Department payroll function or the Department's equipment inventory. The period of time to be reviewed was set at June 30, 2001 through June 30, 2003.

The investigation was slow and tedious. This was due to the lack of accounting records and the lack of complete and organized documentation. In many instances there was no documentation for an account whatsoever: vendor invoices, cancelled checks, receipts and disbursement journals all were missing. Bank records requested by the City were not always provided in a timely manner and at times the City needed to make numerous requests to obtain relevant bank documents. In addition, the various banking institutions did not provide all the documents requested as part of their initial production response. This resulted in second requests having to be made. Even then, all the banking information requested was not provided.

HSNO identified thirty-nine (39) bank accounts and/or funds, some of which are the accounts of external entities. Some of the accounts were active during the period under review, some are closed and some no current status could be determined. For purposes of this report, all bank accounts, investment accounts and funds will be referred to as "off-book accounts." See Exhibit 1 for a listing of the "off-book accounts."

## **Executive Summary**

### **Off-Book Accounts ("OBAs")**

HSNO identified thirty-nine off-book bank accounts and/or funds. The majority of the accounts do not have any apparent corporate affiliations. Many of the account names include the words "Friends of the Roger Williams Park" and are commonly referenced as "Friends of the Park Accounts." Four external corporate entities came to our attention during the process of our review. The Rhode Island Zoological Society, the Friends of the Roger Williams Park Botanical Center, the Friends of the Park Museum, and Providence Parkfriends, Inc. (Carousel Operations). All but Providence Parkfriends are non-profit entities.

- HSNO obtained banking records for 28 of the 39 identified OBAs\*. Of these 28 OBAs, the combined 25 month totals of activity processed through examination of available records is: Cash receipts \$3,358,492; Cash disbursements \$3,856,057.

Twenty were classified as “Non-Private Entity Accounts” as referenced on exhibit 1.

- For the twenty-five month review period, banking records indicate that \$1,659,388 was deposited in the “Non-Private Entity Accounts” and \$1,889,156 was disbursed.

- The cumulative cash balance of the “Non-Private Entity Accounts” at June 30, 2003 per the bank statements was \$125,538. This total consists of 8 accounts for which June 30, 2003 bank statements were available. HSNO could not obtain June 30, 2003 bank statements for 8 of the accounts and 4 accounts were closed prior to that date.

Eight were classified as “External Entity Accounts” which involved the four external corporate entities referenced above.

- For the 25 month review period \$1,699,104 was deposited to the 8 accounts and \$1,966,901 was disbursed. The cumulative bank/investment balance of the accounts at June 30, 2003 was \$288,867. This does not include one of the investment balances.

### **Failure to Disclose Accounts to City Administration**

- Some of the City’s fiscal officers interviewed by HSNO said that they were unaware of the existence of the non-corporate external accounts.

- Ms. Derrig acknowledged that she intentionally did not inform the City’s fiscal officers of the accounts and related funds, because she feared the funds would be expended for non-Park related purposes. However, she recounted separate conversations with the current President of the City Council and with the present Finance Director that suggest they were aware of some of the Friends of the Park accounts.

- HSNO spoke with John J. Lombardi, the President of the City Council and the Director of Finance, Alex Prignano, regarding Ms. Derrig’s statements. Council President Lombardi stated that in general he did not have any direct or indirect knowledge of the off-book accounts, but that he could not be more specific without reviewing a listing of the off-line accounts identified.

Director of Finance Prignano said that he was not aware of the number of off-line accounts that the Parks Department had in its control and that had he known of available funds from vendor agreements or other arrangements, he would have tried to include them as general fund revenues. He acknowledged telling Ms. Derrig in the past to use other sources of funds other than the general fund, but explained that he was referring to the Capital 385 and 386, North Burial Ground, Charles H. Smith and like accounts. He stated that he knew of a tennis court account but did not know that it was an OBA.

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\* HSNO could not obtain all of the banking records needed for a one hundred percent analysis of the 28 accounts summarized. Based upon the materials reviewed, however, it is reasonable to conclude that the actual receipts and disbursements totals are greater than the figures presented.

The City's fiscal officers stated that they were unaware of an exclusive concession agreement between the Zoological Society and Coca-Cola which resulted in a one-time payment of \$250,000 for the benefit of a restaurant proposed as an adjunct to the Carousel, and annual payments of \$22,500 for the Society. These "restricted Coca-Cola Fund" monies are being used to fund certain Society and Botanical Center salaries and expenses.

### **Lack of Accounting Records and Controls**

- Most of the OBAs had few or no internal controls in place.
- No policy and procedure manuals were maintained pertaining to the account activities and accounting functions of most of the OBAs.
- HSNO could not identify anyone who was directly responsible for the overall management and oversight of all of the non-external OBAs.
- Checking and saving accounts of the Botanical Center, although opened in November 2000, were not recorded within the books of account until September 2002. Most of the initial entries into these books of account were made via journal entries which did not provide any details in support of the noted disbursement totals.
- Very few accounting records were maintained for the OBAs and a substantial number of the banking records and supporting documents were unaccounted for or not available from the custodians of the accounts.
- Customary supporting documentation for disbursements, such as vendor invoices and cancelled checks, were often missing. HSNO could determine the total disbursements from an account for a specified period of time, however without the cancelled checks and supporting documentation, HSNO could not determine the validity/appropriateness of many transactions flowing through the various accounts.
- No back-up documentation or accounting records were maintained in support of the cash fund controlled by the Parks Department Fiscal Advisor.
- HSNO noted unsupported disbursements made to the Fiscal Advisor. The Fiscal Advisor was unable to provide back-up documentation in support of payments made to himself which he claimed were for expense reimbursements.
- The Fiscal Advisor was unable to provide HSNO with supporting documentation for the receipt and disbursement of substantial amounts of monies that were in his care, custody and control. Computerized records were claimed to have been lost in a "computer crash" while traditional hard copy records were noted to have been discarded due to water damage suffered while in storage.
- HSNO noted several bank accounts that had ATM withdrawal privileges.

## **Questionable Transactions**

- HSNO could not find any proof of the repayment of an \$8,000 loan from the Parks Maintenance account to an outside entity known as the East Side Floral and Antique Festival, allegedly authorized by the former Superintendent.
- HSNO could find no evidence of re-payment of over \$65,000 of Parks Department off-book account funds that were disbursed on behalf of the Botanical Center in the form of “loans.”
- Funding sources were commingled within and among the accounts. Examples include:
  - Monies of external corporate entities being commingled with what HSNO understands to be City funds; and
  - The commingling of funds between the Parks Department Greenhouse Maintenance fund and an outside fundraising operation known as the Preview Party Flower Show.
  - Revenue generated from City Museum and Planetarium activities was placed in the custody of an external corporate entity.
  - Substantial amounts of money were spent on behalf of the Botanical Center through a variety of OBAs that were not under the control of the City’s fiscal officers. Authorization for these disbursements is in question.
  - \$12,500 was disbursed from the Greenhouse Maintenance Fund to purchase a 50% interest in the Rhode Island Spring Flower and Garden Show. It appears that the shares were subsequently acquired by a new corporation, in which the Friends of the Roger Williams Park Botanical Center obtained a one half interest. The Botanical Center’s newly acquired interest in the Flower Show was subsequently sold for \$95,000.
  - For the period reviewed HSNO noted over \$1,300,000 in disbursements made on behalf of the Botanical Center, a project that was apparently not budgeted or funded by the City.
- Two \$500,000 grants were solicited by the former Superintendent, but the grant monies are not currently under the control of the City. It is unclear who is responsible for the proper safeguarding of these grant funds.
- HSNO noted the re-payment of an apparent “interest free loan” that was provided to the City Parks Department from a Providence resident.

## **Embezzlement of Funds**

- The Office Manager of the Parks Department acknowledged to representatives of HSNO that she misappropriated monies from some accounts in her care.

## **Employment and Compensation Irregularities**

- Some City employees, including the Fiscal Advisor, Parks Department Office Manager, and City Museum Office Manager acknowledged receiving additional compensation paid from

Parks Department controlled accounts. These individuals maintain this was authorized by the former Superintendent, who denies it.

- For the most part, employees who received such compensation were not issued either Federal Forms 1099 or W-2.
- Some City employees working in the Zoo received compensation from the Rhode Island Zoological Society.
- A City employee received compensation from an external corporate entity, allegedly for services over and above his City salary obligations.
- Two City Museum employees, including the Director of the City Museum, performed services for an external entity, the Friends of the Park Museum. These employees also received non-interest bearing personal loans from Park Museum funds. They assert that the loans were approved by the former Superintendent, who denies authorizing the transactions.
- The Chief of the Park Rangers, a retired City employee, was being paid a salary from the Zoological Society Concession Funds.
- The former Superintendent's automobile lease was funded through the Zoological Society while at the same time she was receiving an auto allowance of \$200 per month from the City.
- City personnel were utilized to support events of the Botanical Center, the cost of which was never reimbursed to the City.
- Repairs to the former Superintendent's leased automobile were paid from a Park Maintenance Fund account.
- HSNO noted an inordinate amount of personal cell phone usage which was being paid from a number of OBAs.
- The Cultural Affairs Director has control over two bank accounts, one of which is for a private non-profit company that does work for the Cultural Affairs Department.
- HSNO noted the appearance of many conflicts of interest.

### **General Description of the City's Parks Department**

The Parks Department consists of the following seven divisions:

Superintendent's Office  
Zoo  
Grounds & Maintenance  
Public Programming  
Forestry  
Environmental  
North Burial Ground

The Parks Department is responsible for 125 neighborhood parks, ball fields, and playgrounds. It is also responsible for all street trees in the City, three cemeteries, and Roger

Williams Park which includes the zoo, museum, greenhouses and carousel. The Parks Department is also responsible for the design, construction and maintenance of the above, as well as the operation of all Roger Williams Park facilities.

The Superintendent supervises all of the divisions, including a staff of approximately 180. Approximately 160 of the Department's employees are union members. The Superintendent also prepares the budget and addresses all personnel and union issues as well as performing most of the fundraising for operations. Laborers Local 1033 is the main union.

Each of the seven divisions has its own line item budget managed by a division head. Neither the Department nor its divisions have custody of budget monies. Budget funds are maintained by the City's financial officers. Department and division spending is processed through the Controller's and Treasurer's offices. Some individuals interviewed mentioned that most of the time, bills cannot get paid on a timely basis with the existing requisition and disbursement process. They stated this has caused and continues to cause many problems. In addition, on several occasions, requisitions have been denied for purchases for which there was a funded budget.

Nancy Derrig assumed the position of the Parks Department Superintendent around December 1985 and remained in control of the Department until mid-June 2003.

## **Review Work Performed**

HSNO representatives initially met with the Internal Auditor and other City officials to discuss the City's concerns and objectives in commissioning HSNO's services. Based upon the information provided, HSNO:

- Obtained an overview of the organizational structure of the Department;
- Developed a familiarity with Roger Williams Park and all its divisions;
- Identified key personnel and conducted interviews;
- Interviewed the individual alleged to have misappropriated funds;
- Identified external affiliated parties and entities;
- Identified "off-book" accounts;
- Identified and secured numerous records and documents, both from internal and external sources;
  - Performed a forensic accounting review of the bank accounts managed by the alleged perpetrator over a review period of approximately two years (to date not all of the banking records have been obtained);
  - Performed a general review of the off-book bank accounts and the accounts of the external corporate entities: Friends of the Roger Williams Park Botanical Center, The Friends of the Park Museum, and the Providence Parkfriends, Inc.;
  - Identified sources of revenue generated by Department/City related activities and by affiliated external organizations;
  - Performed a search of the Secretary of State - Corporations Division's data base for entities and information pertinent to the engagement;

- Identified City employees receiving compensation from the off-book accounts or from an external entity in addition to City salaries;
- Identified an agreement, of which City financial officials were not aware, generating revenues;
- Identified the purchase and sale of an interest in a potential revenue generating/investment type vehicle, where there are questions pertaining to the overall propriety of the situation;
- Summarized the receipts and disbursements for all the off-book accounts with extant banking records;
- Established a working relationship with the Providence Police;
- Initiated other comprehensive procedures designed to aid in successfully meeting the objectives of the engagement;
- Met with Ms. Derrig for an interview, allowing her the opportunity to provide her input pertaining to questions raised during the course of the examination and certain situations noted herein;
- Spoke with City officials to obtain input regarding some of the issues raised during the course of HSNO's examination;
- Issued a preliminary draft and final report hereon.

HSNO accomplished many of these objectives through a review of the limited financial information that was available, personal interviews of City employees, external affiliated parties and with City police officials. During the course of the field work performed, representatives of HSNO interviewed, met with, and/or spoke with the following people:

Mr. Louis Bobola - Director of Forestry  
 Ms. Sybil Bailey - Personnel Director - City of Providence  
 Richard Bicki, Esq., Legal counsel for the Parks Department Office Manager  
 Mr. Charles Carberry - Director of the Botanical Center  
 Mr. Joseph Chiodo - Controller  
 Mr. John Cimino - Deputy City Controller  
 Mr. Thomas D'Amore, Sr. - Director of the North Burial Ground  
 Mr. Thomas D'Amore, Jr. - Parks Department Inventory Control  
 Ms. Nancy Derrig - Former Superintendent of Parks  
 Mr. Raymond DeStefanis - Fiscal Advisor for Parks  
 Mr. Joseph Fernandez, Esq. - City Solicitor  
 Ms. Mary Ellen Flanagan - Botanical Center employee  
 Ms. Carol Grant - Chief of Operations  
 Mr. Fred Holman - Manages the Landscape Fund - Zoological Society employee  
 Mr. John Izzo - Parks Department Projects Manager  
 Mr. Kevin Jackson - Chairman of the City Finance Committee  
 Ms. Tracy Keough - Director of the Museum & Planetarium  
 Detective William Luke - Providence Police Officer  
 Mr. James Lombardi, III - City Internal Auditor  
 Mr. John Lombardi, President of the City Council  
 Ms. Heather Manning - Casino Director  
 Detective Sgt. Vincent Mansolillo - Providence Police Officer

Mr. Robert McMahon - Deputy Superintendent of Parks  
Mr. Jack Mulvena - Zoo Director & Executive Director of the Rhode Island Zoological Society  
Ms. Kathy Parsons - Parks Department Office Manager  
Mr. David Pertuso - Chief Financial Officer - Rhode Island Zoological Society  
Mr. Alex Prignano - City Finance Director  
Mr. Francisco Ramirez - Deputy Chief of Operations  
Mr. Robert Rizzo - Director of the Programming Division  
Ms. Kim Rosolino - Botanical Center Accountant  
Maj. Andrew Rosenzweig - Deputy Chief of Police  
Mr. Alan Sepe - Director of Public Property  
Mr. Joseph Salem - Director of Grounds and Maintenance  
Mr. John Simmons - Director of Administration  
Ms. Adrienne Southgate - Senior Assistant City Solicitor  
Mr. Joseph R. Tanzi, Jr. - General Manager of Aramark Corp.  
Mr. Bruce Todesco - Deputy City Solicitor

## Findings

### *The Roger Williams Park Botanical Center*

The Friends of the Roger Williams Park Botanical Center (hereafter referred to as “the Botanical Center”), was organized as a non-profit corporation in Rhode Island in June, 2000. Mr. Charles Carberry, an employee of the Rhode Island Zoological Society, is the Director of the Botanical Center. His salary is funded through the “Concession Fund” and “Restricted Coca-Cola Fund” accounts. Various City and Zoological Society personnel stated that the Botanical Center receives financial support from the Zoological Society, in part through Park and Zoo concession and Park Pass revenues and from a revenue generating agreement with the Coca Cola Company.

HSNO learned that some Botanical Center fund raising activities were supported by City personnel on City time without reimbursement to the City for the cost of the services provided. In an October, 2003 interview, Director Carberry confirmed that the City had not been reimbursed in the past, but that more recently the Botanical Center has reimbursed the City for costs incurred on behalf of the Botanical Center. HSNO did not initiate review procedures to confirm his assertions. The Botanical Center offices are located in a City-owned building. During the October interview, Director Carberry confirmed that no rent is paid for the use of the facility.

Ms. Derrig was asked during her interview about authorization and justification for providing the Botanical Center with direct financial support from City funds (off-book accounts), and indirect support from City concession revenues in the custody of the Zoological Society. Ms. Derrig stated that she had orchestrated the contracts with the Zoo in such a manner as to keep the revenues away from City management. She added that she had not informed the City’s financial officers of the Coca Cola revenues nor of the concession funds used for staff salaries supporting the Botanical Center. She did not know if City financial officials would have

approved the hundreds of thousands of dollars expended to date for salaries, operating expenses and City support services for the Botanical Center.

The Botanical Center had the following bank accounts at June 30, 2003:

<u>Account Type</u>	<u>Account Number</u>	<u>Receipts</u>	<u>Disbursed</u>	<u>6/03 Bal.</u>
Savings	53-401899	\$10,192	\$15,266	\$0
Checking	1109-167-3	\$961,856	\$959,286	\$4,766
Checking	1543-920-8	\$45,275	\$23,530	\$21,745
Money Fund	DTF-954965-72	\$9,143	\$470,151	\$0
Checking	1101-4709-5496	\$25,000	\$312,942	\$175,896
Investment	1101-1250-2776	\$500,000		

The Botanical Center's banking and automated accounting records were reviewed for the period June 2001 through June 2003. Where considered appropriate, HSNO also reviewed some earlier records. The accounting records generated the following notes:

- HSNO found no record of a Citizens Bank savings or checking account in the financial statements for the years ended June 30, 2001 and June 30, 2002. Both the Citizens checking account 167-3 and the Citizens savings account 1899 were opened in November, 2000, but not recorded on the books of account until September, 2002.
- No activity for the savings account (Citizens 1899) was recorded during the 2001 fiscal year; only its balance was recorded as of September, 2002. Prior to its recording on the books of account, \$35,746.67 was deposited and \$31,004 was expended from the account. See Exhibit 13 for a summary of the non-recorded savings account banking activity.
- The balance in the Citizens savings account 1899 at June 30, 2001 was \$5,073.75. It had a zero balance at March 31, 2003. HSNO was not provided the April through June, 2003 banking information. The information provided for the period under review shows \$10,192.41 deposited to the account and \$15,266.16 disbursed. See Exhibit 21 for a summary of the banking activity for the period under review.
- As previously noted, the checking account was established on the books of account via a journal entry in September, 2002. In addition to creating a vehicle to account for the checking account activity, the journal entry recorded \$56,392 of various expenses. Director Carberry

believes these were expenses paid during the then-current fiscal year, incurred up to the point when the entry was recorded.

- The reporting of the checking account 167-3 activity on the books of account began in the third fiscal year of the incorporated entity. The checking account activity for the prior two fiscal years did not appear in the automated accounting records provided. The banking records for the two fiscal reporting periods (HSNO believes these were not recorded on the books of account) indicate that from November, 2000 through July 8, 2002, there were \$196,541.64 in deposits and credits, and \$188,098.51 of disbursements and debits. See Exhibit 14 for a summary of the checking account banking activity not identified as being recorded on the books of account.

- HSNO selected a number of check transactions recorded in the automated accounting records and examined the supporting documentation. One item of interest identified legal fees incurred in relation to the sale of the Flower Show. This is addressed later in this section.

- HSNO's summary of the Citizens 167-3 checking account bank statements calculated that between June 9, 2001 and June 30, 2003, \$961,856 was deposited to the account and \$959,286 was disbursed. See Exhibit 15 for a summary of the checking account banking activity.

- Mr. Carberry became Director of the Botanical Center in June, 2002. According to Mr. Carberry, up to that time, the checking and savings accounts were the responsibility of the Superintendent of Parks.

- Copies of the financial statements produced from the QuickBooks accounting records for the fiscal years ended June 30, 2001, June 30, 2002 and June 30, 2003 are provided for reference in regards to the unrecorded bank account activity. The Balance Sheet and Profit and Loss Detail is also provided. See Exhibit 16 for the copies of the financial information.

HSNO was informed that the Botanical Center received two \$500,000 grant awards at different times from the Champlin Foundation. The monies were to be applied toward the construction cost of a botanical gardens project. The first grant was received during the fiscal year ended June 30, 2001. Use of the grant funds was restricted to construction of botanical gardens. Examination of the accounting records and the banking records indicate the proceeds may have initially been deposited into the Citizens, Friends of the Roger Williams Park - Park Maintenance Fund account, 502-693-8, then transferred to a Tucker Anthony Money Fund account (DTF-954965-72), and subsequently transferred to a RBC Dain Rauscher account. This account is referred to hereafter as the RBC account.

The accounting and the banking records for the grant funds do not correspond with one another in the initial stages. The QuickBooks RBC account detail shows the first transaction in the account as a \$500,000 deposit recorded on January 31, 2001. An RBC Corrected Copy of the 2002 Annual Statement, provided by the Botanical Center, indicates the first deposit to the account was made on March 11, 2002 in the amount of \$459,353.39. The notation on the RBC Statement for the deposits states "TRANSFER FROM FREEDOM FU". See Exhibit 17 for a partial summary of the account activity. It appears the \$459,353.39 may have been a transfer

from the Tucker Anthony account. See Exhibit 18 for copies of the RBC 2002 Corrected Annual Statement and for a copy of the RBC General Ledger Account activity.

HSNO also noted that the RBC Statement included a \$25,000 deposit on August 1, 2002, and annotated "FUNDS RECD CITY OF PROV." However, the deposit was not recorded in the RBC General Ledger account. HSNO spoke with Director Carberry on October 14, 2003 regarding the variance in the recording of the initial grant award and the \$25,000. He had no knowledge of the history of the transactions, since he did not become Director until June, 2002 and did not manage the RBC account immediately upon becoming Director. He referred HSNO to the Parks Department's Fiscal Advisor, Raymond DeStefanis.

The Fiscal Advisor informed HSNO that he was not involved in the accounting for the Botanical Center, and could not explain the differences between the accounting records and the RBC statements. He disclaimed any knowledge of the \$25,000 deposit to the RBC account. He did not know why the initial RBC deposit was \$40,646.61 less than the original grant. However, he did suggest that the original grant might have been deposited with Tucker Anthony and subsequently transferred to RBC.

The accounting records for the 2001 fiscal year indicate that \$47,602.74 of the restricted grant funds were disbursed and recorded as "Construction in Progress." The expenditures were recorded via journal entries as a monthly total; individual disbursements were not recorded. The journal entries did not provide any detail specifying what the expenditures were for, nor to whom they were disbursed.

During the fiscal year ended June 30, 2002, all restricted fund disbursements were recorded via journal entries in a summary format. The individual cash disbursements were not recorded. Some of the recipients were identified, but no information was recorded specifying what goods and/or services were purchased with the restricted funds. Seven thousand four hundred and ninety dollars (\$7,490) was disbursed to one individual identified in the records. It is unknown if a Federal Form 1099 was required to be issued to the individual, and if so, whether it was issued.

A summary of the RBC Dain Rauscher account, first award, for the period January, 2002 to June, 2003 indicates the following activity: \$488,839 in deposits (including a \$459,353 transfer in from the account in which the grant funds were previously maintained). Disbursements for the period totaled \$312,942. A review of the general ledger disbursement activity indicates that the payees noted as receiving monies were of the type that HSNO would expect to see for this type of project. Disbursement information that would have allowed HSNO to analyze this account in further detail was not provided. See Exhibit 19 for a summary of the activity in the RBC Dain Rauscher account 5496.

The Champlin Foundation's award letter for the second \$500,000 grant is dated December 12, 2002. The QuickBooks accounting records indicate there has not been any disbursement of these funds as of June 30, 2003, though HSNO has not verified this via banking records.

The transmittal letter for this award, dated December 12, 2002, is addressed to Nancy L. Derrig, Superintendent, Parks Department, Roger Williams Park, Providence, RI 02905. The first paragraph reads:

“We are pleased to enclose a check of the PNC Bank, Delaware in the amount of \$500,000 representing a distribution to you from The Champlin Foundation, to be used as follows: toward the construction cost of Botanical Gardens project.”

It appears to HSNO that the Champlin Foundation may believe they were dealing with Ms. Derrig in her capacity as an agent of the City of Providence. They may also be of the opinion the \$500,000 grant award would be under the care, custody and control of the City’s financial officers. Instead, the \$500,000 was deposited to a Botanical Center, RBC Dain Rauscher account. The Botanical Center is an external, independent, corporate entity whose Director is an employee of the Rhode Island Zoological Society. HSNO believes that this situation—which may be applicable to the first grant as well, should be brought to the attention of City officials. See Exhibit 22 for a copy of the Champlin Foundation transmittal letter and for a copy of the RBC Dain Rauscher December, 2002 account statement to which the \$500,000 was deposited.

Ms. Derrig was asked during the interview whether the City had a system in place to receive grant awards and to place the proceeds in restricted accounts for the grantor’s designated uses. She responded affirmatively, but added that she believed that the City would not honor any restrictions placed on any such trusts or grants. She stated that the Champlin Foundation certainly knew that the grant funds were not going to be deposited to the City Treasury, and would instead be placed with an external entity.

The Botanical Center opened a new Citizens checking account in June, 2003. During that month, \$45,275 was deposited to the account and \$23,529 was disbursed. HSNO has not attempted to determine the source of these funds. See Exhibit 20 for a summary of the activity of this Citizens checking account (920-8) from its inception to June 30, 2003.

Information on four of the Botanical Center accounts is presented below. The period covered by the Summary is June, 2001 to June, 2003. It is not all inclusive, because HSNO was not provided with all the banking information. It also does not contain the activity of the account DFT-954965-72 since it appears that the majority of the \$500,000 that was received from the first Champlin grant was transferred to the RBC account which is included in the Summary. In addition, the account activity for the second \$500,000 Champlin grant is not presented because HSNO was not provided with the banking records.

*Summary of Botanical Center Cash Receipts and Cash Disbursements*

<b><u>Receipts</u></b>	<b><u>Citizens Total</u></b>	<b><u>Citizens 167-3</u></b>	<b><u>Citizens 1899</u></b>	<b><u>RBC</u></b>	<b><u>920-8</u></b>
Cash and Checks	\$1,025,696	\$955,421	\$0	\$25,000	\$45,275
Bank Card Deposits	\$0	\$0	\$0	\$0	\$0
Interest	\$4,677	\$0	\$192	\$4,485	\$0
Transfers In	\$459,353	\$0	\$0	\$459,353	\$0
Credits	\$15,504	\$5,504	\$10,000	\$0	\$0
Other	\$932	\$932	\$0	\$0	\$0
<b>Total Receipts</b>	<b>\$1,506,162</b>	<b>\$961,857</b>	<b>\$10,192</b>	<b>\$488,838</b>	<b>\$45,275</b>

<u>Disbursements</u>	<u>Citizens</u> <u>Total</u>	<u>Citizens</u> <u>167-3</u>	<u>Citizens</u> <u>1899</u>	<u>RBC</u>	<u>920-8</u>
Checks	\$1,247,512	\$915,615	\$0	\$312,942	\$18,955
ATM Withdrawals	\$0	\$0	\$0	\$0	\$0
Debits	\$63,264	\$43,423	\$15,266	\$0	\$4,575
Bank Charges	\$249	\$249	\$0	\$0	\$0
Transfers Out	\$0	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0	\$0
Total Disbursements	\$1,311,025	\$959,287	\$15,266	\$312,942	\$23,530

Total Receipts	\$1,506,162	\$961,857	\$10,192	\$488,838	\$45,275
Total Disbursements	\$1,311,025	\$959,287	\$15,266	\$312,942	\$23,530
<b>Period Net Activity</b>	<b>\$195,137</b>	<b>\$2,570</b>	<b>(\$5,074)</b>	<b>\$175,896</b>	<b>\$21,745</b>

During initial interviews with Parks Department and Botanical Center personnel, HSNO learned that a City employee, the general foreman of the Greenhouse, has been paid by the Botanical Center since beginning employment on March 4, 2002. The QuickBooks accounting records indicate that during the June 30, 2003 fiscal year, the foreman received two payments of \$1,047, marked "Salary Difference." These payments were contained in the Outside Services Account, which also contained a journal entry referencing the foreman in the amount of \$2,094. The foreman was issued a Federal Form W-2 in the amount of \$3,139.20 for the calendar year 2002.

During the period under review, HSNO noted monies coming directly into the Botanical Center from the following:

- Friends of the Roger Williams Park: \$2,000, \$1,157 and \$2,500.
- Friends of the Park Museum: \$1,156.

HSNO did not identify any funds directly received by the Botanical Center from the Rhode Island Zoological Society. However, the Citizens banking transactions for the fiscal years ended June 30, 2001 and June 30, 2002 were not recorded on the books of account. Further, the banking information provided HSNO for review did not contain detail of all the deposits.

The accounting records show a liability to the Zoological Society for \$31,915.47. The debt was recorded in October, 2002. It appears to be related to various expenses paid by the Society on behalf of the Botanical Center.

In the process of reviewing the off-book accounts HSNO noted disbursements to the Botanical Center from:

- Friends of the Roger Williams Park - Improvement Fund. There was a reference to a plant sale in the records.

- Friends of the Roger Williams Park - Programming Account. A \$4,000 transfer appears on the March/April, 2003 bank statement.
- East Side Floral and Antique Show, \$2,500. A notation in records calls it a reimbursement. This disbursement was made shortly after the Show received \$5,000 from the Rhode Island Zoological Society.
- PPFS (Preview Party Flower Show). This account appears to have the proceeds from ticket sales and donations from various individuals and businesses for the Preview Party “2001 Rhode Island Spring Flower & Garden Show” to benefit the Botanical Center.
- PPFS. On August 3, 2001, according to the Fiscal Advisor, the closing withdrawal in the amount of \$3,434 was paid to the Botanical Center.
- PPFS. Documents indicate two donations were received from the Convention Authority of Providence for the benefit of the Botanical Center. A note with a \$7,500 receipt states “deposited to Botanical Center acc.” Information provided to HSNO indicated the Convention Authority of Providence issued check number 942 for \$4,500 and that it was deposited to the PPFS account.

The Botanical Center also made some payments to the Friends of the Roger Williams Park accounts. Information contained in the records provided notes reimbursement for such items as telephone, travel and special events.

The review of the Botanical Center’s accounting and banking records was limited in its scope. The accounting information and banking records provided HSNO were reviewed. Those records appeared to support HSNO’s understanding of the mission of the Botanical Center. The engagement was limited to performing an operational overview of the financial and accounting activity; therefore, HSNO did not perform extensive transaction testing.

The former Superintendent said that funds raised within the Park and Zoo were not deposited in the City Treasury because the City budget wasn’t adequate to properly maintain the Park and Zoo properly. She felt that if the City had been informed of the funds, they would have been devoted to non-Park and non-Zoo related purposes. As an example of this re-direction, she cited lease revenues generated from the Triggs Golf Course; these were once retained by the Parks Department, but were later appropriated by the City for other uses and never replaced. Ms. Derrig provided HSNO with a Letter of Intent from former Mayor Cianci to substantiate her assertions. See Exhibit 38 for a copy of the Letter of Intent. In addition, Ms. Derrig explained that some contributors told her they did not want their donations managed by the City Treasury but rather deposited in separate non-profit entities. HSNO was informed that all of the funds deposited to the off-book accounts were utilized for the benefit of the parks and the City, other than those funds allegedly misappropriated by the Office Manager. The validity of this assertion is addressed throughout the body of this report.

HSNO’s general finding is that off-book accounts were used to conduct Parks Department business outside the City’s general system of financial controls.

## 1. Botanical Center Loans

HSNO reviewed a memo May 28, 2003 from the Department's Fiscal Advisor to the Superintendent which indicates that \$65,143.13 was paid out on behalf of the Botanical Center by the Department. The expenditures are referenced as "loans". At the time of the writing of this report, HSNO is not aware that any of these funds have been repaid. The aforementioned memo contained check copies totaling \$40,523 that the Fiscal Advisor informed us make up part of the \$65,143.13. The checks were drawn on the following off-book accounts:

1. Friends of Roger Williams Park - Park Maintenance Fund
2. Friends of Roger Williams Park - Improvement Fund

The memo also identifies "\$15,000 of cash transfers executed in the lots of \$5,000 "to cover expenses and new ventures." See Exhibit 8 for the memo and copies of the checks.

Ms. Derrig told HSNO that she had never seen this memo and that she did not believe the \$15,000 in cash transfers was disbursed on behalf of the Botanical Center. She suggested that the transfers went to accounts in the care of the Office Manager, possibly during the time period that funds were misappropriated from the Carousel related accounts. As of this writing, the Fiscal Advisor has not been asked to respond to these allegations.

## 2. Botanical Center Funding from FRWP Accounts

When asked if she authorized expenditures on behalf of the Botanical Center from Friends of the Roger Williams Park, Ms. Derrig responded that, if there was money available, she felt it was appropriate to support the Botanical Center that was in turn making improvements in the Park via the use of the money. She did not know how much money was involved and could not comment on the accuracy of the figure mentioned in the May 28, 2003 memo.

Ms. Derrig told HSNO that she didn't explicitly require maintenance of specific accounting records for the monies disbursed on behalf of the Botanical Center because she believed that the Fiscal Advisor in his professional capacity should have known enough to do so.

Ms. Derrig also stated that she did not seek permission from any senior City fiscal officers to expend "Friends of the Roger Williams Park" funds on behalf of the Botanical Center.

Information was obtained that certain City employees were receiving compensation in addition to their City salaries from either a Parks Department off-book account and/or an external entity. City employees have received compensation from the Friends of the Roger Williams Park Botanical Center, the Rhode Island Zoological Society, Friends of the Park Museum, Carousel Operations and the Friends of the Roger Williams Park accounts. Ms. Derrig acknowledged that certain City Parks Department employees were receiving compensation from the Zoological Society and the Botanical Center. Additional details are provided in the Findings section of this report.

There were numerous accounts managed by Parks Department personnel containing "Friends of Roger Williams Park" in the title. The following is a listing of items flowing through the

various Friends of Roger William Park and related accounts. The listing was developed from documents provided and information obtained via interviews of City employees. Exhibit 1 lists the various Friends of Roger Williams Park accounts and provides some additional background.

The following summary does not include the external, independent corporate entity accounts.

**Sources of Funds:**

- Carousel Village operations
- Bella Vista restaurant - Rent,
- Three rental properties - Resided in by City employees,
- Benefit Street Condominium Association - Rent received for parking facility,
- Lemonade Sales,
- Donations and Grants,
- Various insurance proceeds,
- Paddle Boat rentals,
- Gondola rents - Providence Place Park,
- Greenhouse Plant Loans for Casino operations,
- Tennis Court membership and court use fees,
- Park Passes - Subsequent to the 1999/2000 budget period this revenue went to the Concession Fund in the custody of the Zoological Society.
- Water Place Park functions,
- North Burial Ground.

**Expenditures:**

- Compensations to City employees and others,
- Cell phones,
- Office supplies,
- Grant projects,
- Tennis Court expenses,
- Computers & related expenses,
- Reimbursement to employees for petty cash type expenses,
- Payments on behalf of the Botanical Center,
- Some payments on behalf of the Casino,
- Office Equipment and furniture,
- Elevator maintenance cost for the Boat House,
- Maintenance expenses at Water Place Park,
- Expenses of Providence Parkfriends, Inc.,
- Trees and grounds enhancement materials,
- Fleet Skating Rink expenses,
- Preview Party Flower Show Transactions.

Misappropriation of Funds and Off-Book Account Reviews

The Parks Department Office Manager, who was on suspended status at the time of this review, is subsequently referred to in this report as the “Office Manager.”

As mentioned in the Summary, the Office Manager has acknowledged misappropriating funds from OBAs that were under her care, custody and control. She made these admissions to City officials and to representatives of HSNO.

The Office Manager acknowledged having three checking accounts and one money market account in her control. She didn't recall a second Fleet money market account identified by HSNO that she appears to have managed.

HSNO interviewed the Office Manager on September 15, 2003 and September 23, 2003 at the office of her legal counsel. During the interviews, the Office Manager was cooperative, courteous and answered all HSNO's questions to what appeared to be the best of her ability based upon the time periods spanned and the information and documentation available at the meetings. At the two meetings, the Office Manager also answered questions pertaining to the operational review HSNO was conducting of the Parks Department's off-book bank and investment accounts.

During the September 23, 2003 interview, the Office Manager informed HSNO that she had taken money from two of the bank accounts she managed. She stated she accomplished this by writing checks from the two accounts to herself and through ATM withdrawals. Prior to these meetings the Office Manager's attorney had submitted to the Rhode Island Attorney General's Office original cancelled checks she had written to herself. The Providence Police provided copies to HSNO. The Office Manager also submitted additional information to HSNO after the interviews. See Exhibits 3 and 4 for copies of the information provided.

HSNO personnel traced these checks to the disbursements section of the corresponding bank statements, confirmed the checks had cleared the bank, and substantiated the pay-out of the monies.

HSNO presented a preliminary list of checks and ATM withdrawals to the Office Manager at the September 23, 2003 meeting. The Office Manager verbally acknowledged specific unauthorized ATM withdrawals HSNO had identified in the bank statements. Other than a few small ATM withdrawals, she confirmed that she had taken the funds identified. The total at the time was \$34,366.25. Incorporating subsequent information provided by the Office Manager, the total has risen to \$36,896. The Office Manager has not confirmed this total.

The \$36,896 is an accumulation of transactions identified in three bank accounts: Citizens checking 1003-673-3, Friends of the Park Museum Fleet checking 0585501143 and Providence Park Friends Carousel Village Operations Fleet checking 93955-46147. Background on the Carousel Village Operations and Providence Park Friends, Inc. is presented further on in both this report and the Addendum.

The Office Manager's attorney informed us that Ms. Derrig had authorized the Office Manager to pay herself a bi-weekly professional fee of \$280 for managing the bank accounts. In addition to the alleged professional fees, HSNO was told that Ms. Derrig also authorized various bonuses, such as a Christmas bonus. Figures for the bonuses were not discussed at this meeting nor have they been subsequently provided.

It was further explained that the Office Manager, for the most part, did not necessarily write checks for \$280 or \$560. In many cases, checks were written for larger amounts, a portion of the check representing an alleged authorized professional fee and/or bonus, and a portion representing misappropriated monies. The Office Manager's attorney contends that in order to determine the correct amount of misappropriated monies, it is necessary to deduct the alleged authorized professional fees and bonuses. The calculation would be basically as follows: total of all check payments to the Office Manager plus unauthorized ATM withdrawals less professional fees and bonuses authorized during the period, with the net amount equaling the total funds misappropriated by the Office Manager.

The Office Manager provided HSNO with a listing of what she alleges was authorized for professional fees. See Exhibit 3. HSNO's interpretation of the schedule is that it totals \$9,915. The net amount of the total questionable disbursements identified, \$36,896, less the alleged authorized professional fees, \$9,915, is \$26,981. HSNO asked the former Superintendent if she had authorized the alleged professional fees. She stated she might have authorized a bonus, but had not authorized any professional fees. (see Recommendations)

What follows is a review of each of the accounts under the Office Manager's control.

#### **Providence Parkfriends, Inc. - Carousel Village Operations Account 05-85501143**

The information examined for this account shows \$6,016 in deposits and \$7,622 in disbursements. Included in those disbursements were \$4,960 of ATM withdrawals by the Office Manager and \$1,975 in checks issued to her. Please take note that the time period covered in the summary of possible misappropriated funds is greater than the general review period of June 1, 2001 to June 30, 2003. Therefore, there will be variances between the figures presented here and the figures presented in the Summary of Misappropriated Funds Section of this report.

See Exhibit 5 for a more detailed summary of the cash receipts and disbursements for this account. See Exhibit 4 for a listing of the checks and ATM withdrawals relevant to the Office Manager.

#### **Friends of the Park Museum - Account 1003-673-3**

Although bearing the name "Friends of the Park Museum", this is not an account belonging to the external corporate entity, "Friends of the Park Museum", and it is not associated with that entity. The information available for examination indicates this account was opened in September 1997 with a deposit totaling \$700 that is believed to have been from one of the Friends of the Roger Williams Park accounts. On October 10, 1997, the account register shows a deposit of \$56,800 from Bell Atlantic. HSNO was informed the money received was for the publication of a book by the Parks Department. HSNO examined a copy of the book and the information contained therein appears to support this explanation.

During the interview of the Office Manager she acknowledged she made unauthorized disbursements from this account. HSNO examined the bank statements for the period under review. HSNO also reviewed whatever cancelled checks were available for the period. It should be noted that a substantial portion of the documentation pertaining to this account was provided by the Office Manager.

The account balance at June 30, 2003 was \$5,288.18. A summary of the bank statements for the period under review indicated that of the \$69,033 in deposits, \$62,235 were from credit card transactions. There was \$87,956 in disbursements. See Exhibit 5 for a more detailed summary of the cash receipts and disbursements.

Checks identified payable to the Office Manager for the period under review total \$20,385. See Exhibit 4 for a listing of those checks.

HSNO also examined some banking activity for several months between October 2000 and May 2001. During that period HSNO identified disbursements from the account to the following:

Botanical Center	3 Checks	\$29,946.89
Greenhouse Patrons Fund	1 Check	\$11,059.00

The Office Manager told HSNO that she could not recall the background of these four transactions. No further analysis was performed because these transactions occurred prior to the designated review period.

**Carousel Village Operations - Special Account - Account 939-5546147**

Per the Office Manager, this account was initially established to process the revenues generated by the sale of Park Passes. A Park Pass allows the purchaser free access for a day to the Zoo, the Museum & Planetarium and the Carousel Village, along with a few other Park privileges.

For the period under review there were no receipts and only \$2,933 in disbursements, which included a \$540 check payable to the Office Manager. HSNO was not provided all the bank statements for the period. See Exhibit 5 for a more detailed summary of the activity.

Banks statements were available going back to March 1997. A cursory review of the activity from March 1997 shows that in excess of \$200,000 flowed through the account. As this fell outside the time frame of this review no further work was done.

**Carousel Village Operations - Premium Money Market Savings - Account 0589526864**

This is one additional bank account that was identified associated with the Carousel Village operations. HSNO does not have any bank statements subsequent to December 2002. The balance of the account at December 31, 2002 was \$672.58. The only activity noted in the account was a total of \$34.05 of interest earned from September 1999 to December 2002. HSNO requested the January through June bank statements, but they had not been provided at the time this report was being written. The activity HSNO did examine was minimal. If City officials wish to address this account further, at their request, HSNO will do so at a later date.

## **Museum and Planetarium**

Tracey Keough is the Director of the Museum and Planetarium, the only museum of natural history and public planetarium in Rhode Island. Ms. Keough is responsible for day-to-day operations, budget administration, oversight of the building and grounds, exhibitions, education programs, curatorial functions, and special projects such as facility rentals and grant projects.

HSNO did not identify any internal bank accounts for the Museum or Planetarium, but learned of an affiliation between the Museum and Planetarium with the Friends of the Park Museum, an independent, external non-profit 501(c)(3) corporation. This entity has its own checking and money market bank accounts. At the time of the initial review, three City employees served without compensation as officers or directors of the corporation.

The Museum and Planetarium generate revenue from admission fees, educational programs (comprising the bulk of their revenue), gift and souvenir sales and special event rentals. These receipts are deposited to the Friends of the Park Museum bank accounts, Fleet money market account #0539983073, and Fleet Business checking account #053558049, managed by the Museum Director. See Exhibit 5 for summaries of the cash receipts and disbursements for the two bank accounts.

The Museum Director informed HSNO that the bank accounts were in place when she became the Director, and that she knew of no other Museum accounts. She stated that all the funds are expended from the account for Museum and Planetarium operations.

Checking account disbursements are made for various items, such as supplies, building maintenance, Museum inventory, and a fee for the bookkeepers. There were a number of deposits made to the checking account during the review period. However, there was little or no supporting detail on the deposit slips to identify the deposits. The Museum Director told HSNO that these receipts came primarily from school groups, activities, YMCAs, and from education programs at the Museum

HSNO identified three transfers from the money market account to the checking account in 2001 and 2002. The Museum Director stated that funds are transferred from the money market account to the checking account to cover expenses, such as a catalog created in 2002.

As of May 31, 2003, there was a balance of \$18,099.78 in the checking account and \$52,299.31 in the money market account

Two other matters deserve mention. First, the Museum Director stated that the former Superintendent had authorized payments of \$80 a week to the Museum Office Manager, a unionized City employee. These payments were described as “additional compensation” and paid from the Friends of the Park Museum accounts. HSNO found no evidence that the payments were subject to Federal or State withholding, nor was a federal Form 1099 issued at year-end. The Museum Director stated that she stopped paying overtime to the Office Manager when she learned of the possible ramifications of the situation.

Second, HSNO noted three cancelled checks evidencing non-interest bearing loans to the Museum Director and the Museum Office Manager. The Director received \$4,300 in September

2001 and \$3,000 in February 2002. Check copies and bank deposit slips were provided documenting that both loans were repaid within three to five months. The Office Manager received a loan of \$800 in October 2002. The loan was repaid in April 2003, per a copy of a check and deposit slip.

The Museum Director asserted that the former Superintendent generally authorized her to borrow from this account, although she did not specifically authorize these three loans and no loan agreements were executed. HSNO observed that all three checks bear a signature, “Nancy Derrig”. Whether the signature is authentic is beyond the scope of this engagement.

### **North Burial Ground**

Thomas D’Amore is the Director of Cemeteries. The Burial Ground has one bank account, Fleet checking account 010-810-0281. Certain deposits are made to this account, and the North Burial Ground Office Manager is only authorized to write checks on a monthly basis to three payees: the City Collector, City Treasurer, and Recorder of Deeds. No vendors are paid out of this account. Per the review of the disbursements from the account, all cancelled checks examined were drawn as described by the Office Manager.

All funds for the perpetual care of the cemetery lots are deposited to the City’s North Burial Ground Trust and Special Account. North Burial Ground personnel were aware that funds are regularly disbursed from this account, but they did not know the purpose of the disbursements or the balance in the account.

According to the Office Manager who processes the North Burial Ground account activity, the Board of Park Commissioners set up the North Burial Ground Trust and Special Account several years ago. She stated that all funds deposited are derived from sales of land, interments, foundations and certificates. HSNO’s review of the bank statements, account ledgers and North Burial Ground Return tickets for the period under review confirmed the Office Manager’s statement.

Exhibit 5 contains a summary of the cash receipts and disbursements of the North Burial Ground bank account.

### **Department of Cultural Affairs**

HSNO interviewed the Cultural Affairs Coordinator, Robert Rizzo, who manages two banks accounts for the Department of Cultural Affairs.

The first is a Citizens Bank checking account number 1007-607-7, “Friends of Waterplace Park” (hereafter, the “Cultural Affairs Account”). This account is the successor to a Parks Department bank account entitled “Division of Public Programming,” Citizens Bank account number 1010-381-3. The second bank account belongs to an external entity, the private 501(c)(3) organization, “Capital Arts Providence,” which partners with the Department of Cultural Affairs for operational support of some programs.

HSNO verified that in the past the City issued checks to the Capital Arts bank account for various reasons. HSNO learned that revenue from Department of Cultural Affairs events would go directly into either account or be transferred from the Cultural Affairs account to the external entity account.

The Cultural Affairs Coordinator told HSNO that receipts deposited into the Cultural Affairs Account came from gondola rents, park permit fees, New England Lemonade sales and Bella Vista Restaurant rents. The Coordinator further claimed that all disbursements from the account were related to expenses associated with Waterplace Park, such as payments to various artists, supplies for the Jazz Festival, repairs to the Waterplace Park stage, etc.

As of June 2002, Bella Vista Restaurant rents were no longer deposited to the Cultural Affairs Account. The Cultural Affairs Coordinator did not know where the rents were subsequently deposited. HSNO learned that the former Superintendent arranged to put the Bella Vista rents into another account. She would then fund the Cultural Affairs Account periodically and, when needed, the Cultural Affairs Coordinator could request a transfer of funds to the Cultural Affairs Account. HSNO noted receipts to this account from the Park Improvement Account number 11181559 on June 20, 2002 for \$10,000 and on August 9, 2002 for \$2,500. The ending account balance at July 31, 2003 was \$17,145.

HSNO's review of bank statements, copies of checks and the account transaction ledger confirmed the activity as described by the Cultural Affairs Coordinator for the period July 2001 through June 2003. However, HSNO considers the fact that the Cultural Affairs Coordinator manages the internal Cultural Affairs Account as well as the external entity account as an accounting control weakness and conflict of interest.

Exhibit 5 contains a summary of the cash receipts and cash disbursement for Waterplace Park bank account for the period under review.

## **SUMMARY OVERVIEW**

The existence of multiple off-book bank accounts, internal and external, the extensive commingling of funds, the substantial lack of accounting records and supporting documentation, the lack of internal accounting controls coupled with no evident oversight or monitoring thereof, and some Department staff holding positions of influence within external organizations receiving either direct or indirect City financing created an environment that was open to and conducive to fraud, mistakes, lack of oversight, waste and/or abuse.

## Recommendations

1. **Misappropriation of Funds:** The Parks Department Office Manager alleges that the former Superintendent authorized professional fees of approximately \$9,900 for services rendered in relation to the Carousel Village Operations. The Office Manager contends that of the \$36,896 misappropriated funds, these sums are not misappropriated monies. Ms. Derrig denies authorizing the payment of any fees from the off-book accounts, with the possible exception of a one time \$500 bonus. HSNO recommends the appropriate City officials review HSNO's computation in order to finalize the amount of restitution sought.
2. **Off-Book Accounts – Other Alleged Fees and Items:** HSNO recommends the City consider utilizing its resources to acquire banking and other information not provided to HSNO, in order to review and clarify financial transactions pertaining to the Parks Department Fiscal Advisor. Transactions processed through the off-book bank accounts in his care for the most part could not be substantiated with customary accounting records and related supporting documentation. Moreover, there is uncertainty regarding the propriety of fees paid to him in addition to his City salary; he claims the former Superintendent authorized additional compensation, which she denies. Consideration should be given to referring this matter to the Providence Police Department to include issuing a subpoena for the Fiscal Adviser's personal financial records. In making this recommendation, HSNO took into consideration the absence of a significant quantity of required documentation, in either hard copy or electronic format (which is customarily backed-up), necessary to support a substantial amount of the activity that flowed through these accounts. HSNO believes the resolution of these issues serves the best interests of all the parties concerned.
3. **Off-Book Accounts – The Friends of the Park Museum:** The Friends of the Park Museum is an external, non-profit corporation. Revenues generated by the City's Museum and Planetarium were deposited to Friends of the Park Museum bank accounts and not to the City Treasury. HSNO recommends the City review this situation and determine if this is a proper practice; corrective measures may follow if necessary.
4. **At the outset of this engagement,** City officials requested that HSNO attempt to identify City employees receiving compensation from the off-book accounts in addition to their City salaries. Review of Friends of the Park Museum banking transactions identified several compensation checks paid to the City Museum's Office Manager, a member of the union. Neither the Director of the Museum or the Office Manager has signing authority on the Friends of the Park Museum bank accounts.

The most recent Annual Report of a Non-Profit Corporation, filed with the Rhode Island Secretary of State for 2002, identifies three directors, all of whom for at least a portion of the period under review, were City employees. Since the Friends of the Park Museum is an external incorporated entity, HSNO recommends the City make a determination as to whether the City has any authority in the management and business affairs of the Friends of the Park Museum.

5. **If the City should conclude that it has authority in the management and business affairs of the Friends of the Park Museum,** HSNO recommends that it review the circumstances of the

disbursements to the City Museum's Office Manager and determine whether they were appropriate.

6. It was noted that the Director of the Museum and Planetarium, who also served as a Director of the Friends of the Park Museum, and the Museum's Office Manager, received personal loans from Friends of the Park Museum funds. HSNO was told by Ms. Derrig that she did not authorize these loans. If the City should conclude that it has authority in the management and business affairs of the Friends of the Park Museum, HSNO recommends that it review the circumstances of the loans.

HSNO firmly believes it is in the best interest of all the parties involved to resolve the compensation and loan issues noted in the section.

7. During the course of the examination, HSNO learned that the Friends of the Park Museum's federal filings of Form 990 may not be current. If the City should conclude that it has some authority in the management and business operations of the Friends of the Park Museum, HSNO recommends the City also determine if it has any responsibility for ensuring compliance with federal and state reporting and other legislated mandates. In addition, if the City does have some authority and responsibility, HSNO recommends that it meet with other Park Museum directors and officers and appoint someone to perform the functions previously addressed by the former Superintendent .
8. Further, HSNO recommends that a copy of this report be provided to the Providence Police Department for their review and follow-up as deemed appropriate.
9. HSNO recommends there be a citywide policy pertaining to loans to City employees. If such a policy already exists, HSNO recommends that the City take action to educate all employees about this policy.
10. Additional Compensation: This report notes a number of instances where City employees, and employees of City-related external entities, were receiving compensation above their stated salaries or wages. HSNO recommends that the City establish a policy regarding what, if any, additional compensation will be permitted for City employees who work for any of the Parks Department-related entities. Given the inherent conflict of interest that exists in such arrangements and the difficulty associated with determining how much and how often a person is devoting their resources to each of the entities that they may be servicing, HSNO recommends that no additional related-entity compensation be allowed.
11. Parks Department: Off-Book Bank Accounts and Related Monies: HSNO recommends that all non-external off-book bank accounts currently under the control of the Parks Department be closed and all balances contained therein be deposited to the general treasury, trust and /or restricted fund accounts as appropriate.
12. HSNO also recommends that all monies obtained from all sources such as revenues, grants, donations and other miscellaneous items be directly submitted to the appropriate City financial office for deposit in the General Treasury or appropriate trust or restricted fund. This includes Concession Revenues and Coca Cola Agreement proceeds presently going to

the Rhode Island Zoological Society, and revenues generated via Aramark in relation to Carousel Operations.

13. There was a claimed need for the off-book accounts because budgeted funds were not always made available on a timely basis, even in emergency cases. It is alleged that on some occasions this resulted in disruptions of Department operations and damage to the physical plant; Ms. Derrig mentioned this in a January 2004 article published in the Providence Journal. See Exhibit 35. HSNO did not perform any research to determine if this was in fact true. However, that this was mentioned to us by more than one reputable individual suggests to HSNO that the Department's need to have readily available funds may have some merit.

HSNO recommends the City consider allowing the Parks Department to have one City-approved checking account. The account would function as an impress fund, more commonly known as a petty cash fund. However, the fund balance would be greater than what is normally thought of with a petty cash fund. The Department checking account would be funded directly from the City Treasury, and only from the City Treasury. The funds going into the account would be part of the Department's budget. City financial officials would determine the appropriate level of funding. Two individuals from the Director of Finance's Office and the Department would be authorized to sign on the checking account.

14. The initiation of disbursements from the account should be restricted only to designated Parks Department personnel. All expenditures exceeding a specific designated figure would require a second signature from one authorized signer in the Director of Finance's Office. When the cash balance in the checking account reached a specified minimum balance, the Department would be allowed to submit the paid invoices and receipts to the Director of Finance's Office for review and timely replenishment of the fund. Upon approval of such, the Director of Finance would issue a check to be directly deposited into the authorized checking account. The invoices submitted to the Director of Finance's Office would then be charged to the appropriate accounts in the Department's budget. No ATM or Debit Card withdrawals would be allowed with the account nor should any credit cards be issued to Parks Department personnel.
15. HSNO understands there may be some complexities in changing the manner in which the Rhode Island Zoological Society receives funding from concession revenues at the Zoo.

HSNO is not suggesting that the Zoological Society be denied funding that has previously been provided for the support and enhancement of the City's Zoo. However, HSNO recommends that it be accomplished in a manner that will allow appropriate City oversight and control of the amount of these revenues going to the Zoological Society, to limit the items for which they may be expended, and to supervise the activity on an on-going basis.

HSNO recommends that the concession revenues currently going directly to the Rhode Island Zoological Society be redirected to the City Treasury, and that the annual City budget for the Zoological Society be increased, as is deemed appropriate, to compensate for the loss of the concession revenues. HSNO also recommends that the City mandate *specifically* what budget monies may be spent for (such as for the Botanical Center). In this regard, the City need only specify the allowable categories for which City budget monies may be expended,

not necessarily placing limits on each category. This will allow the Zoological Society some discretion in the use of these funds and still restrict their utilization.

16. In addition, HSNO recommends that the Zoological Society be required to provide periodic financial reports to the City's Finance Director and Internal Auditor. HSNO also suggests the financial reports be reviewed on a timely basis by these officials and promptly acted upon if deemed necessary.
17. The Friends of the Roger Williams Park Botanical Center: HSNO believes that it is imperative that the City makes an official documented determination as to what its general and financial relationship shall be with the Botanical Center.

A substantial amount of what HSNO understands to be City monies and services has been expended both directly and indirectly in providing financial support for the Botanical Center. Examples include:

The Director of the Botanical Center is an employee of the Rhode Island Zoological Society, not the Botanical Center.

The salary of the Director, as well as other Zoological Society employees effectively working on behalf of the Botanical Center, has been funded from Concession and Coca Cola Agreement monies in the custody of the Zoological Society.

One million dollars (\$1,000,000) in grant monies have been placed in the care, custody, and control of the Botanical Center.

Parks Department personnel have been utilized in providing services to the Botanical Center.

Several thousands of dollars have allegedly been spent from various Friends of the Roger Williams Park off-book bank accounts in support of the Botanical Center.

There are questions related to the purchase and disposition of a one-half interest in the Rhode Island Spring Flower and Garden Show, a transaction involving \$95,000.

Revenues generated via the Preview Party Flower Show flowed through a Parks Department-controlled off-book account to the Botanical Center.

The Botanical Center is operating rent-free out of the Boat House.

HSNO believes that the City has to either decide to terminate financial support of the Botanical Center and determine what action it wishes to take, if any, regarding the monies already disbursed for its benefit, or decide to provide continued support and determine the amount and manner in which to provide it. HSNO recommends that consideration be given to conducting a more detailed review of the larger expenditures that flowed through these accounts for which proper supporting documentation was not maintained.

18. If the City should decide to continue to provide financial support to the Botanical Center, HSNO recommends that the City provide the funding via the City budget process in the same manner as it does for the Rhode Island Zoological Society. If this should occur, HSNO also recommends that the practice of the Zoological Society funding salaries for personnel

supporting the Botanical Center be terminated, and that all salaried employees providing services to the Botanical Center become Botanical Center employees.

19. A second alternative for continued City support of the Botanical Center would be to merge it into the Parks Department and fund its activities through the Parks Department budget.

20. Use of Concession Funds and Coca Cola Restricted Funds:

During the period from July 2001 through June 30, 2003, a total of \$540,783 was spent: \$422,442 was expended for salaries in relation to the Botanical Center and \$118,341 was expended for the Chief of the Park Rangers' salary. HSNO recommends that the City examine the circumstances and propriety of the compensation in question, and initiate any action it deems necessary. The concession funds were also used to pay for the Superintendent's leased vehicle.

21. HSNO believes that it may serve the best interest of all the parties involved to have the Concession Fund and the Coca Cola Restricted Fund records reviewed to obtain an independent overall view of the financial activity, as well as to substantiate the validity of the transactions for the public record. HSNO's suggested procedure is to select a designated period of time and examine all the transactions within that period.

22. Conflicts of Interest: HSNO believes there should be a procedure in place where a City employee seeking to become an officer, director or principal of any outside organization would have to submit a request to a reviewing person or board seeking permission to do so. The reviewer(s) would make a determination as to whether allowing such an arrangement would create a conflict of interest.

23. HSNO also recommends that the City identify any City employees currently serving as officers, directors or principals of external organizations for potential conflicts of interest and address any concerns accordingly.

24. Lease Car Provided to Ms. Derrig: A Rhode Island Zoological Society Financial Officer informed HSNO that the Society paid, from the Concessions Fund, twenty-four months of lease charges and insurance on an automobile for the previous Superintendent. The Society's financial officer also reported and Ms. Derrig confirmed that she received a taxable auto allowance of \$200 per month (\$2,400 per year) in her pay during the period when she had the Zoological Society lease car. A total of \$15,870 was expended from the Concession Fund, including lease payments of \$11,658 and insurance of \$4,212.

HSNO recommends that the appropriate City officials review the Concessions Fund contract and the circumstances surrounding the use of concession monies for a leased vehicle, making a determination as to the propriety of this use of the funds and initiate whatever action is warranted. This is another situation where HSNO believes that the resolution of this matter will serve the best interest of all parties concerned.

25. Friends of the Roger Williams Park – Park Maintenance Fund, Citizens Bank account 502-693-8: HSNO identified an \$8,000 payment to the East Side Floral and Antique Festival in July 2001. A letter in the file from the Director of the Botanical Center indicates Ms. Derrig

approved the \$8,000 disbursement, to be used to start the East Side Floral and Antique Festival.

HSNO recommends that City officials consider seeking reimbursement of the un-reimbursed portion of the \$8,000 advance, and any other monies that may be owed the City from the East Side Floral and Antique Festival. An appropriate City official may want to consider reviewing the activity in this account prior to, and subsequent to, the period under review for other disbursements that may be recoverable. Consideration should also be given to reviewing the other off-book accounts, such as the Greenhouse Maintenance Account, for potential recoverable items.

26. The Greenhouse Maintenance Fund Checking Account, Citizens 1003-676-8 & PPFS Business Partners Savings, Citizens 56-401880 & PPFS Business Partners Checking II, Citizens 1109-170-3 & Park Maintenance Fund(s): The information provided HSNO indicates the Greenhouse Maintenance Fund account was initially established to process transactions pertaining to the Roger Williams Park Greenhouse. The review of the limited supporting documentation provided for this account indicates that revenue and expenditures related to the financial activity of a Preview Party Flower Show operation (PPFS) were also processed through the Greenhouse Maintenance Fund. HSNO found no indication that the PPFS is or was an incorporated entity in the State of Rhode Island.

The Parks Department Fiscal Advisor told HSNO that PPFS accounts were established for the Flower Show. He also explained that the Flower Show lost money every year, so the Park Maintenance Fund paid the expenses that the Flower Show could not cover. Over a period of time, there were a few Park Maintenance Fund accounts; monies alleged to have been paid for the benefit of the Flower Show may possibly have been disbursed from one or more of them.

The Rhode Island Spring Flower and Garden Show is an external, independent, corporate entity not owned by the City of Providence. Therefore, it appears to HSNO that if the PPFS is deemed a City function, any City monies disbursed to the Flower Show or expended on its behalf from Park Maintenance Fund(s), the Greenhouse Maintenance Fund or from PPFS activities may have been inappropriately disbursed. It also appears that if the PPFS is not a City-owned function, any City Greenhouse Maintenance Funds disbursed to subsidize PPFS operations may have been inappropriately expended. HSNO does not know to whom the PPFS funds flowing through the Greenhouse Maintenance account belonged, and whether this was a City activity and City money or otherwise.

If it is determined that PPFS activity is not City-related, HSNO recommends that the Greenhouse Maintenance Account be analyzed from the point in time forward when PPFS activity began flowing through the account, and a determination made whether it was PPFS activity that depleted the preexisting Greenhouse fund balance. If it is found that City Greenhouse funds were used to subsidize the PPFS, the City may wish to consider seeking restitution of the Greenhouse funds from the beneficiaries of those monies and/or the individuals responsible for their misapplication.

27. If the City should proceed with HSNO's recommendation and find that the PPFS is not a City activity and that City Greenhouse Funds were expended in support of the PPFS, than HSNO

also recommends that documents necessary to forensically review the Park Maintenance Accounts be obtained, if possible, and examined for possible inappropriate disbursements to, or on behalf of the Flower Show or the PPFS.

28. Purchase of an Interest in the Rhode Island Spring Flower and Garden Show: Funds were expended from the Greenhouse Maintenance Account to purchase a one-half interest in the Rhode Island Spring Flower and Garden Show. It appears that a newly- formed corporate entity acquired this interest, with the Botanical Center acquiring title to one-half the outstanding common stock of the new corporate entity. The Botanical Center subsequently sold its stock. Included in the sales agreement was a non-compete agreement. The total proceeds of the transaction total \$95,000 and are being paid on an installment basis. Approximately \$60,000 remained unpaid at the time of HSNO's last inquiry.

HSNO recommends that the City's Law Department examine the transaction and make a determination as to the rightful ownership of the interest in the Flower Show, and who is entitled to the proceeds from the sale.

29. Royal Oak Foundation Grant: The Friends of the Park Museum, an external entity, was awarded \$500,000 to provide financial support to what appears to have been a project that did not exist within the ambit of the City Museum. The grant funds were not deposited in the Friends of the Park Museum accounts.

Ms. Derrig directed the grant project. At the time of the writing of this report, the funds were in the care, custody and control of a Zoological Society employee. HSNO contacted the Chief Financial Officer of the Zoological Society, who informed HSNO that he was not aware of the grant, nor that a Zoological Society employee had custody of the grant funds.

HSNO recommends that the City review the specifics of this situation and make a determination as to who is responsible for the completion of the grant project, and who is liable for the safeguarding of and accountability for the grant monies. If it is determined that the City has such responsibility and liability, HSNO also recommends City fiscal officers implement whatever internal controls are deemed necessary to safeguard the assets and ensure the reliability of the accounting records.

30. HSNO was informed that the Friends of the Park Museum has not filed a federal Form 990 since approximately 1995. The Zoological Society does not include the Royal Oak grant activity in its federal filings and, per the Providence City Controller, is not required to report financial activity to the Internal Revenue Service. Therefore, HSNO does not believe the grants activity was included in any federal filings (such as Form 990 – Return of Non-Profit Organizations). If the City determines that it has any responsibility and liability related to the Friends of the Park Museum, HSNO recommends that a specialist familiar with federal reporting requirements for non-profit organizations and grants be consulted, and a determination made if the Royal Oak grant activity should be included in federal filings of the Friends of the Park Museum; and that action should be taken to get all the entity's required filings up to date, inclusive of the Royal Oak grant activity if required.

31. Fund Raising, Grant and Other Solicitations: HSNO recommends that all fund raising events, grant solicitations and other solicitations be pre-approved by a reviewing authority

prior to their implementation. In this manner, all activity of this type could be monitored and the appropriate City officials, such as the Director of Finance and the Internal Auditor, could be put on notice of these activities and potential revenues for possible action on their part if deemed necessary. Having all requests coming to a single location would enable the reviewers to monitor and control when and how often potential donors are solicited.

32. Contracts: All Parks Department proposed service or goods contracts should be subjected to the established monitoring function. As part of the review process, the Board of Contracts and Supply would be responsible for identifying potential conflicts of interest, determining the necessity and appropriateness of a proposed contract, notifying other City officials where appropriate, and if approved, for forwarding the proposed contract to the Law Department for their review and input. Examples of contracts that should be included as part of this type of review are the Coca-Cola contract, the personal cell phone agreements, the Aramark concessions contract, the automobile lease contract and the like.

33. Department of Cultural Affairs: HSNO understands that City revenues, generated by City events, may go directly into the bank account of an external incorporated entity, Capital Arts Providence, or may be transferred to Capital Arts Providence from the Friends of Waterplace Park checking account, a Department off-book account.

If the City should choose to keep the Friends of Waterplace Park checking account in place, HSNO recommends that the Internal Auditor review and update the accounting and control procedures to ensure the safeguarding of City monies and to guarantee the adequacy and accuracy of the financial accounting records.

34. Commingling of Funds: HSNO recommends that policies and procedures be implemented to prevent the commingling of funds of external entities with those of the City.

35. Chief of the Park Rangers: The Chief of the Park Rangers is an employee of the Rhode Island Zoological Society. HSNO recommends that the City review the circumstances of this situation, especially from a liability and insurance standpoint of a non-City employee running a City function of the nature of the Park Rangers.

36. Two Champlin Foundation Grants, Total \$1,000,000: The documentation pertaining to the first Champlin Grant was not provided to HSNO for inspection, but HSNO did review documentation for the second grant award, which Ms. Derrig negotiated. The proceeds from both grant awards were deposited with the Botanical Center. HSNO recommends that the City's Law Department review the circumstances and paperwork to determine if the City has any liability for the safeguarding of the funds and for the appropriate expenditure of the monies.

37. Policy and Procedures Manual: The Parks Department was unable to produce a policy and procedures manual. During the time frame of the review, the Parks Department was completely devoid of proper accounting controls, procedures and document retention policies. HSNO recommends that a policy and procedure manual be developed that defines the overall mission of the Parks Department, including the sub-departments, along with the duties and responsibilities of each. All the various positions within the Department and sub-

departments should be identified and their duties and responsibilities recorded. All accounting procedures and controls should be clearly defined and implemented.

The job descriptions should identify what reports the position produces, when they are produced, who receives them, and what review and analysis procedures are performed on them. They should also indicate where the reports are filed, who is responsible for filing them and the length of time they are to be maintained. The payroll function as well as equipment management and related accounting and control procedures should be included.

The policy and procedure manual should specifically identify all revenue generating activities and the specifics of processing the financial transactions, the accounting for such and the routing of the proceeds to the general treasury. It should also indicate what needs prior approval and the procedures for obtaining such. The listing of information that is recommended to be contained in the policy and procedures manual is not intended to be all-inclusive; it is intended only to be used as a guide.

38. Fraud and Abuse Hotline: HSNO recommends the City create a fraud and abuse hotline or mailbox where City employees who wish to report possible wrongdoing or waste and/or abuse of City assets can report such and remain anonymous.