



August 25, 2008

Mr. Ed Williams  
Archdiocese of Seattle  
710 9th Avenue  
Seattle, WA 98104

**Re: St. Paul School (Seattle, Washington)**

Dear Ed:

Acuity Group PLLC (Acuity) has completed its work for St. Paul School, pursuant to our engagement letter dated August 11, 2008.

The purpose of our engagement was to conduct an investigation related to a complaint letter sent by a former teacher. My assistant and I met with Francisco Ebero, Parish Administrator and Cely Viloria, Bookkeeper. We also met with Wayne Melonson, School Principal.

The purpose of meeting with these individuals was to gain more understanding into the allegations set forth in the above mentioned letter; and to also inquire whether any other issues related to the financial management of the school were of concern.

This letter serves to communicate my findings and recommendations to you.

## **Background**

Middle school teacher, Sean Taeschner, M.Ed., sent a letter to various parish and Archdiocese management alleging various financial and management improprieties at St. Paul School. Our engagement was to focus on the following specific finance-related allegations:

1. Staff stipends
2. Misuse of Corporate Matching Funds

## Staff Stipends

Mr. Taeschner's relayed an incident whereby he was offered a stipend to chaperone a school-sponsored field trip for the 7<sup>th</sup> grade. The 7<sup>th</sup> grade field trip is an extended field trip whereby teachers (and students) spend several days traveling and away from their families. Mr. Melanson shared with Mr. Taeschner a spreadsheet showing previous \$150 stipends to teacher/chaperones. Mr. Taeschner declined the stipend.

I interviewed both Ms. Viloria and Mr. Melanson, who confirmed that it was common practice to issue these stipends for "extended" service. Ms. Viloria also confirmed that these stipends were never reported on the W-2's of these employees.

My review of the books and records uncovered two stipends for a 7<sup>th</sup> grade trip. Greg Cox and David Scanlon each received \$150 on May 18, 2007 for that year's trip.

Further, I reviewed St. Paul's QuickBooks file for information related to the 8<sup>th</sup> grade Washington D.C. trip. I was able to confirm two stipends to Mr. Melanson for "tour guide services". Ms. Viloria confirmed that these amounts were never reported on Mr. Melanson's W-2.

DATE	AMOUNT	NOTES
6/30/05	\$4,225	Journal Entry credit to tuition revenue. Ms. Viloria indicated this was for Mr. Melanson's son's tuition.
6/6/07	\$2,450	Check to JFK High School for "Tour Director Stipend." Ms. Viloria confirmed this was for Mr. Melanson's son's tuition.
<b>TOTAL</b>	<b>\$6,675</b>	<b>Not Reported on W-2</b>

**Recommendation:** I recommend that all stipends be reported on employee W-2's. I further recommend that significant stipends (e.g. over \$1,000) be pre-approved by the pastor and also reported on the principal's W-2. Further, amounts for stipends should be issued via check directly to the teacher/principal receiving the funds, and not through a journal entry or check to a third party.

## Misuse of Corporate Matching Funds

Mr. Taeschner's letter indicated potential misuse of corporate matching funds. Specifically, he indicated that parents (or family members/friends of students) were completing Corporate Matching Fund documents to their employers for the cost of the Washington D.C. field trip. Many employers will match

employee contributions to not-for-profit organizations. For example, if a parent were to donate \$1,000 to St. Paul school, their employer (e.g. Boeing) would match \$1,000 and the school would receive a total of \$2,000.

Ms. Viloria indicated that the funds required for the Washington D.C. were always routed to Mr. Melanson directly. Further, she confirmed the receipt of questionable "matching funds" from various local employers. Specifically, it appeared to her that parents (or their friends/family) were paying for one-half of the cost of the D.C. trip via a "contribution" to the school and the employer was paying the other half. Further, while these amounts came in to the school as "contributions" from various employers, the amounts were directed to the specific student whose parent/family member had made the initial "contribution".

I was provided with copies of a spreadsheet Mr. Melanson provided to Ms. Viloria for his "accounting" of the 2007 D.C. trip. I was further provided with check stubs and copies of Gift Matching Program forms. Most of these forms indicate that the purpose of the contribution is for "Scholarship Programs" or "Social Studies Scholarship".

Mr. Melanson's spreadsheet indicates that several families paid small deposits for the trip, (e.g. Fields \$95 and Mori \$430). The majority of the funds for these families come from their "contribution" to the school and a gift match from their employer in amounts exceeding \$1,000. This indicates that the "contribution" and gift match were actually for the cost of the trip and not truly for scholarship purposes.

While we were also able to confirm use of these "contributions" and gift matching funds for tuition payments and even "refunds" back to parents at the end of the year; further bringing into question the true nature of these original "contributions."

**Recommendation:** I highly recommend that the practice of requesting matching contributions from one's employer be strictly for gifts benefitting the school. Requesting matching contributions for anything other than a gift to the school (i.e. to pay for tuition or the cost of a field trip) could severely jeopardize the school's status with gift matching programs. Even more troublesome is the potential for all gift matching programs benefitting the Archdiocese or affiliated parishes/schools to be suspended. Additionally, requesting matching funds from ones employer when the intent and purpose is not truly a gift to the organization puts the employee at risk of termination with their employer.

## **Other**

My review of the books and records of St. Paul school also uncovered two other items of concern.

### **Cash withdrawn for school trips**

The first is miscellaneous cash provided to teachers for use on the school trips. In one example, a 7<sup>th</sup> grade teacher was provided \$1,400 for "miscellaneous field trip expenses." While it is understandable that

this cash is needed for an extended trip, I do not see any cash being provided back to the school and/or an accounting of the cash once it has been distributed to the teacher. Again, similar amounts have been withdrawn for the 8<sup>th</sup> grade trip for things like "tips", etc.

**Recommendation:** I recommend that if cash is going to be withdrawn in advance for school trips, the person responsible for that money should keep receipts and provide the leftover change and receipts back to the school bookkeeper for proper accounting.

**Bonus Pay to teachers**

While reviewing the books and records of the school, I came across several bonuses to teachers during the Christmas season. It appears that in 2005, amounts gifted to teachers were not reported on W-2's. It appears that this practice changed in 2006; however it is not consistently applied.

**Recommendation:** Any amounts provided to teachers in the form of bonus pay should be properly reported on their W-2.

Thank you for the opportunity to be of service in this matter. I appreciate the courtesies extended to me by Francisco Ebero and Cely Viloría and other members of the parish during my onsite visit.

Respectfully,



Tiffany R. Couch, CPA, CFE



October 23, 2008

Mr. Ed Williams  
Archdiocese of Seattle  
710 9th Avenue  
Seattle, WA 98104

**Re: St. Paul School (Seattle, Washington)**

Dear Ed:

On October 7, 2008 I was onsite at St Paul School (St. Paul) in Seattle, Washington. The purpose of this visit was to follow up on items I had discovered during my initial visit to the school on August 14, 2008. The work I performed was pursuant to our August 11, 2008 engagement letter with you.

The details of the scope of my work and findings follow.

### **Background and Scope**

On or about July 11, 2008, parish and school management received a complaint letter from a St. Paul teacher. The 40-page letter spelled out a myriad of complaints related to finances and treatment of staff. I was asked to investigate only those matters that related to finances.

The specific finance-related complaints include:

1. Staff stipends
2. Missing money
3. Matching funds received from local employers.

On August 25, 2008 I reported the results of my initial findings to you. In that report, I confirmed that matching funds had been used to subsidize student trips to Washington, D.C. You asked me to follow up on these findings and report to you the amount of matching funds potentially misused. During my visit on October 7, 2008 I re-interviewed both the principal, Wayne Melonson and the bookkeeper, Cely Viloria, and requested additional documents.

## Findings

My review covers the period August 2006 – June 2008. It is my opinion that approximately **\$19,180** in matching funds from local employers was misused during that time period (out of a total of \$47,685 in matching funds received for the Washington D.C. trips). The amount of misused funds identified only includes amounts that could be directly tied between parent/child or familial relationships. I have identified additional funds of \$8,280 that appear to directly benefit a specific student or family (and not a “scholarship fund”), but I am unable to verify this without additional information. Further, new information provided to me during my October 2008 visit confirms that not only have these funds been used to pay for student trips to Washington, D.C.; but have also been used to pay tuition and director stipends.

It is also my opinion that during the period of my review, the principal, Wayne Melonson, benefited directly from matching funds as follows:

<b>2007 Tour Director Stipend</b>	<b>\$2,450</b>
<b>2007 Match Funds for Family Trip</b>	<b>\$2,300</b>
<b>2007 Trip Discount for Family</b>	<b><u>\$1,630</u></b>
<b>Total</b>	<b>\$6,380</b>

Outside the period of my review, but relative to this investigation, I identified an additional **\$2,450** in apparent matching funds that directly benefited Melonson; these amounts paid for both the “tour director stipend” as well as tuition. I also identified **\$2,000** in matching funds that directly benefited the tuition account of Melonson’s sister.

## Washington, D.C. Trips

**Matching Funds.** Each year, the 8<sup>th</sup> grade class takes a field trip to Washington, D.C. Based on my interviews and review of documents, it is apparent to me that parents were encouraged to find a “sponsor” employed by a large corporation such as Boeing or Microsoft. It is well known that these employers have gift matching programs whereby a donation to a valid 501(c)(3) is matched with funds from the employer. For example, if a Boeing employee gives \$1,000 to a scholarship fund at St. Paul, then upon proof of payment and validation by the school principal, Boeing will also send \$1,000 in matching funds; resulting in a total gift to St. Paul School of \$2,000.

I confirmed that while Boeing was under the impression funds were being donated to St. Paul for the purposes of a “Social Studies Scholarship”; the funds were not going into a scholarship fund. Instead, the funds were being directed toward specific students’ accounts, thereby lowering the amount the student’s family needed to pay out of pocket for the trips.

Based on my review of Boeing’s Gift Matching Program requirements, they specifically state that travel and tuition are ineligible for matching funds. However, during fiscal years 2007 and 2008, Boeing alone “matched” \$40,160 in funds that went toward the costs of students trips. A total of **\$47,685** in gift match funds from various employers for the Washington D.C. trip was received by St. Paul during the period of my review.

**Tour Director Stipend.** In reviewing the Washington, D.C. trip detail and the QuickBooks file, I confirmed that Melonson consistently received a stipend for serving as the tour director. At the end of the 2007 school year, Melonson received **\$2,450**. This amount went directly to John F. Kennedy High School to pay for Melonson's tuition obligation there. This income was not reported to the IRS via a W-2 or 1099 Form.

No tour director stipend came from St. Paul funds at the end of the 2008 school year.

Although it is outside the period of my review, I confirmed that **\$1,850** was credited against Melonson's tuition at the end of the 2006 school year in lieu of payment for tour director fees. Again, this income was not reported to the IRS.

**Other Washington, D.C. Trip Findings.** I interviewed Pam Turner at WorldStrides. WorldStrides is the travel agency that helps coordinate the trip for St. Paul. She provided me with the background related to planning for this trip and how certain line items on the invoice I reviewed were calculated. She indicated that she has worked directly with Melonson on trips during the last five years.

Turner indicated the following:

- St. Paul is given a free trip for every 15 paid participants. The leader is also given a free trip.
  - **Finding:** In 2007, four free participants were granted. WorldStrides rosters indicated the free participants were: Wayne Melonson, Rita Turner, Lisa Lambert, and Darren Young. I confirmed that Turner received a free trip. However, Lambert partially paid for her trip (\$570 out of a cost of \$1,965). Additionally, it appears that Melonson's wife also received a partial free trip (paying \$335 out of \$1,965).
- A \$50 stipend per participant is generally set aside for tips and other trip incidentals (In 2007, this amounted to \$2,400). Turner indicated that Melonson never wanted to take the stipend, instead setting aside the funds for "struggling" participants.
  - **Finding:** In 2007, Melonson took \$920 for tips and incidentals. He also took \$2,450 for tour director fees. Melonson indicated to me that struggling kids' fees were paid for by donors; his spreadsheet indicates the same. It appears that stipend funds directly benefitted the principal, not struggling students.

**Refunds of Trip Fees.** I discovered that once the trip was complete, Melonson provided a full accounting of the trip fees received and expenses incurred to Cely Vilorio. At the end of the 2007 trip, for example, a total of \$1,135 was transferred to the tuition accounts of two families, \$350 was applied against two students' graduation fees, and \$500 was directly refunded back to three families. In each of these cases, the families had received matching funds for their trips. It's impossible to delineate whether the amounts refunded or credited back to these families were truly their own funds or the matching funds.

A \$5,250 transfer to "Scholarship" funds was transferred at the completion of the trip. Viloria has indicated to me that these funds are used to pay for tuition for families.

It is my opinion that matching funds were not only misused as related to trip fees, but the "trickle down" effect of receiving more matching funds and participant fees than necessary directly benefited the principal via tour director stipends.

### **Tuition**

**Family Tuition.** Further review of check stubs and QuickBooks data for St. Paul indicates that matching funds were directed to specific families for the purpose of subsidizing tuition. These amounts appear to be minimal and all occurred prior to the period of my review (a total of \$525 for the period of January 2001 – January 2005).

However, I was also informed that a specific family had an annual "deal" with the principal whereby cash would be paid to the principal (e.g. \$2,000). The principal would find a "sponsor" for the family; an individual who worked for Microsoft or Boeing. That individual would be given the cash. A check would then be written to the school for the exact amount of cash provided to them; creating a tax-deductible event for the "sponsor". The "sponsor" would then fill out a match form with their employer (Microsoft). Microsoft, in turn, would send St. Paul an additional \$2,000. These funds were used for the specific family's tuition obligation. In essence, while St. Paul received the amounts needed for tuition, the family only paid half, with the remainder of the funds coming from match funds. I confirmed a March 2, 2007 deposit to the tuition account from Microsoft for this family.

At the end of last year, the same family requested a "sponsor" for the 2008/2009 year. It is my understanding that the principal decided not to follow through on this deal for this fiscal year. I traced a cash deposit from the family in the QuickBooks file. This is the only year this family has a direct traceable deposit for a tuition payment.

**Principal Tuition.** I was provided with a schedule that tracked the principal's obligation to St. Paul for his child's tuition. This same spreadsheet also tracked the tuition obligation of the principal's sister, Wanda. The Bookkeeper explained that separate schedules are kept to track family tuition amounts due and amounts paid (it is not tracked in QuickBooks). My review of the spreadsheet revealed the following:

For the period of 2003 – 2006, the principal consistently underpaid tuition, carrying over a balance from year to year. As of this writing, Melonson still owes \$880.50 to St. Paul.

School Year	Tuition Amount Outstanding
2003	\$ 1,405.00
2004	604.00
2005	661.50
2006	(2,257.00)
2007	467.00
<b>Total Due</b>	<b>\$ 880.50</b>



- Other items based on my review of the principal's tuition account include:
  - At the end of the 2006 school year, the principal's tuition account was credited \$1,850 from the D.C. trip fund, creating a credit balance for that year's tuition. This was noted as "tour director stipend". I'm concerned that these amounts include overpaid match funds.
  - In 2004, **\$600** in matching funds from Marlowe Melonson's (the principal's brother) employer, Boeing, was credited to the principal's tuition account.
- My review of Wanda's account indicates that her total obligation for the period of 2004 and 2005 was \$6,245.50. She has only paid \$300 out of her own pocket. She received **\$2,000** in Boeing match money, leaving a balance of \$3,945.50.

Thank you for the opportunity to be of service in this matter. Please do not hesitate to call me at (360) 573-5158 if you have any additional questions or concerns.

Best regards,



Tiffany R. Couch, CPA/CFF, CFE



July 1, 2009

Mr. Ed Williams  
Archdiocese of Seattle  
710 9th Avenue  
Seattle, WA 98104

Dear Ed:

**Re: St. Paul School (Seattle, Washington)**

I was onsite at St. Paul School (St. Paul) in Seattle, Washington on June 15<sup>th</sup> and June 29<sup>th</sup>, 2009. I was there to review records related to matching funds received from Boeing for the five year period beginning July 1, 2003 and ending June 30, 2008. Specifically, the purpose of this visit was to follow up on items I discovered during an initial visit to the school as well as additional information that came to your attention in the interim. The work performed was pursuant to our June 15, 2009 engagement letter.

It is my opinion that potentially **\$106,290** in Boeing matching funds were used to subsidize the cost of 8<sup>th</sup> grade trips to Washington D.C. It is also my opinion that when Boeing match funds exceeded the cost of the trip, some families benefitted from direct refunds and/or reductions to tuition. Further, it is my opinion that \$1,600 in Boeing match funds were used to directly reduce the tuition and fee requirements of a specific family during the 2007 school year.

The details of the scope of my work and my findings and recommendations follow.

**Background and Scope**

During the summer of 2008, I was at St. Paul School to review the books and records to investigate whether Boeing match funds had been used to subsidize the costs of the annual 8<sup>th</sup> grade trip to Washington, D.C.

In my initial report, I confirmed matching funds had been used to subsidize student trips to Washington, D.C. I came to this conclusion as a result of information gathered from actual Boeing match request forms, the QuickBooks accounting records at the school, and my interviews of both the principal, Wayne Melonson, and the bookkeeper, Cely Viloria. The results of my initial report were limited to the 2007 and

2008 fiscal year because the principal indicated to us that his computer had “crashed”; causing historical data related to trip funds to be lost. The principal’s records were key to our investigation because he was responsible for tracking and accounting for 8<sup>th</sup> grade trip funds.

Information gleaned from multiple interviews of the bookkeeper indicated the principal potentially had a “system” whereby parents of children attending the D.C. trip partially paid for the cost of the trip up front. Those initial “down payments” were supposedly collected and given to a Boeing employee (who may or may not have had a child attending the trip) who in turn, wrote a check to the school for a “scholarship donation.” A Boeing match form would be filled out by the employee and signed by the principal and remitted to Boeing for matching funds. According to the bookkeeper, all matching funds were mailed directly to the principal and allocated to specific families by him. The bookkeeper was then informed, via notation by the principal, as to how to record the actual deposit of the funds in the QuickBooks accounting system (i.e. as scholarship revenue, capital campaign revenue, or as D.C. trip revenue).

During my initial investigation, I was unable to prove this system existed. I was, however, able to confirm that certain children benefitted directly from apparent direct family ties to Boeing (i.e. I could trace matching funds whereby a parent remitted a donation form and the Boeing match funds were allocated directly to their child as a reduction of trip fees). I was able to reconcile approximately \$19,180 in funds that could be traced directly back to these family ties (and/or specific allocation of funds from a Boeing employee to a specific family).

As a result of new information, it is my understanding that you have reopened this investigation to determine whether the school’s exposure to the Boeing Gift Match program could be greater than originally identified.

A hard drive image of the principal’s computer was conducted on or about June 15, 2009. As a result of searches on specific key terms related to this investigation, I uncovered several files that apparently tracked Boeing match funds as they related to the 8<sup>th</sup> grade trip. These files resulted in confirmation of the appearance of the “system” identified by the bookkeeper and/or a direct correlation between Boeing match funds and specific students.

I was unable to locate Boeing match forms earlier than 2003; and the QuickBooks accounting records do not include data prior to 2002. As such, I limited my scope of work to a five year period where I could support my work with the combination of the excel spreadsheets from the principal’s computer, a full set of Boeing match forms, and the QuickBooks accounting records.

The follow summarizes the details of my findings.

## Findings

### Washington D.C. Trips

Each year, the 8<sup>th</sup> grade class takes a field trip to Washington, D.C. Based on my interviews and review of documents, it is apparent to me that monies were collected from parents whose children were attending the trip. It appears that in the event the student did not have a parent or some other relative working for Boeing, the principal had identified several Boeing employee "sponsors" who were willing to provide matching gifts year after year. While the Boeing match forms and corresponding personal checks indicate these individuals donated large sums of money to the "Social Studies Scholarship" each year; information from the principal's records indicate that the original source of the "donations" were not from these individuals' own funds, but actually from funds provided to the donors by the families of the students. The sum total of the funds were then submitted to the school by the "donor" who then remitted a match form to Boeing. The original amount of the funds given to the "donor" plus the matching funds from Boeing were then allocated to the families by the principal.

For the period of my review, July 1, 2003 – June 30, 2008, it is my opinion that **\$106,290** in matching funds from the Boeing Match program have been potentially misused. In fact, this total represents all known amounts from Boeing that were recorded as DC trip revenue for the period of review. It is important to note that there are some instances when amounts received as gift match funds cannot be related to a direct student and could potentially be considered a true "donation"; however, the overwhelming evidence suggests that a sponsor "program" was in place at St. Paul School, thus calling into question all match funds related to the trip.

I also discovered that in the event match funds exceeded the student's trip costs, there were instances when the excess amounts were either refunded to the student's family via check disbursement or amounts were used as a credit against tuition costs. Further, I noted that the principal received a tour director stipend several years in a row, using funds that appear to be a culmination of overpayments (in the form of valid payments by families plus matching funds) for the trip. In the event amounts were refunded or credited to the families, or paid to the principal as a stipend, I have not counted those funds again as potential exposure to Boeing because all match funds from Boeing have already been accounted for above.

### Tuition

Based on my review of the Boeing Match records, QuickBooks, and my interview with the bookkeeper, it is my opinion that a specific family received **\$1,600** in Boeing Match funds during fiscal year 2007 to assist in reducing their tuition and ESS fees at St. Paul School. This involved small payments from three different "sponsors." Each time, the Boeing match form did not indicate a specific purpose; but, once the amounts were received by Boeing, the principal allocated the funds to a tuition account specifically for a single family. It is my understanding that match funds cannot be used for tuition purposes. It is well known

that this family did have financial difficulties and it's possible these amounts were truly for scholarship purposes.

Thank you for the opportunity to be of service in this matter. Please do not hesitate to call me at (360) 573-5158 if you have any additional questions or concerns.

Best regards,

A handwritten signature in black ink that reads "Tiffany R. Couch". The signature is written in a cursive, flowing style.

Tiffany R. Couch, CPA/CFF, CFE

Archdiocese of Seattle



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July 1, 2008 - June 30, 2009

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