

SUMMARY REPORT:

SAUCON VALLEY SCHOOL DISTRICT

JANUARY 2005

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INTRODUCTION AND BACKGROUND

The Department of the Auditor General (the “Department”) conducts audits of school districts pursuant to the Department’s authority and responsibility under the Fiscal Code.¹

In November 2003, while a regular audit of the Saucon Valley School District (the “school district”) for the years ended June 30, 2002, and June 30, 2001, was underway, the Department’s Office of Special Investigations (“OSI”) received allegations of improprieties involving misuse of school district funds. The report of the Department’s regular audit, conducted by the Bureau of School Audits, was released on July 14, 2004. The audit report contained findings concerning the lack of accountability for travel by school district staff and school board members and a purchase from a firm that employed a board member.

OSI’s investigation focused on complaints not addressed in the regular audit. The inquiry included interviews with current and former employees of the school district and current and former board members, and an analysis of school district records, records of the school district’s independent auditor, and records of the Saucon Valley Education Foundation (“the Foundation”). The subject matter of the complaints involved activities of members of the school board who are not currently serving on the board and school district officials who are no longer employed there. Unless otherwise noted, the individual referred to as the school district’s superintendent is the person who served in that position from 1996 to September 2003.² The school district had two business managers during the period under review. Neither one is currently employed by the school district. One served from 1985 to January 2001; the other from January 2001 to September 2003. Where necessary in the report, we have referred to them as Business Manager Nos. 1 and 2, respectively.

On December 21, 2004, the draft summary report was made available to school district officials to provide the school district with the opportunity to submit a response. The response from the superintendent was received on January 6, 2005 and has been incorporated into the final report, together with our comments.

¹ 72 P.S. § 403.

² He then served as a consultant to Intermediate Unit #20 until June 2004.

EXECUTIVE SUMMARY

The school district paid expenses of the Saucon Valley Education Foundation without school board authorization or approval of the agreement to do so and without putting the terms of the agreement in writing.

The school district paid for travel expenses of school board members without prior authorization of the travel by the school board and without adequate documentation of the costs.

The school district failed to manage the use of credit cards.

RECOMMENDATIONS

1. The school board should require prior authorization and approval by the board of all school district contracts and agreements, and, where there are reimbursement requirements, they should be stated in the written contracts and agreements. Repayment schedules and due dates for payment in full should be included in such written contracts and agreements, and the school board should ensure that the appropriate school district official (usually the business manager) monitors repayments and keeps the school board informed of failures to make timely repayment. (Finding No. 1.)
2. The school district should make reasonable efforts to recover the outstanding balance owed to it by the Saucon Valley Education Foundation, including determining whether a claim can be made against former assets of the Foundation and/or against the former superintendent. (Finding No. 1.)
3. The school board should ensure that all school board members and the school district staff follow the Public School Code's requirements and the school district's policies and procedures concerning obtaining prior school board authorization and approval of travel, and that all requests for payment for travel and travel reimbursement are properly submitted in compliance with Public School Code and school district requirements concerning documentation. An appropriate school district official, usually the business manager, should be responsible and accountable for ensuring that the statutory and school district requirements are met. (Finding No. 2.)
4. The school district should immediately adopt written policies and procedures regarding credit cards in the event that it decides to reinstitute their use. The policies and procedures should include a listing of the types of allowable purchases, requirements for documentation and justification of charges, and the maximum amount of charges that can be incurred. (Finding No. 3.)

5. The school district should obtain reimbursement of \$239.75, plus interest, from the former superintendent for the personal expenses that were improperly charged by him to the school district credit card and which have not yet been repaid. (Finding No. 3.)
6. The school district should seek the advice of the State Ethics Commission on all matters related to affiliations between school district board members and/or employees and other organizations, including but not limited to IU #20. (Other Allegations.)
7. The school district should contact the attorney who was to attend the conference for which the school district was charged and obtain reimbursement from him, or seek a refund of the fee from the PSBA and request the PSBA to bill the attorney for the fee. (Other Allegations.)
8. The school district should review the annuities paid to the former superintendent and consult with its solicitor to determine what, if any action, should be taken. (Other Allegations.)
9. The school board should determine whether there is evidence of leave abuse by administrators or mismanagement of leave by taking the following steps, or their equivalent, in regard to administrators: (a) review leave practices and procedures; (b) monitor attendance; and (c) review work performance. (Other Allegations.)

FINDINGS

FINDING NO. 1 – THE SCHOOL DISTRICT PAID EXPENSES OF THE SAUCON VALLEY EDUCATION FOUNDATION WITHOUT SCHOOL BOARD AUTHORIZATION OR APPROVAL OF THE AGREEMENT TO DO SO AND WITHOUT PUTTING THE TERMS OF THE AGREEMENT IN WRITING.

The school district paid out at least \$48,945.69 for the expenditures of the Saucon Valley Education Foundation (“the Foundation”) and, to date, has been reimbursed \$42,228.44, leaving \$6,717.25 outstanding. The arrangement to make the payments was made with no formal authorization or approval by the school board and no written agreement between the school district and the Foundation.

The Foundation was established in September 2000 by the superintendent of the school district. According to records provided by the Foundation’s attorney, the Foundation’s original purpose was to foster community relationships, support and enhance the school district’s programs, and provide grants to school district students and educational staff.

According to interviews, the main focus of the Foundation was the relocation of the Lutz-Franklin Schoolhouse. The schoolhouse, a building owned by the school district, was in use from 1783 to 1956 and was in need of major repairs. The Foundation took on the project of moving the building from its original location to the school district campus to become “a living history museum and ecology study center.”³

OSI reviewed the school board’s minutes and determined that the school board never voted to authorize specific expenditures related to the Foundation. The payments were included on the list of bills voted on by the school board at regular meetings, but the payments were never identified as costs of the Foundation. The school district did not have a written agreement concerning the funds being expended on behalf of the Foundation by the school district. During interviews by OSI of former school board members and the superintendent, there were discrepancies in their views concerning whether it was the expectation of school board members that the funds would be repaid to the school district by the Foundation.

The school district began paying for costs related to the Lutz-Franklin Schoolhouse project in July 1999. The school district made the payments directly to vendors, based on invoices submitted to the school district. The payments were made from an account in the school district’s general fund.

³ Source: The Lutz-Franklin Schoolhouse Proposal (issued by the Foundation).

On November 25, 2002, the Foundation reimbursed the school district \$26,000. On March 24, 2004, the Foundation was dissolved and a plan of distribution of the remaining funds was agreed upon by the school district, with the school district receiving \$16,228.44.

According to records of the school district and the attorney for the Foundation, the amount of the school district's payments for the Foundation's activities was approximately \$42,000. In examining documentation provided by the school district, the Foundation, the school district's independent auditor and individual vendors, we determined that, from July 1999 through June 2003, the school district paid at least \$48,945.69 for expenditures of the Foundation, including payments for grant writing and public relations work, as well as for a mule-powered carousel, a petting zoo, pony rides, a dunk tank and an aerial fireworks display.

A major reason for the difference in the calculation of the total amount paid by the school district is that one of the vendors that billed the school district for work done for the Foundation also did work for the school district itself and included the charges for the Foundation work together with charges for the school district work in the same invoice. The charges were not broken down when they were posted to the school district's general fund account. Additionally, several vendor invoices were not included in the school district's calculation of the total amount paid by the school district.

Conclusions and Recommendations

The school district paid expenditures for the Foundation without a written agreement and without school board authorization. There was no documentation concerning reimbursement or a payment schedule and there are different opinions among school district officials concerning whether or not it was the expectation of the school board that the school district would be reimbursed. The school district, apparently at the direction of the superintendent, entered into the arrangement without proper or adequate planning or management.

There also was no timely or accurate record of the total amount spent by the school district for the Foundation. Our review showed that the school district paid out at least \$48,945.69 and only received \$42,228.44 in reimbursement. To date there is still an outstanding balance of \$6,717.25.

It is recommended that the school board require prior authorization by the board of all school district contracts and agreements, and that where there are reimbursement requirements they should be stated in the written contracts and agreements. Repayment schedules and due dates for payment in full should be included in such written contracts and agreements, and the school board should ensure that the appropriate school district

official (usually the business manager) monitors the repayments and keeps the school board informed of failures to make timely repayment.

The school district should make reasonable efforts to recover the outstanding balance owed to it by the Foundation, including determining whether the school district can obtain any property or funds formerly owned by the Foundation and/or whether any claim can be made against the former superintendent.

FINDING NO. 2 – THE SCHOOL DISTRICT PAID FOR TRAVEL EXPENSES OF SCHOOL BOARD MEMBERS WITHOUT PRIOR AUTHORIZATION OF THE TRAVEL BY THE SCHOOL BOARD AND WITHOUT ADEQUATE DOCUMENTATION OF THE COSTS.

OSI reviewed reimbursements to board members and the superintendent from the 1999-00 school year through the 2002-03 school year. We found twenty-four (24) instances when reimbursements were paid out, totaling \$11,118.71, without any record of prior school board authorization. Twenty-three of the payments were to such board members; one was to the superintendent. Not all of the school board members who served during the period we reviewed participated in the unauthorized travel. The reimbursement payment, dates, amounts and the events for which the reimbursements were paid are listed in Table No. 1. (See pp. 12-13.)

Records of only three (3) reimbursement payments had sufficient itemized documentation to support the expenses. Most of the reimbursement requests only had unitemized credit card slips and/or hotel receipts attached to them. All but two of these requests were approved for payment by the superintendent and/or the business manager at the time. There was no record that the two remaining requests were approved by anyone.⁴

OSI reviewed all school board minutes from July 1999 through December 2003 and found that travel for board members and the superintendent was not approved by the board during that period. In fact, it appears that the school board went out of its way not to approve the travel of board members. For example, on one occasion several staff members and a board member traveled to a conference. The board minutes show that the board voted on the attendance and travel of the staff members; however, the minutes never mention that the board member was to attend the conference.

Individual reimbursement payments to school board members and the superintendent were approved by the school board as part of the regular process of monthly approvals of lists of school district bills and payments by the school board.

Business Manager No. 1 told OSI that school board travel used to be included on the agenda for board meetings for vote and approval, but the superintendent removed these matters from the agenda when he came to the school district. Business Manager No. 2 confirmed that school board members' travel was not on the agenda for school board meetings when she was at the school district. She stated that the superintendent

⁴ In addition to reviewing the reimbursements paid out to the former board members and the superintendent, OSI also reviewed the school district's credit card statements to verify that charges for conferences and travel on the district credit card were not also included on reimbursement requests. (See Finding No. 3.) We did not find any duplication of charges.

told her that including school board travel on the school board's agenda was not necessary.

The superintendent told OSI that a school board member who was the board vice president at the time, and who is also an attorney (the individual is no longer on the school board), approached him about removing travel by school board members from the agenda for the reason that school board members did not feel that it was something that they had to vote on every month. The superintendent told OSI that he "didn't feel strongly against it" (i.e., removing the item from the agenda), so he did not pursue the matter. The school board member referred to by the superintendent told us that he did not know why the school board did not approve travel by school board members and the superintendent, and felt that school board approval should have been obtained.

Business Manager No. 1 stated that the school district usually made travel arrangements for the school board; therefore, she knew that the reimbursements were for school board-related business, and this is why she approved the reimbursements. Business Manager No. 2 told OSI that she was told by the superintendent to pay the reimbursements, so she did.

The superintendent stated that he did not know why school board members were not required to itemize their expenses; he left that up to the business office. He said that he probably signed off on the reimbursements to be paid because he knew that the persons who submitted the claims were traveling on school board business.

We did not interview all of the school board members who participated in the travel without prior school board authorization and who were paid reimbursement without adequate documentation. One of these school board members (who is no longer on the board) told OSI that he was never asked to supply additional documentation with his reimbursement requests. One of that board member's reimbursement claims included the cost of alcoholic beverages. When questioned about it by OSI, the board member said that there was no policy at the school district against buying alcoholic beverages and, since the state monopolized the sale of alcohol, he did not feel that it should be a problem.

Based on our review of the \$11,118.71 in charges included in Table No. 1, they did not appear to be inappropriate, excessive or unrelated to school district business (with the exception of the charges for alcoholic beverages).

The Public School Code has two specific provisions concerning travel and related expenses. Section 5-516.1 states, in part:

When, in the opinion of the board of school directors . . . attendance of one or more of its members and its non-member secretary, if any . . . at the

annual convention of the National School Boards Association or any other educational convention, will be of educational or financial advantage to the district, it may authorize the attendance of any such persons Each person so authorized to attend and attending shall be reimbursed for all expenses actually and necessarily incurred.⁵

Section 5-517 states, in part:

The board of school directors of each district may authorize the attendance of the superintendent and such other members of the teaching and supervisory staff of such districts as they may specify, at any educational conference or conferences, when in the opinion of the board, such attendance will be conducive to the best interests of the district. Each person so authorized to attend and attending shall be reimbursed for all necessary traveling and hotel expenses actually incurred.⁶

Both sections of the statute state that there must be prior authorization by the school board for advance payments and itemized verified statements of actual expenses incurred. The school district's own policies and procedures contain the same basic requirements.⁷

Conclusions and Recommendations

The school board failed to follow legal requirements and the superintendent exceeded his authority as a school district official by removing travel by school board members and himself from the school board agenda for meetings. Routine approvals of expenditures at regular school board meetings does not appear to satisfy the statutory requirements for prior authorization and approval of the activities at or for which the expenditure was made.

The school board should ensure that all board members and the school district staff follow the Public School Code's requirements, and the school district's policies and procedures concerning obtaining prior school board authorization and approval for travel, and that all requests for payment for travel and reimbursement are properly submitted in compliance with Public School Code and school district requirements for documentation. An appropriate school district official, usually the business manager, should be made responsible and accountable for ensuring that statutory and school district requirements are met.

⁵ 24 P.S. § 5-516.1.

⁶ 24 P.S. § 5-517.

⁷ According to the current school board president, the school district has a policy that does not permit payment or reimbursement for costs of alcoholic beverages.

Table No. 1 - Reimbursements for Unauthorized Travel⁸

Check Date	Reimbursement	Event/Documentation:
08/17/99	\$ 246.06	PSBA-PASA Joint Summer Workshop. Hotel receipt submitted for \$139.50. Also reimbursed for tolls and mileage.
10/04/99	604.40	Hotel bill for stay in Hershey, PA. Invoice included hotel stay, plus meals and e-mail access. Reason for travel not given.
02/29/00	441.36	PSBA Conference in Hershey, PA. Hotel receipt submitted for \$391.14. Also reimbursed for mileage.
03/28/00	503.73	AASA Conference in San Francisco, CA. Personal credit card slip submitted for hotel and parking.
04/25/00	633.83	Hotel stay in Orlando, FL. Hotel slip and receipts for meals totaling \$474.27 reimbursed. Also reimbursed for additional meals, phone and transportation.
05/04/00	1,126.76	NSBA Conference in Orlando, FL. Receipts submitted for airfare, conference fee, car rental, hotel and some meals. Also reimbursed for mileage and other meals.
02/12/01	600.00	Advance for AASA Conference in Orlando, Florida. Receipts later submitted totaling \$1,190.10 for conference fee, airfare, lodging, transportation and meals. Difference of \$590.10 paid on 03/02/01.
02/27/01	154.01	Hotel stay in Hershey, PA. Reason for travel not noted. Hotel bill submitted includes overnight stay plus \$54.65 for lobby bar and lounge charges.
03/02/01	590.10	AASA Conference in Orlando, Florida. Total \$1,190.10 less advance paid on 02/12/01. Receipts included for conference fee, airfare, lodging, transportation and meals.
03/02/01	514.13	PSBA State Conference in Hershey, PA. Hotel bill and one food receipt submitted for a total of \$425.45. Additional \$88.68 reimbursed for other meals and transportation.
03/02/01	166.89	Legislative Conference in Hershey, PA. Hotel receipt included for \$99.63. Additional reimbursements paid for mileage and meals totaling \$67.26.

⁸ The following acronyms appear in the table: PSBA (the Pennsylvania School Board Association); PASA (the Pennsylvania Association of School Administrators); AASA (the American Association of School Administrators); NSBA (the National School Board Association); and HSTW (High Schools That Work).

Check Date	Reimbursement	Expenses for:
05/17/01	906.38	NSBA Conference in San Diego, CA. Personal credit card invoice submitted for \$906.38 hotel charge.
05/17/01	1,620.23	Travel to San Diego, CA. Receipts submitted for hotel stay, limo service and car rental totaling \$1,358.61. Additional reimbursements paid for parking and unitemized meal charges included on hotel invoice.
08/28/01	462.40	Reason for travel not given. A personal credit card invoice for a hotel stay totaling \$119.90. Also reimbursement for airfare totaling \$342.30, receipt included but unreadable.
09/25/01	130.39	Invoice from Bethlehem Area Vocational Technical School for 9 staff members and one board member to attend HSTW Conference. \$130.39 for board member.
11/27/01	446.43	PSBA Conference in Hershey, PA. Signed, unitemized personal credit card slip submitted from hotel.
12/17/01	467.77	Superintendent travel. No reason for travel given. Personal credit card invoice submitted.
02/26/02	146.55	PSBA Conference Hershey, PA. Hotel bill only submitted with \$43 lounge charge.
07/11/02	105.00	AASA Conference. Unknown destination. Request submitted for meals and parking. No receipts.
09/02/02	320.88	Retirement Banquet in Hershey, PA. Hotel and food receipts submitted for a total of \$197.72. Also reimbursed for mileage and reception ticket.
09/02/02	299.80	Summer Conference in Lancaster, PA. Personal credit card receipt for hotel totaling \$212.20. Also reimbursed for mileage.
09/02/02	300.96	State Conference in Hershey, PA. Personal credit card receipt for hotel totaling \$236.00. Also reimbursed for mileage.
11/26/02	227.10	No reason for travel given. Personal credit card receipt for hotel stay in Hershey, PA.
02/25/03	103.55	No reason for travel given. Hotel receipt only; totaling \$103.55.
TOTAL	\$ 11,118.71	

FINDING NO. 3 – THE SCHOOL DISTRICT FAILED TO MANAGE THE USE OF CREDIT CARDS.

The school district does not have written policies and procedures in place regarding the use of credit cards and paid \$55,392.55 in credit card charges over a four year period without records of itemized receipts for most of the charges.

The school district had two credit cards; one was assigned to the superintendent and the other to the business manager. OSI obtained and reviewed the credit card statements from June 1999 through April 2003. Over the four year period, \$55,392.55 was charged to the credit cards. Of that total, \$46,085.40, or 83 percent of the charges, was incurred by the superintendent or on the credit card assigned to him.

After reviewing the support documentation attached to the credit card statements, we found that only 38 receipts were submitted for the 332 separate charges to the accounts. Of the 38 receipts, only 25 were itemized. The charges to which the itemized receipts related totaled \$4,802 or 8 percent of the total amount. School district cardholders placed handwritten notes on the credit card statements each month identifying what the purchase was for. The school district's accounts payable clerk and one of the business managers stated that they asked the superintendent for receipts but he rarely provided them.

The superintendent told OSI that he could not attempt to defend why he did not provide receipts for credit card purchases. He stated that he was careless; he recalled that both the accounts payable clerk and the business manager requested itemized receipts; he said he gave them invoices when he had them; and he thought that his notations on credit card statements were sufficient.

We broke down the credit card charges by category as shown in Table No. 2.

Table No. 2: Credit Card Charges

Travel (superintendent and board members) ⁹	\$ 26,806.80
Restaurants	9,421.36
Conferences/Conventions (superintendent, board members and staff)	8,219.85
Materials	4,585.80
Employee Recognition Receptions	2,111.46
Reimbursed personal charges by superintendent	1,722.59
Gifts (plaques, clocks, etc.)	1,102.42
Other (phone accessories, flowers, etc.)	639.52
Membership fee	309.00
Unreimbursed personal charges by superintendent	239.75
Annual/Late fees	234.00
TOTAL	\$ 55,392.55

As shown in Table No. 2, over \$9,400 was spent on restaurant charges, consisting of 84 separate transactions between June 1999 and April 2003. Individual charges ranged from \$6.53 to \$722.17. Only five transactions, totaling \$1,453.56, had itemized receipts. Individuals present at the meals were identified on only seven of the 84 transactions; five of those individuals were school board members. Two of the itemized receipts submitted by the superintendent included charges for alcoholic beverages.

When questioned by OSI about the spending on meals, the superintendent stated that “this is the way they did business” at the school district. He explained that most of the members of the school board worked at full-time jobs during the day, so he met with them at night to discuss various issues because the school board and the school district were “very proactive in the community.” The superintendent stated that he was given an expense account to which these charges were posted and, as long as he stayed within the budget, he did not feel that the meals were a problem. The “expense account” apparently was an account code for a budgeted amount in the school district’s general fund that was intended for the superintendent’s use. The account did not eliminate or override the requirement that expenditures be reasonable, necessary and related to school district business and, therefore, should not have been used as a discretionary fund for personal or unjustified expenses.¹⁰

During the review OSI noted that, according to notations on the credit card statements by the superintendent, he used the card to pay for charges for his personal

⁹ These charges were compared to the reimbursement requests submitted by the superintendent and board members and no duplication was noted.

¹⁰ There are circumstances in which it may be reasonable and necessary for the school district to pay costs of meals for school board members, such as at board or committee meetings, when warranted and properly documented. There was no evidence in this case that the occasions at which the meals were purchased were related to official school district business.

benefit, totaling \$1,962.34. The charges included vehicle rentals in Colorado, airfares, a payment to a hotel and purchases of items for personal use.

The superintendent told OSI that he was careless. He said that sometimes he just grabbed the wrong credit card and was too casual in his use of it. The superintendent reimbursed the school district \$1,722.59 for charges he identified as personal. This left \$239.75 unpaid. The superintendent said that he thought he reimbursed the school district for all of the personal charges, but that he would repay any funds that are still due.

We also reviewed payments made for changes incurred in connection with attendance of spouses of the superintendent and board members at conferences. On all but one occasion the school district was reimbursed for these expenses. The unresolved expense was for \$204 relating to a round trip transfer charge for a board member's spouse who, in fact, did not make the trip. The charge and the failure to repay the cost to the school district appears to have been the result of an oversight.

According to the current school board president and the current business manager, the school district canceled all of its credit cards in May 2004.

Conclusions and Recommendations

The superintendent exceeded his authority by causing reasonable and appropriate procedures for submission of itemized receipts to be ignored and by misuse of the school district's credit card for his own benefit. As a result, he was responsible for the mishandling of the management of credit card use at the school district.

The school district should immediately adopt written policies and procedures regarding credit cards in the event that it decides to reinstitute their use. The policies and procedures should include listing the types of allowable purchases, requirements for documentation and justification for charges, and the maximum amount of charges that can be incurred. The school district should also obtain reimbursement of \$239.75, plus interest, from the former superintendent for the personal expenses that were improperly charged to the credit card and which have not yet been repaid.

OTHER ALLEGATIONS

1. Two former school board members allegedly had employment/financial relationships with Intermediate Unit (IU) #20 while serving as school board members, which resulted in possible conflict of interest issues.

A school board member (who also held the position of vice-president of the school board) was the solicitor for the IU while serving a member of the school board.¹¹ The school district contributes to, and approves the budget of the IU. While the individual was a school board member, he voted on matters pertaining to the IU. The matters included the IU's budget as well as lease agreements between the IU and the school district. The individual told us that he did not believe that the votes constituted a conflict of interest because the IU had two budgets and he was not sure which one he was paid from for his services as solicitor for the IU. He also stated that he did not handle the work on the lease agreements between the IU and the school district as solicitor of the IU; he gave the work to someone else in his law firm.

The school board member did not list his services as solicitor for the IU on his Statement of Financial Interests (Ethics Act Statement) which he was required to file with the school district in accordance with the Ethics Act while serving as a school board member.¹² He told us that he is the solicitor at 12 other school districts in addition to the IU and does not report these activities on his Ethics Act Statements of Financial Interest. He said that he has hundreds of clients and that he cannot list them all due to client confidentiality requirements.

Another individual (who served as board president) was employed by the IU as a teacher and supervisor while a school board member.¹³ As a school board member, she voted on matters pertaining to the IU. She disclosed her employment with the IU in her Ethics Act Statements of Financial Interests. She told us that she was told by a previous school district solicitor that her votes were not a conflict of interest. She also stated that, as an IU employee, she was not paid out of the IU budget that was voted on by the school district. She said she did not feel that signing lease agreements as school board president was a conflict because her signature only represented the verification of the action of the school board, and she felt it was her duty to sign the agreements as the school board president.

Intermediate Units (IUs) are established pursuant to the Public School Code to provide special education and vocational/technical educational services to students of

¹¹ The individual is no longer a member of the school board.

¹² The Public Official and Employee Ethics Act, 65 Pa. C.S. § 1104.

¹³ The individual is no longer a member of the school board.

school districts assigned to them. The Saucon Valley School District is assigned to IU #20. IUs receive funds from the Commonwealth and from the school districts assigned to them; members of school boards of those assigned school districts comprise the boards of directors of the respective IUs. Employees of IUs report to executive directors approved by the IU board of directors and have the same rights as employees of school districts.¹⁴

School districts and IUs are closely related and interdependent. Employment with, or a business/financial interest in, an IU by a school district official should be fully disclosed, closely monitored and handled in accordance with the advice of the State Ethics Commission. The fact that one of the individuals in this case is an attorney serving as the IU's solicitor complicates the issue and presents an additional reason for appropriate disclosure to, and obtaining the guidance of, the State Ethics Commission in regard to participation in voting and other decisions while serving on the school board, as well as reporting the financial interest on Ethics Act disclosure forms.

We found no evidence of other possible conflicts of interest involving school district officials and IU #20.

This matter will be forwarded to the State Ethics Commission for further review. We recommend that the school district seek the advice of the State Ethics Commission on all matters related to affiliations between school district board members and/or employees and IU #20.

2. The school district improperly paid a \$185 tuition cost for a lawyer to attend an educational law conference.

In October 2001, the school district paid \$185 for a lawyer's attendance at a Pennsylvania School Boards Association (PSBA) School Law Conference in Hershey, PA. The individual did not perform legal services for the school district and did not attend the conference. The superintendent signed off on the invoice; he told us he could not recall approving the payment. A former school board member, who is an attorney and knew the individual, told us that he worked previously with the individual at another law firm and that the school district was charged the fee by mistake. Apparently, a copy of the invoice for the fee in the school district's records was altered to delete the attorney's name. No one at the school district could explain the alteration.

We recommend that the school district contact the attorney who was to attend the conference and obtain reimbursement from him, or seek a refund of the fee from the PSBA and request the PSBA to bill the attorney for the fee.

¹⁴ 24 P.S. § 9-951 et seq.

3. The superintendent received two annuities in connection with his school district retirement benefits.

The superintendent was entitled to receive an annuity from the school district based on his employment contract. In addition, he was enrolled in a tax-sheltered performance-based annuity based on the school board's basic agreement with administrators and supervisors. The superintendent believed he was eligible to participate in benefits provided pursuant to that agreement and was, accordingly, included in the annuity for administrators and supervisors. We found no record that the payment of the second annuity was authorized or approved by the school board.

We are not the appropriate office to determine whether payment of the second annuity was appropriate and permissible under the terms of the superintendent's employment contract with the school district.

It is recommended that the school district review the issue and consult with its solicitor to determine what, if any action, should be taken.

4. A school board member allegedly performed air conditioning work for the school district and voted to approve payment for the work.

We found no evidence of such work or payments. The individual, who is no longer a member of the school board, denied the allegation. The information will be provided to the State Ethics Commission for further review.

5. A school board member allegedly had a conflict of interest due to his law firm's relationship with an attorney who performed legal services for the school district related to the issuance of bonds.

The Attorney served as counsel to the school district in connection with a \$6 million bond issuance approved by the school board. The board member voted on the matter. According to him, his law firm had a special agreement with the bond counsel, the agreement was for marketing purposes, and there was no sharing of funds related to the bond issuance. The information will be provided to the State Ethics Commission for further review.

6. A school board member allegedly improperly purchased a CD containing election results with school district funds.

The subject of the allegation is no longer a member of the school board. In June 2003, the school district issued a check for \$75 to the Northampton County for a "Disk of Voters." The subject told OSI that he did not request that the purchase be made and said

he was not aware of it. The school district has no invoice concerning the transaction and does not have the CD.

There is insufficient evidence for us to recommend further action. The school district should determine whether referral of the matter to law enforcement agencies for investigation is warranted.

7. A business manager allegedly received a questionable retirement package and improperly served as a paid consultant to the school district while on sick leave.

According to school district records and Business Manager No. 2, Business Manager No. 1 went on sick leave in January 2001 and remained on sick leave until her retirement in July 2001, pursuant to her retirement agreement with the school district. She provided help without additional pay to Business Manger No. 2 for a total of eight to nine hours between January and July 2001. We found no basis to warrant further investigation by this office or action by the school district in connection with this matter.

8. It was alleged that the school district does not monitor and track sick, vacation and personal leave taken by administrators.

We received no allegations or other information concerning specific individuals. Therefore, we did not review leave records or conduct interviews of administrators concerning their leave. According to the current business manager, leave is requested through the school district superintendent, approved by him and forwarded to the business office for tracking. The current business manager told us that he was not aware of specific complaints of abuse of leave.

We suggest that if the school board suspects that there is leave abuse or mismanagement of the tracking of leave it should: (a) conduct a review of leave practices and procedures; (b) monitor administrators' time and attendance; and (c) review the job performance of administrators.

9. It was alleged that a former school district official sent inappropriate emails to another school district employee.

During our investigation, we found no evidence to support the allegation. Complaints of this type should be addressed by the school district itself through establishment of training, reporting procedures and internal investigations.

10. The current superintendent negotiated with staff of the Department of the Auditor General's Bureau of School Audits to reduce or delete findings from the most recent regular audit of the school district.

No findings were omitted or deleted from the audit and the number of findings was not reduced as a result of negotiations with the current superintendent. During the audit, the auditors noted several matters that they determined to be not significant enough to be included in the written audit report. Information concerning those matters was given verbally to the current superintendent by the auditors. Auditors informed school board members of those matters at a meeting after the audit was released. There was no impropriety on the part of the superintendent or the auditors.

THE SCHOOL DISTRICT'S RESPONSE



Saucon Valley School District

2097 Polk Valley Road
Hellertown, PA 18055-2400

Telephone: (610) 838-7026 - District Office
FAX: (610) 838-6419
(610) 838-7028 - Business Office
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Peter J. Smith
Deputy Auditor General for Performance Audits
Director, Office of Special Investigations
327 Finance Building
Harrisburg, PA 17120

Dear Mr. Smith:

Enclosed please find a copy of my responses to the recommendations made by the Special Investigators. The Board and Administration have already made progress in resolving most of issues that were identified. If I can be of any further assistance to you or your Office in any matters relating to the investigation, please feel free to contact me immediately.

Sincerely,

Richard W. Grove, PhD.
Superintendent

Richard W. Grove, Ph.D.
Superintendent

Sandra G. Fellin, Ed. D.
Assistant Superintendent

David J. Boenenberger, B.S.
Business Manager

Lachlan P. Peeke, PRSBA, RSBO
Director Of Campus Operations

Saucon Valley School District does not discriminate in regard to race, color, religion, national origin, sex or handicap.

**The Superintendent's Responses to the
Recommendations of the Special Investigators of the
Auditor General's Office**

**Saucon Valley School District
January 5, 2004**

Finding #1: The School District paid expenses of the Saucon Valley Education Foundation without School Board authorization or approval of the agreement to do so and without putting the terms of the agreement in writing.

The Business Office will heretofore attain prior authorization by the Board in all such matters; all such contracts or agreements shall be written and repayment schedules provided.

All assets of the Foundation were distributed by court order on March 29, 2004, in the Common Court of Pleas of Northampton County. This order approved a plan of division and distribution which required repayment of \$16,228.44 to the School District. The plan of division and distribution was approved by the State Attorney General's Office prior to the court order. The date of dissolution of the Foundation was March 24, 2004, after which all assets were distributed.

Finding #2: The School District paid for travel expenses of School Board members without prior authorization of the travel by the School Board and without adequate documentation of costs.

Board Policy #333, Professional Growth Guidelines for Administrative Employees, and Board Policy #433, Professional Growth Guidelines for Professional Employees, were revised by the Administration and approved by the Board of Directors to ensure compliance with Sections 516.1 and 517 of the Pennsylvania School Code. All overnight trips must be approved by the Board per Policy #333.

The "Conference Request" form was created to secure prior and final authorization for staff and board travel expenses. The "Conference Feedback" form provides information to further substantiate the expense. Travel expense reimbursement for the Superintendent, administrative and professional personnel, and board members will be made only after submission of itemized original receipts to the Business Manager.

All district-issued credit cards have been cancelled.

Finding #3: The School District failed to manage the use of credit cards.

Although all District credit cards have been cancelled, the Board will review the possibility of developing such a policy with the District Solicitor.

Also, the School District will bill the former Superintendent for \$239.75.

Other Allegations

1. Two former School Board members allegedly had employment/financial relationships with Intermediate Unit (IU) #20 while serving as school board members, which resulted in possible conflict of interest issues. It has been the District's stance that questions of ethics are matters between individual Board members and the State Ethics Commission. Board Policy #004.2, Ethics Acts and Conflicts of Interest, was developed to clarify Board members' responsibilities.
2. The School District improperly paid a \$185 tuition cost for a lawyer to attend an educational law conference. The District will bill the attorney for \$185.
3. The (former) Superintendent received two annuities in connection with his School District retirement benefits. The Board will review the matter with the District Solicitor.
4. A School Board member allegedly performed air conditioning work for the School District and voted to approve payment for work. See the above response above to the first item under "Other Allegations."
5. A School Board member allegedly had a conflict of interest due to his law firm's relationship with an attorney who performed legal services for the School District related to the issuance of bonds. See the above response to the first item under "Other Allegations."
6. A School Board member allegedly improperly purchased a CD containing election results with School District funds. The School District will review the matter the District Solicitor.
7. A (former) Business manager allegedly received a questionable retirement package and improperly served as a paid consultant to the School District while on sick leave. Since there is no basis to warrant further investigation, no action is necessary.
8. It was alleged that the School District does not monitor and track sick, vacation and personal leave taken by administrators. Any further action will be determined by the Board of Directors. The Board annually reviews the performance of all administrators.
9. It was alleged that a former School District official sent inappropriate emails to another School District employee. School Board Policy #815, Acceptable Use of Internet, addresses the inappropriate use of e-mail. This allegation involves a former employee whose separation agreement was approved by the Board. After review with the District Solicitor, it was determined that the Board has no current jurisdiction over this personnel matter.
10. The current Superintendent negotiated with staff of the Department of the Auditor General's Bureau of School Audits to reduce or delete findings from the most recent audit of the School District. Since no impropriety was found on the part of the Superintendent or auditors and since no evidence supported the allegation, no action is necessary.

Signature
Date


1/05/05

THE DEPARTMENT OF THE AUDITOR GENERAL'S COMMENTS

The school district's corrective actions will be reviewed as part of the next regular audit by the Department's Bureau of School Audits.

In regard to the superintendent's response concerning Other Allegation No. 1, it is correct that public officials and public employees are responsible as individuals to ensure that they comply with the State Ethics Act. In our view, the school district, as a matter of prudent and effective management, should ensure that its board members and officials comply with filing requirements of the State Ethics Act and take action to prevent or correct actions, such as votes on school board matters when the State Ethics Act may request abstentions, that could have an adverse impact on contracting or other official business. In this sense, questions of ethics are not solely matters between individual school board members and the State Ethics Commission.

In any case, a copy of the report is being provided to the State Ethics Commission, as noted in the report.

REPORT DISTRIBUTION LIST

This report was distributed initially to the members of the Saucon Valley School District's school board, superintendent, the solicitor, and to the following:

The Honorable Francis V. Barnes, Ph.D.
Secretary of Education
Pennsylvania Department of Education

The Honorable Barbara Hafer
State Treasurer

United States Department of Education
Office of Inspector General

Jeffrey Bowers
Customer Services Coordinator
National School Boards Association

Ann Boyko
School Personnel Services Administrator
Pennsylvania School Boards Association

John J. Contino, Executive Director
State Ethics Commission

This report is a matter of public record. Copies of this report may be obtained from the Department of the Auditor General's Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120.