



**SCHOOL DISTRICT OF THE CITY OF
ALLENTOWN**

LEHIGH COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

SEPTEMBER 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Robert E. Smith, Jr., Board President
School District of the City of Allentown
31 South Penn Street, P.O. Box 328
Allentown, Pennsylvania 18105

Dear Governor Corbett and Mr. Smith:

We conducted a performance audit of the School District of the City of Allentown (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirement.) Our audit covered the period August 13, 2010 through May 17, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found significant noncompliance with relevant requirements as detailed in the four audit findings within this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report. These findings and observation include recommendations aimed at the District and the Pennsylvania Department of Education.

Our audit findings, observation, and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements. We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

September 26, 2013

cc: **SCHOOL DISTRICT OF THE CITY OF ALLENTOWN** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the School District of the City of Allentown (District). Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period August 13, 2010 through May 17, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 19 square miles. According to 2010 federal census data, it serves a resident population of 118,240. According to District officials, the District provided basic educational services to 17,465 pupils through the employment of 1,433 teachers, 899 full-time and part-time support personnel, and 96 administrators during the 2009-10 school year. Lastly, the District received \$112.3 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found significant noncompliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, as detailed in the four findings within this report. In addition, we identified one matter unrelated to compliance that is reported as an observation.

Finding No. 1: The District Failed to Maintain Supporting Documentation Required for its State Transportation Subsidy. Our audit of pupil transportation reports submitted by the School District of the City of Allentown (District) to the Pennsylvania Department of Education for the 2009-10 and 2008-09 school years found that District personnel were unable to locate the documentation supporting the transportation data reported, resulting in our inability to verify the District's entitlement to subsidies totaling \$1,933,739 and \$1,918,702 for the 2009-10 and 2008-09 school years, respectively (see page 7).

Finding No. 2: Student Membership Reporting Errors Resulted in the District Not Receiving \$47,015 in State Subsidy. Our audit of pupil membership reports submitted by the School District of the City of Allentown (District) to the Pennsylvania Department of Education found inaccurate reporting of student membership, which caused a subsidy underpayment to the District of \$47,015 for the 2008-09 school year (see page 9).

Finding No. 3: Continued Certification Deficiencies. Our audit found that the School District of the City of Allentown

continued to fail to accurately monitor the assignments for its professional personnel holding provisional certificates, resulting in three teachers with lapsed certifications (see page 11).

Finding No. 4: Lack of Documentation Needed to Verify Bus Drivers’

Qualifications. Our audit found that the School District of the City of Allentown failed to obtain and retain the required documentation and clearances for nine of its transportation contractor’s bus drivers (see page 14).

Observation: The District Financed Some of Its Debt with Interest-Rate Management (“Swap”) Agreements.

On April 28, 2009 and April 28, 2010, the School District of the City of Allentown (District) entered into swap agreements related to its issuance of \$34,750,000 and \$34,750,000 in General Obligation Notes, a 2009 and a 2010 Series, respectively (see page 17).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the School District of the City of Allentown (District) from an audit released December 27, 2010, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to the reporting of health services data (see page 19) and partially implemented our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 21). The District had not taken appropriate corrective action in implementing our recommendations pertaining to certification (see page 20).

Status of Performance Audit of Altered Superintendent Employment Contract.

With regard to the status of our prior audit recommendations to the School District of the City of Allentown (District) from an audit we conducted of an altered superintendent employment contract released on May 22, 2012, we found the District had taken appropriate corrective action in implementing our recommendations pertaining to the altered employment agreement (see page 23) and the improper reporting of retirement wages and service years (see page 24).

This performance audit was separate and distinct from the District’s prior cyclical performance audit, which was released on December 27, 2010. It covered the period August 18, 2011 through November 21, 2011, and was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. .

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each local education agency (LEA). The results of these audits are shared with LEA management, the Governor, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period August 13, 2010 through May 17, 2013, except for the verification of professional employee certification, which was performed for the period August 1, 2010 through April 16, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 school years.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education (PDE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ In areas where the District received transportation subsidies, were the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract contain adequate termination provisions?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations.
- Relevance and reliability of operational and financial information.
- Compliance with certain relevant laws, contracts, grant requirements, and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant laws, regulations, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

To determine the status of our audit recommendations made in a prior audit report released on December 27, 2010, we reviewed the District's response to PDE dated March 22, 2012. We then performed additional audit procedures targeting the previously reported matters.

Lastly, to determine the status of our audit recommendations made in a performance audit of an altered Superintendent employment contract released on May 22, 2012, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

The District Failed to Maintain Supporting Documentation Required for its State Transportation Subsidy

Criteria relevant to the finding:

24 P.S. § 5-518 of the Public School Code provides, in part:

“[F]inancial records of the district . . . shall be retained by the district for a period of not less than six years.”

Since transportation mileage data is used to pay transportation subsidy, it is important that forms documenting mileage be maintained so that our auditors can determine that districts’ subsidies are correct.

22 Pa Code § 23.4 of the Regulations of the State Board of Education provides, in part:

“The board of directors of a school district is responsible for all aspects of pupil transportation programs, including the following:
. . .

(6) The maintenance of a record of pupils transported to and from school, including determination of pupils’ distances from home to pertinent school bus loading zones.”

According to the federal Government Accountability Office’s (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency’s ability to meet its mission, improve performance, and “minimize operational problems.”

Our audit found that the School District of the City of Allentown (District) could not provide documentation supporting the data in the District’s 2009-10 and 2008-09 school years’ pupil transportation reports. This supporting documentation is necessary to demonstrate that the District’s transportation reports to the Pennsylvania Department of Education (PDE) are accurate, and that the District received the correct amount of state transportation subsidy. Without this supporting documentation, we were unable to verify the District’s entitlement to transportation subsidies totaling \$3,852,441 for the 2009-10 (\$1,933,739) and 2008-09 school years (\$1,918,702).

For example, the District’s transportation director could not provide the auditors with any documentation demonstrating that the District had made accurate payments to its transportation contractor. The District’s documentation supporting these payments should have included records of the number of pupils the District transported, and the total mileage travelled to and from school. Instead, the transportation director only had records showing that the District made payments to the contractor during the 2009-10 and 2008-09 school years and limited data from the contractor pertaining to the number of nonpublic and charter school students the District transported in the 2008-09 school year.

The District’s deficiencies resulted from its previous transportation coordinator’s failure to maintain the necessary transportation documentation for the 2009-10 and 2009-08 school years. The District failed to have appropriate internal controls in place to ensure that this important documentation was maintained and on file. This lack of supporting documentation violates the Public School Code, and puts the District at risk of losing its entitled transportation subsidies in the event of PDE questioning the Districts’ reported figures.

The School District of the City of Allentown should:

1. In accordance with Section 518 of the Public School Code and Section 23.4 of the Regulations of the State Board of Education of Pennsylvania, require that District personnel maintain a complete record of the transportation contractor's data, including the number of pupils transported to and from school and the total mileage driven.
2. Establish an internal control process for reviewing the data that the District's transportation contractor provides and verify its accuracy before making payments to the contractor and before sending reports to PDE.

The *Pennsylvania Department of Education* should:

3. Monitor the District to ensure it is maintaining sufficient and appropriate evidence to justify its receipt of state funds.
4. In view of the lack of documentation identified in this finding, PDE should review the propriety of the District's transportation subsidy of \$1,933,739 and \$1,918,702 for the 2009-10 and 2008-09 school years, respectively.

Management Response

Management stated the following:

“Staff previously involved with maintaining transportation documentation are no longer with the district. Protocols have been implemented to assure that appropriate documentation will be maintained and stored in a retrievable format. In addition, the contract renewal with the transportation provider will also require that they maintain this documentation as well.”

Auditor Conclusion:

We commend the District for taking steps to improve its transportation documentation and reporting. We will evaluate its new procedures during our next audit.

Finding No. 2 →

Student Membership Reporting Errors Resulted in the District Not Receiving \$47,015 in State Subsidy

Criteria relevant to the finding:

24 P.S. § 25-2503(e) of the Public School Code provides for Commonwealth payment of tuition for children placed in private homes.

Resident and nonresident membership data must be maintained in accordance with the Pennsylvania Department of Education guidelines and instructions, since they are major factors in determining districts' subsidies and reimbursements.

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis." U.S. General Accounting Office. *Standards for Internal Control in the Federal Government*. (November 1999), pg 1.

Our audit of pupil membership reports submitted by the School District of the City of Allentown (District) to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years found reporting errors in the 2008-09 school year. In addition, the auditors identified a lack of internal controls over the District's reporting of resident and nonresident membership.

During the 2008-09 school year, District staff improperly coded the membership days for nonresident children placed in private homes (foster children). As a result, District staff reported those foster students to PDE as residents rather than nonresidents. Consequently, the District never received the Commonwealth-paid tuition for foster children of \$47,015 to which it was entitled. While District staff made corresponding errors in reporting resident membership to PDE, those errors did not have a significant effect on the District's subsidy.

These errors occurred because the District's management failed to develop an effective system of internal controls for ensuring that the membership information reported to PDE was complete, accurate and valid. For example, the District staff failed to reconcile preliminary data reports from PDE to its own documentation, which resulted in the incorrect data being reported on the Final Summary of Child Accounting membership report. Had the District's staff completed this reconciliation the reporting errors would likely have been caught before they reported the membership information to PDE.

The District's management is responsible for having appropriate internal controls in place to gather and report student data. Without these policies and procedures, the District cannot be assured that it is reporting accurate student data. Likewise, without such management checks on membership data, the District cannot be certain it is receiving the appropriate amount of state subsidy.

We have provided PDE with a report detailing the errors for use in recalculating the District's tuition for foster children.

Recommendations

The *School District of the City of Allentown* should:

1. Establish internal controls over the District's process for collecting and reporting membership data, including establishing requirements that staff reconcile the District's documentation to the data that is uploaded to PDE.
2. Verify that the preliminary reports from PDE are correct and, if not, correct, revise, and resubmit child accounting data to PDE.

The *Pennsylvania Department of Education* should:

3. Adjust the District's payments to correct the underpayment of \$47,015.

Management Response

Management stated the following:

"Staff previously involved with the reporting, are no longer with the district. Current staff have implemented protocols that will eliminate this situation in the future."

Auditor Conclusion

We commend the District for taking steps to establish appropriate internal controls over its membership data, and we will evaluate these new policies and procedures during our next audit.

Finding No. 3

Continued Certification Deficiencies

Criteria relevant to the finding:

24 P.S. § 12-1202 of the Public School Code (PSC) provides, in part:

“No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.”

24 P.S. § 12-1212 of the PSC provides, in part:

“Every district superintendent shall keep an accurate record of all valid certificates held by the teachers of the school within his jurisdiction.”

24 P.S. § 25-2518 of the PSC provides, in part:

“[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Pennsylvania Department of Education but who has not been certificated for his position by the Pennsylvania Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district’s market value/income aid ratio.”

Our audit of the School District of the City of Allentown’s (District) professional employees’ certification and assignments for the period August 1, 2010 through April 16, 2013, found three certification deficiencies. The Pennsylvania Department of Education’s Bureau of School Leadership and Teacher Quality (BSLTQ) confirmed these deficiencies after the end of our audit fieldwork.

Our review assessed the District’s compliance with the Public School Code and BSLTQ’s Certification and Staffing Policies and Guidelines. Based on these requirements, we identified three individuals teaching with lapsed provisional certificates. Provisional certificates are only active for six years.

The deficiencies were as follows:

- The audit found a secondary teacher served with a lapsed provisional certificate from September 2011 through April 30, 2013. PDE issued this individual a provisional Instructional I certificate in July 2005, and he began his assignment as a physics teacher in September 2005. His certificate lapsed at the end of the 2010-11 school year.
- Auditors also found another secondary teacher who served with a lapsed provisional certificate during the 2011-12 and 2012-13 school years. PDE issued this individual an Instructional I certificate in September 2004, and the teacher began using it in September 2005. The certificate lapsed at the end of the 2010-11 school year.
- Finally, a special education teacher served with a lapsed provisional certificate during the 2011-12 and 2012-13 school years. PDE issued the individual an Instructional I certificate in May 2002, and she began her assignment as a special education teacher in September 2005. The certificate lapsed at the end of the 2010-11 school year.

Information pertaining to the certificates was submitted to BSLTQ for its review. As noted previously, BSLTQ

subsequently confirmed the deficiencies. Therefore, the District is subject to subsidy forfeitures totaling \$8,325 (\$4,032 for the 2012-13 school year and \$4,293 for the 2011-12 school year).

These certification deficiencies were caused by the administration's failure to develop an effective process for accurately monitoring its professional personnel's usage of provisional certificates. It is the responsibility of District management to have appropriate policies and procedures in place to ensure that employees are properly certified to teach the course to which they are assigned and also to ensure that those certificates are current.

Our prior audit also cited the District for certification deficiencies, which the District disregarded. We again call on the District to correct these deficiencies and strengthen its review and monitoring of certification information (see page 20).

Recommendations

The *School District of the City of Allentown* should:

1. Require the Human Resource Manager to implement a process for regularly reviewing the records of all employees with provisional certificates to ensure that these individuals obtain their permanent certificates in a timely manner.
2. Require the Human Resource Office to keep on file a copy of all valid Pennsylvania certificates held by its professional employees.

The *Pennsylvania Department of Education* should:

3. In conjunction with BSLTQ's determination, adjust the District's allocations to recover any subsidy forfeitures deemed necessary.

Management Response

Management stated the following:

"The auditors found that two secondary teachers and one special education teacher may have had expired Level I certificates for the time period in question. Although the individuals are not specified by name in the findings, the auditor on site identified three teachers to one of our Human Resources support staff. We contacted all three in

writing on April 24, 2013 to correct this, and since that time, two of the three individuals who met the requirements for the level II certification have submitted their online applications to the PDE. The other individual could not be reached at the address we had in the District's records, but we have made contact with him and informed him that he needs to do the same thing.

As for the two (2) recommendations of the audit report, we have implemented both the first recommendation, that the Human Resources Manager establish a review process to ensure that individuals with provisional certification obtain permanent certification in a timely manner, and the second recommendation, that the Human Resources Office keep on file a copy of all valid Pennsylvania certificates held by professional employees.”

Auditor Conclusion

We commend the District for taking action to prevent future certification deficiencies. If the District had made changes to its review process after our last audit, this would not have been a repeat finding. We will evaluate the District's implementation of our recommendations during our next regular audit.

Finding No. 4

Lack of Documentation Needed to Verify Bus Drivers' Qualifications

Criteria relevant to the finding:

Section 111 of the Public School Code (PSC) (24 P.S. § 1-111) requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that would prohibit individuals from being hired and provides that convictions for other felonies and misdemeanors would disqualify individuals for employment if they occurred within ten or five years, respectively.

Additionally, 24 P.S. §1-111(c.1) requires public and private schools to review federal criminal history record information (CHRI) records for all prospective employees and independent contractors who will have contact with children, and make a determination regarding the fitness of the individual to have contact with children. The PSC requires the report to be reviewed in a manner prescribed by the Pennsylvania Department of Education. The review of CHRI reports is required prior to employment, and is to include school bus drivers and other employees hired by independent contractors who have contact with children.

Our current audit found that the School District of the City of Allentown (District) failed to obtain and retain the required documentation for nine contracted bus drivers.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. We reviewed the following six requirements:

1. Possession of a valid driver's license.
2. Completion of school bus driver skills and safety training.
3. Passing of a physical examination.
4. Criminal history record information obtained from the Pennsylvania State Police.
5. Federal criminal history record information (CHRI).
6. Official child abuse clearance statement.

The first three requirements were set by regulations issued by the Pennsylvania Department of Transportation. As explained further in the criteria to the left and on the next page, the fourth and fifth requirements were set by the Public School Code. The sixth requirement was set by the Child Protective Services Law.

Our review of records for 25 contracted drivers employed during the 2012-13 school year found one driver did not have a current child abuse clearance on file, and eight drivers did not have federal CHRI reports on file. The District's failure to obtain and review the required documentation could result in the employment of individuals who might pose a risk if allowed to have direct contact with the District's students.

*Criteria relevant to the finding
(continued):*

Further amendments to Section 111 of the Public School Code required all current school employees to submit an “Arrest/Conviction Report and Certification” form (PDE-6004) to local education agencies indicating whether or not they have ever been arrested or convicted of any Section 111 offense by December 27, 2011. Furthermore, all employees subsequently arrested or convicted of a Section 111 offense are required to provide written notice using the form within 72 hours of the arrest or conviction.

The Child Protective Services Law (CPSL), 23 Pa C.S. § 6355, requires prospective school employees to submit an official clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits Districts from hiring an individual named as the perpetrator of a founded report of child abuse or named as the individual responsible for injury or abuse in a founded report.

Recommendations

Lack of policies and procedures to monitor contracted van drivers’ qualifications resulted in the absence of this documentation. We informed District personnel about the lack of documentation on April 15, 2013. As of completion of fieldwork on May 17, 2013, the missing child abuse clearance had been obtained, but not all of the federal CHRI reports had yet been obtained.

We reviewed the documentation that the District did obtain and found there were no disqualifying crimes or convictions indicated for the individuals.

Our review also found that the District failed to obtain the “Arrest/Conviction Report and Certification” forms (PDE-6004) for the drivers. These should have been obtained by December 27, 2011, as required by amendments to Section 111 of the Public School Code. Furthermore, the District did not have a system in place to ensure that all employees comply with the Public School Code requirement to report any arrests and convictions within 72 hours.

It is the responsibility of District management to have policies and procedures in place to ensure that all persons that would have contact with children have the proper clearances and documentation required. The contracting out of services does not release the District from this responsibility. Without the appropriate internal controls in place, the District cannot be assured that it is in compliance with the aforementioned requirements.

The *School District of the City of Allentown* should:

1. Immediately obtain, from the transportation contractor, the remaining missing documentation referred to in our finding in order to ensure that drivers transporting students in the District possess proper qualifications.
2. Ensure that the District’s transportation coordinator reviews each driver’s qualifications prior to that person transporting students.
3. Maintain files, separate from the transportation contractors, for all District drivers and work with the contractors to ensure that the District’s files are up-to-date and complete.

4. Obtain “Arrest/Conviction Report and Certification” forms as required by the Public School Code.
5. Put policies and procedures in place to ensure all employees comply with the Public School Code requirement to provide written notice within 72 hours after an arrest or conviction.

Management Response

Management stated the following:

“The district has obtained missing documentation from the transportation contractor for drivers who are still working in the district. The FBI check [federal CHRI] for some drivers working during this time period (2008-2010) is not available currently due to having been purged from the COGENT [on-line registration] System. The current district transportation coordinator has instituted a process to review qualifications prior to transporting students. The district will maintain files separate from the contractor. The contract was recently re-bid and the new agreement will address these issues and require the contractor to also maintain documentation.

Management stated the following regarding the PDE 6004 forms and notification requirements:

The current transportation coordinator has established controls to assure compliance with [the Public School Code] by current or prospective employees of the transportation contractor. This includes completion of PDE-6004 and submission of all other required background check information. The transportation coordinator will utilize this information to determine the suitability of drivers and other transportation employees to have direct contact with children in the Allentown School District.”

Auditor Conclusion

We commend the District for taking steps to improve its transportation documentation and reporting. We will evaluate its new procedures during our next audit.

Observation



Criteria relevant to the observation:

The Local Government Unit Debt Act, Act 177 of 1997, as amended by Act 23 of 2003 (53 Pa. C.S. § 8001 *et seq.*) authorizes local government units, including school district, to include qualified interest rate agreements in connection with the issuance of bonds and notes.

The District Financed Some of Its Debt with Interest-Rate Management (“Swap”) Agreements

On April 28, 2009 and April 28, 2010, the School District of the City of Allentown (District) entered into swap agreements that related to its issuance of \$34,750,000 and \$34,750,000 of the District’s General Obligation Notes, 2009 and 2010 Series, respectively.

Current state law permits school districts to enter into qualified interest-rate management agreements, known more commonly as “swaps.” Swaps are financial instruments that form a contract between a school district and an investment bank, speculating on the direction interest rates will move, as well as on other unpredictable factors. Specifically, the party to the contract that guesses correctly about whether interest rates will go up or down gets paid by the party to the contract that guesses incorrectly. This is called a swap interest payment. The amount of money changing hands is determined by several factors, including the amount of the debt associated with the swap and the overall fluctuation of interest rates.

Swaps allow school districts to enter into variable-rate debt financing, and thereby take advantage of low interest rates, while at the same time mitigating the possibility of those same interest rates rising. However, swaps are complicated, financial instruments that can cost money if the district concludes incorrectly on which way interest rates will move. In addition, districts may pay large surcharges to financial advisors, as well as legal fees, and underwriting fees. Such costs can be especially high if these services are not competitively bid. Districts can also run into potential problems if they do not evaluate their financial advisors’ independence. Finally, swaps can result in districts paying large termination fees to the investment banks.

Recommendations

The *School District of the City of Allentown* should:

Consider all the risks, including potential termination fees, when entering into any new swap agreements in the future.

Management Response

Management stated the following:

“At the time of the agreement, this was a prudent and manageable risk to the district’s debt portfolio. We will be avoiding these agreements in the future. The district’s finance team is continuously evaluating shifting or changing the composition of the district’s debt portfolio to better position the district for the future. The finance team will make a recommendation to change the composition/mix of the portfolio when it is fiscally responsible to do so. To date, the debt portfolio of the district has performed as expected.”

Status of Prior Audit Findings and Observations

Our prior audit of the School District of the City of Allentown (District) released on December 27, 2010, resulted in two findings and one observation. The first finding pertained to the reporting of health services data and the second to certification deficiencies. The observation pertained to unmonitored vendor system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings and observation. As shown below, we found the District had taken appropriate corrective action in implementing our recommendations pertaining to the reporting of health services data. In addition, the District partially implemented our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses. The District had not taken appropriate corrective action in implementing our recommendations pertaining to certification deficiencies.

Auditor General Performance Audit Report Released on December 27, 2010

Finding No. 1: Continued Errors in Health Services Data Resulted in Reimbursement Underpayments

Finding Summary: Our prior audit of the reports the District submitted to the Pennsylvania Department of Health (PDH) for the 2007-08 and 2006-07 school years found continued errors in reporting average daily membership (ADM) to PDH, which resulted in reimbursement underpayments of \$8,925 and \$8,939, respectively.

We also noted that the audit report preceding the prior one had found similar errors, resulting in a \$39,852 underpayment for the 2005-06 school year.

Recommendations: Our audit finding recommended that the District:

1. Report ADM for all students for whom comprehensive health records are maintained.
2. Perform an internal review of the membership and health services data prior to submitting reports to PDH.
3. Review reports for school years subsequent to our audit period and, if similar errors were found, submit revised reports to PDH.

We also recommended that the PDH should:

4. Adjust the District's allocations to resolve the reimbursement underpayments of \$17,864 for the 2007-08 and 2006-07 school years, as well as the \$39,852 underpayment for the 2005-06 school year that PDH had not yet adjusted at the time of our prior audit.

Current Status: During our current audit, we found that the District did implement our prior recommendations. Also, the District did receive the underpayment of \$39,852. PDH had not yet corrected the underpayments for the 2007-08 and 2006-07 school years as of the completion of our current fieldwork.

Finding No. 2: Possible Certification Deficiencies

Finding Summary: Our prior audit of the professional employees' certification and assignments for the period June 1, 2008 through July 30, 2010, found three lapsed provisional certificates.

Recommendations: Our audit finding recommended that the District:

1. Require the Human Resource Manager to implement a review process to ensure individuals with provisional certificates receive their permanent certificates in a timely manner.
2. Require the Human Resource Office to keep on file a copy of all valid Pennsylvania certificates held by its professional employees

We also recommended that PDE should:

3. Adjust the District's allocations to recover the appropriate subsidy forfeitures.

Current Status: During our current audit, we found that the District did not implement our prior recommendations. Additional lapsed certificates were found, as discussed in Finding No. 3 (see page 11).

PDE recovered subsidy forfeitures of \$8,935 resulting from the deficiencies found in our prior audit on June 1, 2011.

Observation: Continued Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary:

Our prior audit found that a risk continued to exist that unauthorized changes to the District's data could occur and not be detected because the District was unable to provide supporting evidence that it had implemented our previous audit recommendations to adequately monitor all Carbon Lehigh Intermediate Unit 21 (Intermediate Unit) activity in its system.

Recommendations: Our audit observation recommended that the District should:

1. Include in its Acceptable Use Policy (AUP) provisions for authentication (password security and syntax requirements) and violations/incidents (what is to be reported and to whom).
2. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the Intermediate Unit sign this policy, or require the Intermediate Unit to sign the District's AUP.
3. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (e.g., every 30 days), lock out users after three unsuccessful attempts, and log users off the system after a period of inactivity (e.g., 60 minutes maximum).
4. Allow access to its system only when the Intermediate Unit needs access to make pre-approved changes/updates or to provide requested assistance. This access should be removed when the Intermediate Unit has completed its work. This procedure would also enable the monitoring of the Intermediate Unit's changes.
5. Generate monitoring reports (including firewall logs) of the Intermediate Unit and employee access and activity on its system. Monitoring reports should include the date, time, and reason for access, changes made and who made the changes. The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.
6. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.

Current Status:

During our current audit procedures we found that the District implemented four out of six of our recommendations, as follows:

1. The District does have an AUP addendum that addresses password security and syntax requirements. The policy also addresses violations/incidents (what is reported and to whom).
2. The Intermediate Unit is no longer the District's vendor, but the District does have an AUP the current vendor signs.
3. The District has addressed the weaknesses in logical access controls by establishing system parameter settings requiring all users to change passwords every 90 days, lock out users after five attempts, and log off the system after a period of inactivity.
4. The vendor no longer has 24 hour a day/7 days a week access into the District's system and is now required to sign the AUP for vendors.

We are disappointed that the District did not implement two of our recommendations, as follows:

5. Generate monitoring reports (including firewall logs) of the Intermediate Unit and employee access and activity on its system. Monitoring reports should include the date, time, and reason for access, changes made and who made the changes. The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.
6. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.

We again recommend that the District implement this corrective action.

Status of Prior Audit of Altered Superintendent Employment Contract

Our prior special audit of the School District of the City of Allentown (District) released on May 22, 2012, resulted in two findings. This performance audit was separate and distinct from the District's prior cyclical performance audit, which was released on December 27, 2010. The special audit focused on the details surrounding the District's former superintendent's early separation from the District on August 18, 2011. This performance audit covered the period August 18, 2011 through November 21, 2011, and was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The first finding pertained to the Board of School Directors (Board) entering into an "Agreement to Alter Employment" (Altered Agreement) with its former Superintendent. The second finding pertained to the District having possibly reported ineligible retirement wages for the former Superintendent to the Public School Employees' Retirement System (PSERS). As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We performed audit procedures and interviewed District personnel regarding the prior findings. As shown below, we found the District had taken appropriate corrective action in implementing our recommendations.

August 18, 2011 through November 21, 2011 Auditor General Performance Audit Report Altered Superintendent Employment Contract

Finding No. 1: District Entered Into an Altered Employment Agreement with its Superintendent Worth At Least \$267,000

Finding Summary: Our audit found that on August 18, 2011, the Board voted to enter into an Altered Agreement with its former Superintendent. This agreement ended the former Superintendent's original five-year contract at the beginning of the second year of his tenure and rehired him as the Director of Strategic Initiatives for one year, from August 18, 2011 to August 18, 2012. The Altered Agreement stated that the former Superintendent's annual salary of \$195,000 would remain the same, as would many of his benefits, including a tax-deferred annuity worth \$17,000. In addition, the Altered Agreement provided the former Superintendent with a lump sum payment of \$55,000. We determined that under the terms of the Altered Agreement the former Superintendent was entitled to benefits worth at least \$267,000.

Recommendations: Our audit finding recommended that the District:

1. Enter into employment contracts with prospective superintendents at the three-year minimum term permitted by state law, in order to limit potential financial liability by the District and its taxpayers.

2. Ensure that future employment contracts with prospective administrators contain adequate termination provisions sufficient to protect the interests of the District and its taxpayers in the event that the employment ends prematurely for any reason.
3. Provide as much information as possible to the taxpayers of the District explaining the reasons for entering into the Altered Agreement with the former Superintendent and justifying the District's expenditure of public funds for this purpose.
4. Work with successors to the Superintendent to include in current and future employment contracts provisions that address the compensation and benefits payable to, or on behalf of, the said administrators in the event of a premature termination of their contracts.
5. Obtain detailed documentation illustrating the services and deliverables provided by the former Superintendent in his capacity as Director of Strategic Initiatives.
6. Upon termination of any employee, follow the provisions of the original employment contract and pay only what is due to the employee, prorated for the term of services provided.

Current Status: During our current audit, we found that the District did implement our recommendations.

Finding No. 2: Possible Improper Reporting of Retirement Wages and Service Years

Finding Summary: Our audit of the District's former Superintendent's employment contracts, agreements, and payroll records found that the District might have improperly reported ineligible retirement wages to PSERS for the 2011-12 school year.

Recommendations: Our audit finding recommended that the District:

1. Contingent upon PSERS final determination, report to PSERS only those wages allowable for retirement purposes, as stated in PSERS's Employer Reference Manual.
2. Implement procedures for reviewing all salary and contribution reports, in order to ensure that only eligible wages are being reported to PSERS for retirement contributions.

3. Require the administration to maintain all documentation to support assignments given to and performed by the former Superintendent in his new position as Director of Strategic Initiatives.

We also recommended that PSERS should:

4. Review the Superintendent's salary payments and determine what action, if any, is necessary with regard to the District's inclusion of his \$49,367 in administrative leave payments for retirement credit.

Current Status:

During our current audit, we found that the District did implement our recommendations.

In addition, the District received a memo from PSERS dated July 2, 2012, which stated:

“The wages were considered no-retirement covered. The account of the member has been adjusted accordingly.”

Subsequently, the former Superintendent appealed PSERS' decision, and on August 29, 2013, the PSERS Executive Staff Review Committee granted the appeal.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following stakeholders:

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