

**SUMMARY REPORT:**  
**CARBONDALE AREA SCHOOL DISTRICT**

**April 2003**

## **INTRODUCTION AND BACKGROUND**

The Department of the Auditor General (the Department) conducts audits of school districts pursuant to its authority and responsibility under the Fiscal Code.<sup>1</sup>

In October 2002, the Department received complaints concerning alleged misuse of funds and financial mismanagement at Carbondale Area School District (CASD). The Office of Special Investigations (OSI) conducted an investigation, which included reviews of CASD and vendor records and interviews of CASD staff. A draft summary of the report was provided to CASD's staff on March 21, 2003, for a response. The response is enclosed as part of the report. The results of the investigation are summarized below.

## **SUMMARY**

No evidence of substantial misuse of funds or financial mismanagement was found. There were specific instances concerning travel reimbursement and purchasing in which school district officials failed to comply with requirements of the Public School Code and with school district policies. Those failures should be addressed by CASD through corrective action.

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<sup>1</sup> 72 P.S. § 403.

## **FINDINGS**

The report is organized by specific topics. Recommendations are presented in italics.

### 1. The 2001 National School Boards Association Conference

In March 2001, CASD school board members, the superintendent and the solicitor attended the National School Boards Association (NSBA) conference in San Diego, CA. The conference fee was \$680 per individual. CASD paid \$4,080 in total conference fees directly to the NSBA for four school board members, the superintendent and the solicitor.<sup>2</sup> According to records of CASD, the travel agent and the hotel where the CASD officials stayed, other costs (airfare, hotel, meals, etc.) were paid by the individuals with personal checks or personal credit cards. The officials were reimbursed for expenses by CASD (except the solicitor). The total amount of reimbursement was \$8,286. All of the officials had a guest accompanying them on the trip. CASD officials were not reimbursed for their guests' airfare. The following discrepancies were noted during the review of records:

There is no record that the CASD board authorized the officials' attendance at the conference as required by the Public School Code.<sup>3</sup> In June 2001, the board approved the \$4,080 payment to NSBA.

- A CASD policy for professional employees and administrators provides for a maximum reimbursement per individual of \$1,500. According to the business manager, the policy includes board members and the superintendent. The total reimbursement for the 2001 NSBA conference exceeded that amount by \$192 to \$200 per person.
- The four school board members who attended the conference and who were reimbursed for expenses by CASD voted to approve the reimbursement payment to themselves. This may raise a question concerning the Public Official and Employee Ethics Act (the Ethics Act), which prohibits public officials for voting on a matter that would result in a conflict of interest.<sup>4</sup>
- The Public School Code states that persons who attend conferences are to be reimbursed for all expenses actually and necessarily incurred (emphasis added), including travel, lodging, meals and other incidentals, and that all

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<sup>2</sup>One school board member's conference fee and other expenses were paid with funds of the Northeast Intermediate Unit No. 19 (NEIU), not with CASD funds.

<sup>3</sup> 24 P.S. § 5-516.1.

<sup>4</sup> 65 Pa. C.S. § 1103(j). The Ethics Act defines a conflict of interest as the use by a public official or employee of the authority of his/her office for private pecuniary benefit. Section 1103(j) provides guidance for local government bodies, such as school boards, concerning the appropriate handling of possible conflicts when board members are in a position to vote on matters in which they would be participants or beneficiaries such as those arising in this case.

expenses shall be itemized.<sup>5</sup> Based on CASD's records, it appears that the officials were reimbursed for non-necessary expenses, i.e., additional costs of double rooms, and some meals and other incidentals that appear to have included costs for guests because those expenses were not broken down and reflect only the costs for the individual CASD officials. Based on our review of the records, CASD paid a total reimbursement amount that was approximately \$715 more than the amount the officials were entitled to receive.

*It is recommended that CASD:*

- *Establish procedures to require prior board authorization for attendance of CASD officials at NSBA and other similar activities;*
- *Adopt policies establishing maximum amounts of reimbursement for all officials, including board members and the superintendent.*
- *Obtain the advice of the State Ethics Commission concerning the propriety of board members' participation in voting on reimbursement to themselves.*
- *Conduct a review of the reimbursement paid to the CASD officials related to the 2001 NSBA convention and obtain repayment of funds found not to be necessary expenses of the individual officials.*

## 2. Non-bid purchases

It was alleged that CASD made purchases of office supplies, maintenance services and furniture from a vendor without following the Public School Code's requirements related to competitive bidding.

According to CASD officials, the school district has purchased office supplies from Jay's Office Equipment (Jay's), Scranton, PA, for many years. OSI reviewed CASD's purchases from Jay's during three school years: 1998-1999, 1999-2000 and 2000-2001. The approximate amounts paid by the school district during each year are shown below:

1998-1999	\$23,183
1999-2000	\$34,809
2000-2001	<u>\$22,019</u>
	\$80,011 <sup>6</sup>

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<sup>5</sup> 24 P.S. § 5-516.1.

<sup>6</sup> The totals include purchases from two subsidiaries of Jay's.

Approximately 75 percent (about \$62,000) of the total was for the cost of annual maintenance agreements for CASD copiers. The maintenance agreements included copier supplies (e.g., paper). The copiers were originally purchased from another vendor. Prior to the 2002-2003 school year, the maintenance contracts were not awarded through competitive bidding. For the 2002-2003 school year, the contracts were awarded to Jay's after notice of the opportunity to submit bids was given. No other bids were received. According to the CASD business manager, CASD also made efforts to obtain quotes from other vendors during the 2002-2003 school year but none of the vendors contacted by the school district were interested in quoting prices for the copier maintenance contracts.

The rest of the total amount paid by CASD to the vendor during the three years under review (approximately \$18,000) was divided between payments for furniture, including desks and chairs (approximately \$13,500) and office supplies, including paper, printer cartridges, etc. (approximately \$4,500).

During the 1999-2000 school year, CASD paid the vendor approximately \$12,148 for furniture. The purchases were made at different times and the payments were included as part of larger payments in checks issued periodically to the vendor. According to CASD's records, between September and November 1999, CASD ordered chairs and desks for the high school and a credenza and mahogany desk for the superintendent's office. The purchases are shown in CASD's records in several separate orders, each of which was for less than \$4,000.

We found no record of competitive bidding in connection with the purchases or that price quotes were obtained, or sought, from other vendors. The purchases were paid for as part of two checks issued by CASD to the vendor on October 25, 1999 (\$9,215.54) and November 8, 1999 (\$5,812.26). The payments included money due to the vendor for other purchases, including payments on the monthly copier maintenance contracts. The check payments were approved by the CASD board as part of the regular monthly process of approvals of checks issued by the school district.

The superintendent was interviewed concerning the furniture purchases. He stated:

- Each year, he asks staff (teachers and principals) to request what is needed for school buildings; his intention is to revamp the high school building one room at a time.
- The purchase orders for schoolroom furniture were for separate classrooms. After the orders in September and October, the high school principal requested additional furniture to be purchased in November.
- The mahogany desk and credenza for the superintendent's office were part of a four-piece furniture set which the superintendent is obtaining at a rate of one piece per year, if funding is available.

## Conclusions and Recommendations

The Public School Code requires that all furniture, equipment, textbooks, school supplies and other appliances for the use of public schools, with limited specific exceptions, costing \$10,000 or more be purchased only after public notice and from the lowest responsible bidder, and that such purchases that are under \$10,000, but over \$4,000, take place after obtaining written or telephonic price quotations from at least three qualified and responsible vendors.<sup>7</sup> Evasion of the requirements through the device of making a series of purchases, or simultaneous purchases, each for less than the statutory bidding or price quote threshold amounts (the practice known as “piecemealing”) is specifically prohibited.<sup>8</sup>

The non-bid purchases of furniture from Jay’s are questionable. The purchases were made close together in time and involved similar items. Furthermore, the purchases appear to have been made as part of an ongoing or planned process.

The superintendent’s explanation for the timing of the purchases does not provide a justification for the manner in which they were made. If there are plans to buy furniture for classrooms and the superintendent’s office, it would be more efficient and appropriate as a matter of sound financial management, to budget funds for such purchases and use competitive bidding, or at least obtain price quotes, to ensure fairness and demonstrate that the school district is getting the best price. The superintendent’s method of making the purchases raises questions of favoritism to one vendor. Furthermore, by allowing the superintendent such broad discretion without board oversight, the practice leaves the door open to a continual pattern of piecemealing in violation of the Public School Code. It may also be more cost effective to award a contract, after competitive bidding, for recurring purchases of office supplies.

The non-bid copier maintenance contracts may not be subject to competitive bidding requirements because they are, in large part, service contracts.<sup>9</sup> In any case, CASD should, at least, document efforts to ensure that it is obtaining the best price for the purchases.

*It is recommended that the CASD board:*

- *Establish procedures to purchase furniture and office supplies through competitive bidding or by obtaining price quotes.*
- *Provide for monitoring of repeated non-bid purchasing from a single vendor.*

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<sup>7</sup> 24 P.S. § 8-807.1.

<sup>8</sup> 24 P.S. § 8-807.1(d).

<sup>9</sup> The Pennsylvania Supreme Court has ruled that service contracts that require a degree of personal skill and professional expertise are exempt from the competitive bidding requirements of the law. Malloy v. Boyerstown Area School Board, 657 A.2d 915 (Pa. 1995). The ruling may not apply to standard copier maintenance contracts such as the ones in this case.

- *Ensure that the superintendent and school district staff are aware of the Public School Code requirements related to purchasing.*
- *Establish policies and procedures to document efforts to obtain bids and price quotes for the purpose of verifying that the school district is receiving the best price for office supplies, equipment and services.*

### 3. School board member's employment

It was alleged that a school board member used her position to favor the board member's employer, a bank, which served as depository for the school district.

We found no evidence of impropriety on the part of the board member. According to school district records, the board member abstained from voting on school board matters relating to the bank. The board member has disclosed her employment on annual Statements of Financial Interest filed pursuant to the State Ethics Act.

### 4. Legal fees

It was alleged that CASD had made payments to the solicitor that were not authorized by the school board and that a questionable payment was also made to another attorney.

A review of CASD records disclosed no evidence of improper payments:

The payments to the solicitor were part of an agreed-upon hourly rate for service beyond those included in the solicitor's annual retainer. The additional payments were authorized by the board in the annual written agreement with the solicitor.

The other allegation concerned an attorney engaged by a law firm that served as CASD's bond counsel. The attorney was paid \$5,000 by the bond counsel for service as underwriter counsel in May 2001. The amount of the fee was charged to the bond funds account and included in the bond counsel's report to CASD concerning disbursements of bond proceeds. There was no evidence of impropriety in connection with the payment.

### 5. Payments to a consultant

It was alleged that CASD overpaid Glen B. Bush and Associates, Inc., New Tripoli, PA for consulting services related to a kitchen construction project.

According to CASD records and the CASD business manager, in early 2001, CASD paid the firm twice for the same charges. The total overpayment was \$4,424.70. According to the business manager, the overpayment was the result of an oversight. CASD has requested a refund. The matter has not been fully resolved because the vendor has claimed that it performed additional work for which it is entitled to be paid. We found no evidence of wrongdoing in connection with this matter.

6. Payment to an architect

It was alleged that the CASD superintendent improperly approved payments by the school district to the Palumbo Group, Scranton, PA, for architect services related to submissions of documentation concerning school district construction projects to the Pennsylvania Department of Education (PDE) and the selection of a clerk of works.

The complaints contained no specific allegations of wrongdoing. The Palumbo Group has performed services for CASD pursuant to written agreements entered into in 1991 and 1999. The propriety of the questioned payments appears to be a matter involving the terms of the agreements and should be presented to the CASD solicitor, rather than the Department, for review.

7. Other allegations

We also reviewed allegations concerning issues such as the superintendent allegedly assuming responsibilities and duties of the business manager, and practices and procedures for conducting school board meetings. We found no evidence of misuse of funds or violations of state law. Additionally, the subject matter of the complaints appears to be within the discretion of CASD and its board.



## **CASD'S RESPONSE**

### **CARBONDALE AREA SCHOOL DISTRICT**

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**Martin F. Lawler**  
Superintendent of Schools

**David M. Cerra**  
Business Manager

Mr. Peter J. Smith  
Department of the Auditor General  
Office of Special Investigations  
Room 327 Finances Building  
Harrisburg, PA 17120

April 14, 2003

Dear Mr. Smith,

I am writing this letter in response to the draft summary of the investigation by your office.

I have been in contact with the Pennsylvania School Board's Association and have been given Board Policies on Board Expenses at conventions (Attachment 1) and Finances (Attachment 2) to be presented and recommended to our Board for adoption at their May 12, 2003 meeting.

We will advise the State Ethics Commission concerning the propriety of board members' participation in voting on reimbursement to themselves.

The School District has been reimbursed by the directors and superintendent in the amount of \$715.00 for the extra reimbursement between the rate of a single room versus a double room at the 2001 NSBA Convention.

There was no intent on the purchasing of furniture to piecemeal the furnishings for the purpose of evading the School Code. The purchasing plan followed by the Superintendent was to acquire new furniture and replace damaged book cases in his office over a period of time in order to phase in the total expenses over a period of ten years. In the future he will follow the requirements of the School Code related to purchasing.

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**Martin F. Lawler**  
Superintendent of Schools

**David M. Cerra**  
Business Manager

The Superintendent, Business Manager, and Business Office staff will attend in-service training sessions conducted by the Pennsylvania School Board's Association and the Pennsylvania Association of Business Offices concerning the requirements related to purchasing in the School Code.

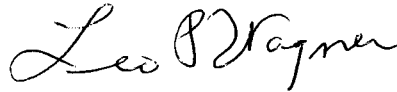
The district is willing to follow all recommendations provided by your office. We also appreciate the professionalism of your auditors in conducting their investigation of our District.

If you have any further questions please contact our office. Thank you.

Sincerely,



Martin F. Lawler  
Superintendent of Schools



Leo P. Wagner  
President, Carbondale Area School Board

## **THE DEPARTMENT OF THE AUDITOR GENERAL'S COMMENTS**

According to CASD's response, the school district intends to adopt the Pennsylvania School Board Association's Policies on Board Expenses and Finances referred to in the above letter. Those policies follow the language of sections of the Public School Code relating to reimbursement and contracting. The school board's adoption of the policies and CASD's compliance with them will be reviewed as part of future regular audits of CASD by the Department.

Instead of reviewing the reimbursement payments to board members and the superintendent in connection with the 2001 NSBA conference to determine the actual and necessary expenses as recommended in our report, CASD chose to resolve the reimbursement issue by obtaining repayment of the amount (\$715) of the hotel charges for double rooms. Based on our review of the available records, that amount constitutes a major portion of the questionable charges that can be documented at this time. The school district's adoption and implementation of the Pennsylvania School Board Association's Policies will provide a more effective and appropriate method to handle such expenses in the future.

## **DISTRIBUTION LIST**

This report was distributed initially to the members of the school board, the Superintendent, Business Manager, and Solicitor for CASD and to the following:

The Honorable Vicki L. Phillips, Ed.D  
Secretary of Education  
Pennsylvania Department of Education

The Honorable Barbara Hafer  
State Treasurer

John J. Contino, Executive Director  
State Ethics Commission

William A. Hardenstine, Jr.  
Comptroller  
Labor, Education and Community Services

Ann Boyko  
Resource Assistant  
Pennsylvania School Boards Association

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