

SUMMARY REPORT:

MONTOUR SCHOOL DISTRICT

February 2004

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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.¹

In October 2002, the Department received complaints concerning purchases and leasing of computer equipment and services at Montour School District (MSD), Allegheny County. The Office of Special Investigations (OSI) conducted an investigation which included interviews of current and former school district officials and employees and reviews of records. We also obtained information from vendors and others doing business with MSD.

In December 2003, a copy of the draft summary report was made available to MSD officials to provide the school district with the opportunity to submit a response to the findings, conclusions and recommendations. MSD's response and a response from the current superintendent is included in the final report, together with the Department's comments..

¹ 72 P.S. § 403.

SUMMARY OF FINDINGS

MSD violated the Public School Code by entering into agreements to purchase educational computer software and services without prior school board authorization and approval.

A false and misleading MSD school board Certificate of Authority was given to a leasing company and a bank in connection with a financing agreement.

MSD staff members received questionable and inappropriate things of value through an arrangement with a vendor doing business with the school district.

RECOMMENDATIONS

1. The MSD school board should conduct a review of all existing school district contracts and agreements to determine whether Commonwealth and school district requirements relating to school board authorization and approval and competitive bidding have been met. In cases where the requirements were not met, the MSD school board should take appropriate steps concerning the responsible individuals, including training and disciplinary action where appropriate. Contracts and agreements that were not authorized or approved as required should be presented to the school board to determine whether they should be approved or rejected. (Finding No. 1.)
2. The MSD school board should require that lists of all contracts and agreements entered into during each calendar month be prepared and submitted as part of the financial information presented to the school board at regular monthly board meetings, together with copies of the relevant documents; the lists should be maintained as part of the records of the school board meetings. (Finding No. 1.)
3. The MSD school board should ensure that all purchasing and implementation of computer technology and services, including software, instructional materials and training, are the responsibility of qualified school district employees; such employees should report to the business manager in regard to all purchases, contracts and payments; and contracting activities should be overseen by the school board as a whole or through an appropriate board committee. (Finding No. 1.)
4. The MSD school board should ensure that all staff members with duties related to contracting and purchasing are aware of applicable requirements of the Public School Code and the school district relating to school board authorization and approval and competitive bidding. (Finding No. 1.)
5. The MSD school board should take appropriate action against all MSD officials and other MSD employees who were responsible for the agreement to obtain computer software from EAI, the \$15,000 down payment and the lease agreement transaction. (Finding No. 2.)

6. The MSD school board should establish a requirement that all MSD school board purchasing or contracting certifications and authorizations are signed by an appropriate member or members of the school board (e.g., the school board president or vice president) and that the issuance of such documents is made part of the record of official school board actions. (Finding No. 2.)
7. The MSD school board should take appropriate action in regard to MSD's officials and staff members who took part in the round of golf and who did not pay for their participation themselves. The action could include discipline and adopting a policy that prohibits officials and staff from accepting things of value from vendors and others seeking to do business with the school district. (Finding No. 3.)
8. The MSD school board should conduct a review and/or audit to determine if the Palm Pilots given to MSD staff members in connection with the July 2002 retreat were, in fact, purchased from EAI by the school district and, therefore, belong to the school district. If the review determines that they were not, MSD should decide the rightful ownership and proper disposition of the items. (Finding No. 3.)

FINDINGS

Finding No. 1 – MSD violated the Public School Code by entering into agreements to purchase educational computer software and services without prior school board authorization and approval.

During the 2001-2002 school year, MSD entered into agreements to obtain curriculum software from a firm operating under the name of Educating America, Inc. (EAI), Pittsburgh/Moon, PA. According to the agreements, EAI was to:

- Provide curriculum software for grades three through eight.
- Perform teacher assessments, computer competency examinations and teacher training.

The total cost of the software and services was \$79,818. MSD purchase orders were prepared in November 2001. A partial payment (\$40,668) was made at that time. The remaining amount (\$39,150) was paid in September 2002.

The Public School Code states that the affirmative vote of a majority of all of the members of the school board, “duly recorded,” is required to take action on entering into contracts of any kind, including purchases of supplies, where the amount exceeds \$100.² The Public School Code also requires that all equipment and supplies costing \$10,000 or more shall be provided by the school board only (emphasis added) through competitive bidding procedures set out in the statute, including advertisement and competitive bidding.³

MSD’s written procedures contained a restatement of the same requirements.

The MSD staff member who had the leading role in connection with the purchases from EAI was the then-Director of Curriculum and Instruction (the curriculum director). The employee was previously a teacher at MSD and became the curriculum director in June 2001. We found no evidence that he had prior experience in technology development or school district procurement. He resigned on November 21, 2002.

We found two written contracts relating to the purchases in MSD’s records. One was a contract for curriculum licensing, dated August 31, 2001. The terms of the contract called for curriculum materials, including lesson plans and other proprietary materials, a teacher competency examination, other staff development training and computer hardware and software. The second contract, referred to as a “supplemental agreement,” was also for curriculum licensing. It was dated September 21, 2001. It called for 1,550 student workbooks, teacher services, assessment tools and a technology literacy curriculum. Both contracts contained the signature of the curriculum director as the representative of MSD.

² 24 P.S. § 5-508.

³ 24 P.S. § 8-807.1. The Pennsylvania Supreme Court has ruled that service contracts that require a degree of personal skill and professional expertise are exempt from the Public School Code’s competitive bidding requirements. *Malloy v. Boyertown Area School Board*, 657 A.2d 915 (Pa. 1995).

We found no documentation or other evidence that the MSD school board authorized or approved the above agreements and transactions with EAI or that any competitive bidding requirements were considered or followed.

The curriculum director told OSI that:

- At the end of the 2000-2001 school year, MSD's technology department received a failing grade in a news article which graded Allegheny County school districts concerning technology; as a result, the MSD school board wanted to upgrade the technology department and curriculum.
- EAI held exclusive rights to the distribution of Future Kids' products (a line of educational computer hardware and software) in Pennsylvania and Ohio.
- He met with the president of EAI and another EAI employee in June 2001; a follow-up meeting, attended by two MSD school board members on the curriculum committee, featured a presentation by EAI representatives.
- Another meeting was held on August 24, 2001, at which there was a final agreement to obtain EAI's programs for grades three through five and six through eight.
- On August 28, 2001, the MSD superintendent at that time told the curriculum director to move forward on the contract and the curriculum. (Note: That superintendent retired from his position with MSD on November 30, 2001. According to him, he provided services to MSD as a volunteer interim superintendent without pay from late December 2001 until April 2002, and, in May 2002, he was hired as a consultant to serve as the school district's interim business manager.)

OSI interviewed the former superintendent and one of the two school board members referred to by the curriculum director. According to the school board member:

- A sales representative for EAI introduced herself to him in the spring of 2001; the school board member directed her to the offices of the MSD superintendent and the curriculum director.
- At approximately the same time, MSD representatives toured the North Allegheny School District to review that school district's technology program; MSD then decided to use North Allegheny School District as a model.

The former superintendent told OSI that:

- He knew nothing about any agreements that the curriculum director made with EAI in September 2001.

- He recalled that EAI's staff came to MSD early in the 2001-2002 school year and worked there on a daily basis providing assessment tests to teachers and training to secretaries.

The curriculum director, the school board member and the former superintendent did not provide any explanation for the failure to obtain and document school board authorization of the September 2001 agreements. No one provided an explanation of how MSD officials and staff reached the decision to use Future Kids' products and to contract with EAI without considering alternatives.

The payments to EAI in November 2001 and September 2002 were made via checks drawn on MSD accounts. The payments were approved by the school board as part of the process of approvals of payments that takes place at regular school board meetings.

We found no documentation of the justification for the decision to use Future Kids' products and/or EAI at the school district.

Conclusions and Recommendations

MSD entered into agreements with EAI without formal school board authorization or approval, either intentionally (to ensure that no questions would be raised concerning the choice of vendor) or through neglect and incompetence. The former superintendent, the curriculum director and at least one school board member were among those responsible for what occurred.⁴ However, the school board itself has overall responsibility for ensuring that it is aware of contracting activities in the school district and that contracts receive the required authorization and approvals.

It is possible that the agreements, or at least the service portions of them, may not have required competitive bidding. However, the justification for contracting with EAI was not documented. The method through which the vendor's products and services were obtained by MSD was carried out in a manner that prevented the full school board, and the public, from participation in the process, as well as from acquiring adequate knowledge of what took place.

From the information available to us, it appears that the lack of a superintendent and a business manager at various times during the 2001-2002 school year may have contributed to the apparent administrative confusion and disorganization that were demonstrated during the course of MSD's transactions with EAI. However, the school board as a whole is still responsible for the overall management of the school district's activities, including ensuring that there is sufficient qualified and competent staff at all times and that Public School Code requirements are followed.

⁴ The school district's business manager during the 2001-2002 school year was dismissed in April 2002. He does not appear to have played a role in the agreements with EAI.

It is recommended that the MSD school board:

- Conduct a review of all existing school district contracts and agreements to determine whether Commonwealth and school district requirements relating to school board authorization and approval and competitive bidding have been met. In cases where the requirements were not met, the MSD school board should take appropriate steps concerning the responsible individuals, including training and disciplinary action where appropriate. Contracts and agreements that were not authorized or approved as required should be presented to the school board to determine whether they should be approved or rejected.
- Require that lists of all contracts and agreements entered into during each calendar month be prepared and submitted as part of the financial information presented to the school board at regular monthly meetings, together with copies of the relevant documents; the lists should be maintained as part of the records of the school board meetings.
- Ensure that all purchasing and implementation of computer technology and services, including software, instructional materials and training, are the responsibility of qualified school district employees; such employees should report to the business manager in regard to all purchases, contracts and payments; and contracting activities should be overseen by the school board as a whole or through an appropriate board committee.
- Ensure that all staff members with duties related to contracting and purchasing are aware of applicable requirements of the Public School Code and the school district relating to school board authorization and approval and competitive bidding.

Finding No. 2 – A false and misleading MSD school board Certificate of Authority was given to a leasing company and a bank in connection with a financing agreement.

Beginning in December 2001, the curriculum director and EAI representatives discussed a technology curriculum for the MSD high school to be designed by EAI. The curriculum director then held discussions with EAI staff to determine a price. The discussions included discounts, or “royalties,” to which MSD would be entitled once EAI began to market the curriculum technology package to other school districts.⁵

According to the curriculum director:

- In January and February 2002, MSD staff identified courses and prepared course descriptions that were approved by the school board. (We found no documentation to support the curriculum director’s statement).
- A meeting was held with EAI representatives to discuss the method of payment. At the meeting, EAI proposed a lease for three years at \$15,000 per year; one of the persons who attended was an MSD school board member; he was one of the two members of the board’s curriculum committee who attended a previous meeting with EAI in the summer of 2001 which is mentioned in Finding No. 1. (See p. 5.)
- At a May 20, 2002, school board finance committee meeting, the curriculum director gave a Power Point presentation regarding the curriculum which included the proposed lease and spreading the costs over a three year period.

According to the school board member:

- In the fall of 2001 and spring of 2002, MSD started to put together a plan to upgrade technology.
- In April 2002, he attended a meeting at a golf club to discuss the plan with representatives of EAI, the curriculum director and a representative of a leasing company; among other subjects relating to the upgrade, leasing was discussed.

We found no documentation or other evidence that the school board authorized or approved a lease agreement in connection with purchases from EAI. Among the school district’s records were the following:

- An April 12, 2002, purchase order in the amount of \$15,000 for “Curriculum Writing” which listed the vendor as “Future Kids,” an April 10, 2002, EAI invoice and an MSD check (No. 006888) dated April 30, 2002, in the amount of \$15,000, payable to EAI. The curriculum director instructed another MSD employee to prepare the purchase order. We found no record of an MSD school board vote related to this

⁵ According to the curriculum director, he did not negotiate “royalties” for his personal benefit.

transaction. The check contains the stamped signatures of the school board president and the board secretary and the handwritten signature of the board treasurer.

- An EAI Price Quote/Supplemental Agreement dated May 15, 2002. According to the records, the total price was \$60,540, consisting of a \$15,000 down payment and an additional \$45,540, based on a 36-month lease for \$1,307.54 per month.⁶

The agreement contains the signatures of the curriculum director and an officer of EAI.

The curriculum director told OSI that he kept the school board and the superintendent informed all through the process. He stated that he does not understand how a \$15,000 check got written and signed by three board members, “yet no one remembers” approving the EAI curriculum.

During the summer of 2002, Reliant Financial Resources (Reliant), Pittsburgh, PA agreed to provide financing for the transaction and entered into a lease agreement with MSD for the balance due on the curriculum software that MSD obtained from EAI.

According to the curriculum director:

- He received the lease proposal and gave it to the new superintendent.⁷
- The superintendent told him to give it to the interim business manager.⁸ That individual later returned it to the curriculum director and told him that “it looked fine but the solicitor needs to approve it.”
- On June 25, 2002, the curriculum director spoke to the solicitor about the lease and had it sent to him the next day; according to the curriculum director, the solicitor called him and told him everything was “okay.” (Note: The solicitor told OSI that he looked at a lease document at the request of the curriculum director in June 2002, but that he reviewed it for form and content as a standard equipment lease and did not approve the lease transaction.)
- In August 2002, the representative of Reliant faxed a “corporate resolution” to the curriculum director; the superintendent signed it and it was sent back to Reliant. It was later sent to Parkvale Bank, Pittsburgh, PA, as part of the documentation required to be provided to obtain bank financing.

The document referred to by the curriculum director as a “corporate resolution” was a form entitled “Certificate of Authority” (the certificate). It contained a statement that MSD (the lessee) was a Pennsylvania corporation and that the curriculum director was a duly elected and

⁶ If the interest is included, the actual amount would include an additional \$1,531, resulting in a total cost of \$62,071.

⁷ A new MSD superintendent was appointed in April 2002.

⁸ As noted in Finding No. 1, the former superintendent was hired as interim business manager in May 2002. The prior business manager left MSD in April 2002.

qualified officer of MSD. The certificate states that “at a meeting of the Board of Directors of said corporation,” on June 14, 2002, a resolution was adopted stating that the curriculum director was authorized and empowered to enter into leases and other instruments with Reliant and/or its assignee and to take “all other further action, including the making of payments . . . in connection therewith . . .” There was also a statement that the curriculum director signed the certificate as the authorized officer. The signature of the superintendent appears on the certificate as a witness. The superintendent told OSI that he had no knowledge of signing the certificate. He said that he did not recall even being told about the lease and did not see the certificate until August 2002 after questions were raised about the lease. In the superintendent’s written response to the draft report, he stated that he had “never read or knowingly seen” the certificate prior to the date a representative of Parkvale Bank sent it to him on or about August 22, 2002, and that he doubted that the signature on it was his at the time. (The superintendent’s complete response appears on pp. 19-22 of this report.)

There is no documentation or other evidence that the MSD school board adopted any such resolution. According to the curriculum director, the date that appeared on the certificate as the date of the corporate resolution (June 14, 2002) may be a typographical error. He said that the date that was intended to be used was June 25, 2002, the date the MSD school board approved the school district’s budget for the 2002-2003 school year. We found no reference to a lease purchase of the EAI items in MSD’s records relating to the budget approval. There is no credible basis on which to conclude that the school board’s approval of the budget constituted authorization or approval of an agreement with EAI or a lease purchase agreement.

In late July 2002, MSD received a lease payment coupon book from Parkvale Bank. The book contained a lease number and coupons showing the amount and the due date. According to MSD’s interim business manager, he did not know what the lease was for and made inquiries at Parkvale Bank.

According to the MSD interim business manager, the only items MSD received from EAI related to the lease were about 12 paper documents and several CD ROMs. MSD refused to make payments on the lease. In November 2002, Parkvale Bank filed a lawsuit against MSD and EAI in the Allegheny County Court of Common Pleas alleging breach of contract and failure to pay, and seeking \$47,071 as the amount due in connection with the lease agreement.⁹

MSD took the position that the curriculum director was not authorized to sign the certificate, suspended him and instituted disciplinary action against him based on the incident involving the lease and other alleged improprieties. The curriculum director resigned in November 2002.

The records of MSD contained an insurance verification form from Reliant that described “curriculum integration generation [computerized text books].” These textbooks appear to be included in the items that were part of the lease agreement. According to a statement on the form, the “curriculum integration generation” was insured by MSD’s insurance company. The

⁹ Parkvale Bank v. Montour School District and Educating America, Inc. (No. 02-22423). EAI was dropped from the complaint in January 2003.

form contained the signature of the interim business manager. He told OSI that, at the time he signed the form, he did not know that it related to the items purchased from EAI.

Conclusions and Recommendations

MSD or members of its staff entered into an agreement to receive computer software from EAI, made a \$15,000 payment for those supplies, submitted a lease purchase agreement and signed a Certificate of Authority, all without any record of authorization or approval by the school board. The certificate containing false and misleading information was submitted to the bank in connection with financing of the transaction.

There is disagreement among the MSD officials involved in the transaction concerning the extent of their knowledge of what happened. However, it appears to be clear that the school district did not comply with the Public School Code's requirements concerning the need for school board authorization and approval and that the representations on the certificate submitted to the bank were deceptive and misleading.

As discussed previously in Finding No. 1, the Public School Code requires that an affirmative vote of a majority of all of the members of the school board, "duly recorded," is needed to take action on contracts when the amount exceeds \$100 and that, as a general rule, competitive bidding procedures should be used for this type of purchase.¹⁰ The requirements were not followed in connection with this transaction.

MSD appears to have acted appropriately by refusing to make payments on the lease purchase agreement and taking administrative action against the curriculum director. However, other MSD officials, including the superintendent, the interim business manager and at least one school board member, were aware of the transaction and failed to ensure that the process was conducted in accordance with the requirements of the Public School Code. The curriculum director did not act alone and he was not the only school district official with responsibility for what took place.

Overall, the incident shows that MSD's management of contracting and purchasing was disorganized and poorly managed and that those activities were conducted with a lack of knowledge of, or regard for, legal requirements.

In addition to the recommendations included as part of Finding No. 1, it is recommended that the MSD school board:

- Take appropriate action against all MSD officials and other MSD employees who were responsible for the agreement to receive computer software from EAI, the \$15,000 down payment and the lease agreement transaction.
- Establish a requirement that all MSD school board purchasing or contracting certifications and authorizations are signed by an appropriate member or members of the school board (e.g., the school board president or vice president) and that the

¹⁰ See p. 4.

issuance of such documents is made part of the record of official school board actions.

The numerous conflicts and discrepancies in versions of what occurred in connection with the Certificate of Authority and its submission to Parkvale Bank prevent us from being able to conclude that there is a sufficient basis for a criminal referral. However, it is clear that a false document was submitted to Parkvale Bank in connection with a loan. For that reason, the final report is being given to law enforcement and investigative agencies for review.

Finding No. 3 – MSD staff members received questionable and inappropriate things of value through an arrangement with a vendor doing business with the school district.

In July 2002, MSD held an “administrative retreat” for its staff at the Ogelbay Resort in West Virginia. The purpose was to discuss goals and strategy for the 2002-2003 school year. MSD paid the costs of the retreat. About 12 to 15 members of MSD’s staff attended the retreat. Among them were the superintendent (who had recently been hired) and the curriculum director. An unknown number of MSD staff who attended the retreat played a round of golf at the resort’s facilities. The golf round was sponsored by EAI. According to the account manager at EAI, the curriculum director asked EAI to sponsor the round. According to another EAI official who later became its president, EAI offered to sponsor the golf round. The superintendent told OSI that MSD received a bill from the resort for a golf round, but, when he contacted the resort, he was told that EAI was supposed to pay for it. The amount of the bill was \$1,027.14. According to the most recent information we have obtained, EAI has made three payments of \$250 each, for a total of \$750, for the golf round.

The retreat included computer training for MSD administrators. One feature of the training was the Integration of Personal Digital Assistant (PDA) equipment (referred to as “Palm Pilots”) into administrative duties. According to the curriculum director, EAI staff provided the training; there was no charge because EAI was responsible for a late delivery of certain books to be provided as part of a separate agreement with MSD (one of the agreements described in Finding No. 1) and MSD was not able to use the books. According to the curriculum director, he asked EAI to put the money (presumably the funds paid to EAI by MSD for the books) toward the PDA training and provide each person in attendance with a Palm Pilot.

The superintendent told OSI that each MSD staff member who attended the retreat received a Palm Pilot. He said that, at the time, he thought they were provided as part of the training MSD had paid for; he was later told by an officer of EAI that EAI had donated the Palm Pilots to MSD. According to the superintendent, the Palm Pilots were collected from the MSD staff members who received them and are currently stored in the superintendent’s office. According to MSD’s current Director of Fiscal Management, there is no record of an MSD purchase order for PDA training.

Records of EAI that were made available to us included e-mails between the MSD curriculum director and an EAI employee. In an e-mail dated June 26, 2002, the EAI representative stated that the remaining \$39,150 payment on one of the contracts between MSD and EAI during the 2000-2001 school year (one of the contracts discussed in Finding No. 1, see pp. 4-7) was due and that it “will create the ‘funding’ for the Ogelbay retreat.” According to the e-mail, the funding of the “Ogelbay retreat” included 17 Palm Pilots, training and golf green fees for 20 players. The same e-mail also includes a discussion of the lease agreement that is the subject of Finding No. 2.

The \$39,150 payment referred to in the e-mail was made by MSD in September 2002, as part of the payment for purchases made during the 2001-2002 school year.

Conclusions and Recommendations

It was inappropriate for MSD staff to accept the value of the round of golf to be paid for by a vendor that was doing business with the school district, as well as seeking to obtain more business at the time of the event. Based on the available information, the Palm Pilots were purchased and paid for by MSD and, therefore, are its property, or they were inappropriate gifts from the vendor to MSD staff members.

In addition to the recommendations made previously in connection with Finding Nos. 1 and 2, we recommend that the MSD school board:

- Take appropriate action in regard to MSD's officials and staff members who took part in the round of golf and who did not pay for their participation themselves. The action could include discipline and adopting a policy that prohibits officials and staff from accepting things of value from vendors and others seeking to do business with the school district.
- Conduct a review and/or audit to determine if the Palm Pilots given to MSD staff members were, in fact, purchased from EAI by the school district. If the review determines that they were not, the equipment should be kept by MSD until the rightful ownership and proper disposition of them is decided.¹¹

¹¹ Based on the June 26, 2002, e-mail discussed previously, MSD may have paid for the Palm Pilots as part of the \$39,150 payment to EAI in September 2002. If so, the items would appear to belong to the school district.

OTHER ALLEGATIONS

We also looked into other allegations concerning activities of the curriculum director, including obtaining a line of credit with Amazon.com, efforts to generate an MSD proposal for a tax credit program and agreements with EAI employees for additional services at MSD. We found no evidence of misuse of MSD funds in connection with those activities.

The Amazon.com account was established by the curriculum director apparently without any record of school board authorization or approval, and books were ordered through the account. However, no payments were made and the books were returned. The tax credit program did not go beyond the initial talking stage. The curriculum director apparently took steps to engage EAI employees to do additional work at MSD. However, no payments were made and there is no record that any work was performed.

Overall, while there was no misuse of MSD funds, these incidents reflect a pattern similar to that shown in the findings, i.e., the curriculum director undertook to commit MSD to agreements and/or make purchases without documentation or other evidence of authorization or approval by the school board, or evidence that the school board was aware of the activities.

RESPONSES

MSD's Response

MONTOUR SCHOOL DISTRICT



ROBINSON TOWNSHIP - KENNEDY TOWNSHIP - INGRAM BOROUGH - THORNBURG BOROUGH - PENNSBURY VILLAGE BOROUGH
Administration - Clever Road, McKees Rocks, PA 15136 • 412/490-6500

High School (412) 490-6500 Ext. 1610
David E. Williams Middle School (412) 771-8802
Burkett Elementary School (412) 787-0408
Ingram Elementary School (412) 921-2727
Forest Grove Elementary School (412) 264-6452
Athletic Department (412) 490-6500 Ext. 1636
Transportation Department (412) 490-6500 Ext. 6225

Mr. Peter J. Smith
Deputy Auditor General for Performance Audits/
Director, Office of Special Investigations
Department of the Auditor General
Room 327, Finance Building
Harrisburg, PA 17120

RE: MONTOUR SCHOOL DISTRICT

Dear Mr. Smith:

Please accept this correspondence as the District's written response to be included in the final report of your office. The District will undertake the following actions based upon the recommendations of your report and the Board's review of the facts developed:

1. The Board has directed the Director of Fiscal Management to make an inventory of all existing school contracts. The Director will collect all contracts from District personnel. The director will correlate all contracts with budget accounts and sub-accounts. The Director will also develop a new purchase order form and system to include all relevant information and will require that all submitted purchase order forms conform to District policy and procedure and have appropriate approvals as required. If this inventory or other reviews discover that the purchase of supplies or other goods should be bid the Director will so advise the Board and bids will be prepared as required by the School Code. The Director of Fiscal Management has been directed to create a written comprehensive protocol for contract approval and execution that is in compliance with the public school code and the recommendations of your report. This procedure will require that all contracts are presented for review by and approval of the School Board prior to execution. The President of the School Board, if approved by the School Board, will execute all contracts. The approval date will be noted on each agreement. The Director will also develop a tracking and identification system for all agreements to be implemented later. These new procedures are to be presented to the Board during the budget process for the 2004-2005 school year and completed not later than June 30, 2004.

2. In the event that this inventory finds contracts that have not been approved by the Board, the District will take appropriate action with regard to the responsible individual. Any contracts or agreements not authorized or properly approved by the Board will be considered at a Board Voting Meeting as soon as practicable. Additionally the Director of Fiscal Management will compile a list of all agreements to be submitted to the Board for each voting meeting and will also compile a list of any budget transfers for each voting meeting. Invoices except for payroll, utilities, debt service or similar obligations will not be paid until after Board approval.

3. The Superintendent and Director of Fiscal Management, will in conjunction with other District staff who have responsibilities for technology and the District's advisory Technology Council, prepare a plan for the District to develop a comprehensive technology program, including instructional and curricular matters as well as hardware and software, that will be presented and recommended to the Board for its review and approval. Purchases pursuant to the plan ultimately adopted by the Board will be in compliance with the procedures described in this correspondence, other applicable District procedures and the School Code. This procedure will address Board and Administration responsibilities and establish accountability.

4. The District Solicitor will provide correspondence to administrators and other appropriate staff advising of the requirements of the Public School Code, and the necessity of compliance with the District's policies. The Director of Fiscal management will advise all appropriate District personnel of the new contract and purchasing requirements and other changes in policies and practices.

5. The School District Officials responsible for the transactions with Educate America, Inc., ("EAI") including the lease and the \$15,000 down payment for the lease have all left the employ of the District. The former Superintendent, who also served as Interim Business Manager, the Curriculum Director and the Business Manager are not subject to personnel action of the District because they are no longer employed by the District. Further, the School Director involved with some of the discussions regarding these transactions has left the School Board as has the then Board President.

The current President and Vice President of the School Board and all current Members of the Board recognize that this report accurately and fully describes that the behavior of the former Superintendent and Interim Business Manager as well as the Curriculum Director and former School Board President allowed the circumstances to exist which permitted the improper conduct and actions to occur. The Board notes that the former Curriculum Director, who was responsible for contacts with EAI and executed contracts with EAI, was subject to discipline pursuant to charges filed by the Board as provided by the Public School Code and he ultimately resigned. The changes described in this response are intended as part of a larger effort to change the culture

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of Montour School District and to prevent the same climate and circumstances from recurring. If former administrators had not resigned or retired from the District, the Board would, after investigation, take the strongest possible action and, if appropriate, bring charges under the Public School Code. The Board has undertaken appropriate action with the current Superintendent which is not described here because it is a pending personnel matter.

6. The protocol referred to in Paragraph 1 is designed to assure that only the President of the Board, or if the President is unavailable, the Vice President, executes contracts.

7. The District is informed that Educating America, Inc. paid for the Golf Outing at Oglebay. The Director of Fiscal Management will ascertain if the District spent any funds for this outing.

8. The Superintendent and Director of Fiscal Management will inform Administrators to return palm pilots received at Oglebay and make appropriate recommendations to the Board.

The current Board of School Directors recognizes that the significant systemic problems described in the report from your office were the result of many factors, including violations of the Public School Code and District policies by the former Curriculum Director and a lack of supervision by the last two Superintendents. The current School Board recognizes its oversight role and is committed to establishing accountability for Board Members and Administrators. The Board is reviewing not only the specific recommendations from your report and the other circumstances described within, but is also reviewing school district operation to avoid similar situations in the future.

Very truly yours,



Charles P. Snowden, President,
Board of School Directors

The Superintendent's Response

MONTOUR SCHOOL DISTRICT



ROBINSON TOWNSHIP - KENNEDY TOWNSHIP - INGRAM BOROUGH - THORNBURG BOROUGH - PENNSBURY VILLAGE BOROUGH
Administration - Clever Road, McKees Rocks, PA 15136 • 412/490-6500

January 14, 2004

Peter J. Smith
Deputy Auditor General for Performance Audits/
Director, Office of Special Investigations
Department of the Auditor General
Room 327, Finance Building
Harrisburg, PA 17120

High School (412) 490-6500 Ext. 1610
David E. Williams Middle School (412) 771-8802
Burkett Elementary School (412) 787-0408
Ingram Elementary School (412) 921-2727
Forest Grove Elementary School (412) 264-6452
Athletic Department (412) 490-6500 Ext. 1636
Transportation Department (412) 490-6500 Ext. 6225

Dear Mr. Smith,

Please accept this letter as a personal response to the Draft Audit Report dated December 23, 2003 to the Montour School District. I will attempt to provide important background information and necessary clarifications in order to furnish a clear understanding of events for better accuracy.

I began my tenure at Montour School District as Acting Superintendent on April 8, 2002. On July 1st of the same year, I became Superintendent. On April 8th, the district's formal budget process had not yet begun. The Business Manager of many years was to be relieved of his duties by the Board before the end of April creating a tremendous void. My personal secretary took extremely ill and was not available or adequately replaced for several months. The High School Principal retired in July, and at least twenty (20) new teachers had to be appointed prior to the beginning of the school year. The district also had already hired an architect to begin an Elementary building project. The former Superintendent replaced the Business Manager as Business Office Consultant August 21, 2002. (retroactive to July 1, 2002) The school district's auditor assisted me in setting the district's \$40 million budget. Both of these individuals were only available on a sporadic basis.

The Draft Audit Report finding number two states that the Curriculum Coordinator did not act alone and that I along with others were aware of the lease transaction thus failing to ensure that the correct process was conducted in accordance with requirements in the school code. Let me assure you that I had no prior knowledge of the lease agreement and vehemently deny that audit conclusion. I will next attempt to establish a timeframe of the following events demonstrating my lack of knowledge and what I believe was the intentional withholding of information from me along with others concerning the lease transaction.

The purchase order for the transaction was issued by the Curriculum Director on April 12, 2002. The Business Manager was one week away from the end of his tenure and I had started on April 8, 2002 just four days earlier. The purchase order was made in the amount of \$15,000 for

“Curriculum Writing” with the vendor listed as the nationally known company “Future Kids” not locally owned EAI. Additionally, this purchase order was ultimately used as a down payment for the \$60,000 lease agreement. Therefore, the purchase order did not indicate the magnitude or nature of the transaction thereby not raising suspicions or questions. I had no personal involvement nor did I see the purchase order as it was placed through the business office.

It further appears that at the time of this purchase order, the soon to be leased product did not exist. In an April 23, 2002 E-mail from the Curriculum Coordinator to EAI he indicated that he would like to work with EAI employees for the writing and marketing of the product and that he would expect royalties from the vendor in the event that this product was purchased by other school districts. It certainly would have been difficult to have anyone in authority to approve such a transaction.

It was later discovered that the High School Elite Program provided to the district by EAI with the \$15,000 initial payment was not a Future Kids product as stated in the purchase order. In a phone conversation that I had with _____ of Future Kids on September 3, 2002 she stated that the representatives from EAI had just presented the High School Elite Program to them for their consideration in California a week or so earlier. She indicated that the program was close to theirs, but was not a specific Future Kids Program. It was a local EAI generated program. Had these facts been known at the time more questions would have obviously been asked.

According to finding number one of the Draft Audit, the Curriculum Coordinator was somehow able to have acquired two other leases with EAI without proper authority in 2001-2002. The leases were consummated long before my arrival.

The initiation of the third lease was also initiated prior to my arrival as outlined in the Draft Audit by meetings held with the Curriculum Director and EAI.

Monthly curriculum reports provided to the Board for February, March, April and May of 2002, made no mention of a lease, nor was there discussion or material presented of a lease at a Curriculum Committee Meeting held on May 16, 2002. At the Finance Committee Meeting of May 22nd the Curriculum Director presented power point demonstrations on the proposed curriculum and technology department budgets. Contrary to the statement made in the Draft Audit Report the presentation did not include information on the EAI lease. None of the written or computer files found in curriculum director’s office revealed any shared information on the EAI lease. Informational handouts distributed at the Finance Committee Meeting produced no mention of the EAI lease. However, discussions concerning computer leases and school bus leases did occur. To this date no district official or employee has come forward with any information verifying prior knowledge of the EAI lease.

The lease with EAI was signed by only the Curriculum Director on June 26, 2002. I first became aware of the lease with EAI on August 16, 2002 during a meeting with the Business Office Consultant (the former Superintendent) and the school district auditor. The occurrence was approximately seven weeks after the lease closing. At no time was I made ware of a closing. I first saw the lease document approximately one week later after the August 16th meeting. The Curriculum Director stated in the Draft Audit Report that he presented the lease to me and I referred him to the Business Office

Consultant. That absolutely did not occur. I never saw the lease agreement nor did I refer him to anyone.

Given the complicated nature of this case there may have been a misinterpretation with the OSI investigator. I did not indicate that I indeed signed the "Certificate of Authority" without knowing what it was. My signature may have been acquired fraudulently with me being an unwitting participant. Some time in late May or early June 2002, the Curriculum Coordinator came to my office with a blank sheet of paper as I recall except for two fragmented sentences. He indicated that he would need some statement explaining that he represented the district making it easier to work on his varied responsibilities. I reviewed the paper, then informed him that what he was trying to accomplish was unclear. I told him to revise it and bring it back. There was never again any mention of this topic or any other paper to review. The Curriculum Coordinator and I were the only full-time central office administrators at the time. Prior to my arrival he had assumed or acquired many responsibilities besides that of curriculum. They included supervision of the Technology Department, Strategic Plan Coordinator, all teacher interviews, Coordinating the Administrative Retreat, heading the Tax Credit Program, also working with vendors associated with curriculum, district technological infrastructure and internet service.

On August 22, 2002 I received a phone call from a representative of Parkvale Bank saying that he had a Certificate of Authority signed by the Curriculum Director and me as a witness authorizing a lease deal. I indicated to the representative that it was not possible. The representative later faxed me a copy of the certificate. I had never read or knowingly seen that document before. I doubted that it was my signature at the time. After attempting to piece the situation together, I called the Curriculum Director into my office and informed him that Parkvale claimed that they had authority for a lease from a document signed by the both of us. He acted surprised but made no comment. I asked him to go back and review his files to see if something like that existed. He stated that he would check and that was on of the final conversations that I had with him prior to his suspension.

After his departure I asked the school district auditor to go through his files to see if there may be pertinent information related to the lease agreement. Upon review of the documents found was a copy of the "Certificate of Authority" that had been faxed to the Curriculum Director on August 14, 2002 by Reliant Financial requesting that he obtain my signature. The certificate was faxed back to Reliant on August 15, 2002 with signatures. I did not review nor do I have any recollection of signing that document. I am still not 100% sure that it is my signature, but I would not deny it either. As Superintendent numerous documents are presented to me for signature and I must place some trust in the individuals that present them to me. I would have never knowingly signed a fraudulent document. However, if someone is motivated enough to acquire a signature I am sure that it can be done. The document could have been placed with other items for signature. As I stated before the secretarial and central administrative staff was insufficient. Also, the possibility exists that the signature was acquired and the contents filled in afterwards. Without question the certificate was never given to me for review or an explanation provided.

The certificate only appeared when, in my opinion, Reliant needed the document to satisfy Parkvale after Parkvale discovered that it did not have the necessary approvals for the purchase of the lease that it had already completed with Reliant.

This Certificate of Authority only surfaced a full six weeks after the initial lease closing between the Curriculum Director and Reliant on June 26, 2002.

It appears that desperate measures were needed to acquire a signature. I understand that responsibility ultimately falls on the shoulders of the Superintendent. However, my employment in the district had literally encompassed a time period of only weeks during the occurrence of this entire situation. I was forced to perform without the benefit of the time needed to acquire an overall knowledge and understanding of the district organizational structure or the capabilities of its personnel.

The guilt that I feel was the inability to acquire district knowledge fast enough, and allowing myself to be placed in a situation without enough administrative or secretarial support, thereby obligating me to place unearned trust into district employees already functioning in critical positions.

Please feel free to contact me at any time for clarifications.

Sincerely,

Superintendent

pc: Montour Board of School Directors
Ira Weiss, Solicitor

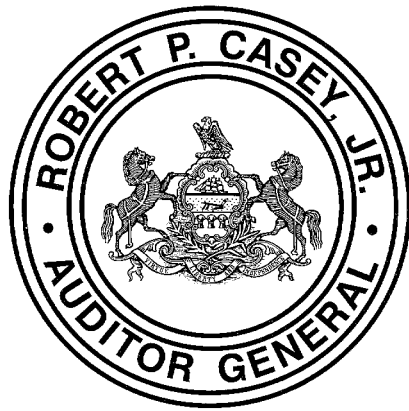
The Department of the Auditor General's Comments

We agree with the school board president's assessment that the problems described in the report were systemic and the result of many factors including violations of the Public School Code and school district policies by several individuals. The school board's response is highly commendable and shows a willingness to address the report's findings and adopt the recommendations. We are encouraged by the statement that the school board is committed to establishing accountability by school board members as well as the school district's staff.

The Department will monitor the corrective actions described in MSD's response in future regular audits of the school district.

According to MSD's response, EAI reportedly paid for the round of golf at the MSD administrative retreat which is discussed in Finding No. 3. The information concerning the payments for the golf round that appears in the finding is based on the most recent information we obtained from the resort. The fact that EAI paid most of the cost of the golf round adds to the inappropriateness of the conduct of the MSD officials and other staff who took part in it. In the draft report, we recommended that the MSD school board ensure that its staff members who participated in the golf round pay for their share of the cost. Based on the most recent information that EAI paid most of the charges for the golf round, we have changed the recommendation to state that the MSD school board take appropriate action in regard to MSD's officials and staff members who took part in the round of golf and who did not pay for their participation themselves. The action could include discipline and adopting a policy that prohibits officials and staff from accepting things of value from vendors and others seeking to do business with the school district.

The superintendent's response is helpful in providing his perspective on the events described in the report's findings, especially Finding No. 2, and for emphasizing that the superintendent was appointed in April 2002, after many of the activities questioned in the report were underway, and had only been at the school district for approximately two to three months when the questionable lease agreement and the Certificate of Authority came into being. References in the draft report to the actions and knowledge of the superintendent in regard to Finding No. 2 have been revised in the final report to take into account his January 14, 2004, response.



REPORT DISTRIBUTION LIST

This report was distributed initially to members of the MSD school board, the acting superintendent, the director of fiscal management, the solicitor, and to the following:

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

The Honorable Barbara Hafer
State Treasurer

The Honorable Gerald J. Pappert
Attorney General

Mary Beth Buchanan
United States Attorney
Western District of Pennsylvania

The Honorable Stephen A. Zappala
Allegheny County District Attorney

John J. Contino, Executive Director
State Ethics Commission

Connie Huber
Acting Comptroller
Labor, Education and Community Services

Jeffrey Bowers
Customer Services Coordinator
National School Boards Association

Ann Boyko
School Personnel Services Administrator
Pennsylvania School Boards Association

U.S. Department of Education
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This report is a matter of public record. Copies of this report are available on the Department of the Auditor General's web site and from the Department's Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120.