
COMMONWEALTH OF PENNSYLVANIA



**A SPECIAL INVESTIGATION OF THE
BETHLEHEM AREA SCHOOL DISTRICT,
LEHIGH/NORTHAMPTON COUNTIES**

Missing Computers; Expenditures for Internal Investigation

October 2009

JACK WAGNER, AUDITOR GENERAL

PENNSYLVANIA DEPARTMENT OF THE AUDITOR GENERAL

October 7, 2009

Loretta M. Leeson
President, Board of School Directors
BETHLEHEM AREA SCHOOL DISTRICT
1516 Sycamore Street
Bethlehem, Pennsylvania 18017-6099

Dear Ms. Leeson:

The Department of the Auditor General (“Department”) has conducted a special investigation of missing laptop computers and expenditures for an internal investigation at the Bethlehem Area School District (“District”). The time period under review was the 2002-03 through 2007-08 school years.

Our investigation found the following:

- The District has inadequate internal controls in place and did not adequately oversee laptop computers in its possession worth over \$11.5 million.
- The District failed to exercise adequate oversight of expenditures of \$52,726 for an internal investigation related to the drug arrest of a former middle school principal and allowed the invoice to be paid without approval by the school board.

We commend you and Vice President Judith A. Dexter for bringing these issues to our attention. We appreciate the school board’s positive response to this report and urge it to ensure the implementation of all of our recommendations. In addition, we are hopeful that the District’s new superintendent will embrace the primary message of this report, which is the need for greater accountability, oversight, and transparency by the District, particularly by the administration. The Department will follow up at the appropriate time to determine whether all of our recommendations have been implemented.

We are also providing copies of this report to the Pennsylvania Department of Education, the U.S. Department of Education, the Pennsylvania Office of Attorney General, the Office of the District Attorney of Northampton County, and the Bethlehem Police Department for their review and whatever further action they may deem appropriate.

This report is a public document and its distribution is not limited. Additional copies may be obtained from the Department's website, *www.auditorgen.state.pa.us*.

Sincerely,

/S/

JACK WAGNER
Auditor General

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EXECUTIVE SUMMARY

FINDINGS	RECOMMENDATIONS
<u>FINDING I:</u> The Bethlehem Area School District (“District”) has inadequate internal controls in place and did not adequately oversee laptop computers in its possession worth over \$11.5 million.	<p>We recommend that the District:</p> <ul style="list-style-type: none">• Implement an asset management software program to adequately control inventory;• Develop and implement a comprehensive information technology policy and procedure manual;• Ensure that all technology assets in its possession are correctly protected by:<ul style="list-style-type: none">○ Limiting and controlling access to inventory databases;○ Providing technical specifications for equipment;○ Listing purchase order numbers and equipment value;○ Copying equipment serial numbers;○ Etching District asset tag numbers on equipment;○ Recording shipment and received dates of equipment;○ Recording the building name/number and the recipient of the equipment; and○ Providing complete repair history and reporting the transfer or moving of equipment;• Establish a collective effort between the District’s IT Department and the Business Office to implement a review process for review

	<p>of purchase orders and matching invoices;</p> <ul style="list-style-type: none"> • Perform an annual inventory of computer equipment for each district building; • Monitor and review contract and lease agreements with technology vendors; • Consult with the District's independent auditor to establish an appropriate internal control checklist for the IT Department; • Seek additional guidance and assistance from the Board, administrators, faculty, and staff in the creation of a Technology Committee to monitor the District's technology initiatives; • Create a procedure for the timely reporting of missing computers to the local police department, state agencies, contractors, vendors, and insurance carriers; and • Establish a proactive environment to protect against losses by: <ul style="list-style-type: none"> ○ Initiating building risk and vulnerability assessments for physically securing laptop computers and other technology assets; ○ Performing annual district-wide building key and access card inventories; ○ Purchasing locking cabinets for all laptop storage and eliminating current milk crate locking devices; and ○ Adding or replacing computer storage door locks and building door locks when personnel changes occur. <p>We are also providing copies of this report to the Pennsylvania Department of Education, the U.S. Department of Education, the Pennsylvania Office of Attorney General, the Office of the District Attorney of Northampton County, and the Bethlehem Police Department for their review and whatever further action they may deem appropriate.</p>
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<p><u>FINDING II:</u> The Bethlehem Area School District failed to exercise adequate oversight of expenditures of \$52,726 for an internal investigation related to the drug arrest of a former middle school principal and allowed the invoice to be paid without approval by the school board.</p>	<p>We recommend that the District:</p> <ul style="list-style-type: none"> • Ensure that its review process for legal services, like all other professional services, includes consideration of quality of services and the reasonableness of fees; • Use a competitive process to select legal counsel; • Ensure that the responsibility for all questions, comments, discussions, and approval of bills involves the Board; • Ensure that all services charged in legal bills submitted to the District, but not included in written agreements or detailed engagement letters, are properly authorized by District officials or the Board; • Ensure that the District's bill payment process is in compliance with state law and the District's own policies and procedures; and • Consult with its independent auditor to establish an appropriate internal controls checklist to audit charges for legal services.
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BACKGROUND AND INTRODUCTION

The Bethlehem Area School District (“District”) is the sixth largest school district in the Commonwealth of Pennsylvania. It includes five municipalities: the City of Bethlehem is located in both Lehigh and Northampton Counties; the Borough of Fountain Hill is located in Lehigh County; and the Borough of Freemansburg, Bethlehem Township, and Hanover Township are located in Northampton County. Student enrollment for the 2008-09 school year was approximately 15,068. The District’s 2008-09 annual budget is \$172,206,298.¹ Its administrative offices are located at 1516 Sycamore Street, Bethlehem, Pennsylvania.

On January 16, 2008, one of the members of the Board of School Directors of the Bethlehem Area School District (“Board”), Vice President Judith A. Dexter (“Current Vice President”), contacted the Department of the Auditor General (“Department”) to request an investigation into the issue of missing and suspected stolen laptop computers from the District.² The Department’s Office of Special Investigations (“OSI”) met with the Current Vice President and President Loretta M. Lesson (“Current President”) on February 6, 2008. They requested that the Department also investigate a second issue, the District’s expenditures for an internal investigation related to the drug arrest of the former principal of the District’s Nitschmann Middle School (“Middle School Principal”)³ and the payment of the invoice for that investigation without approval by the Board. It is important for the reader to understand that these two issues – and the two corresponding findings in this report – are not related to each other,⁴ nor are they related to a separate pending investigation by the Department of the Auditor General of the District’s use of derivatives to finance the District’s capital projects.

We must note that two of the District employees whose actions were reviewed during this investigation, the current superintendent (“Superintendent”)⁵ and the former Director of the District’s Information Technology Department (“IT Director”), were both

¹ Enrollment and budget data received from the District’s Business Office on July 30, 2008.

² From January 2006 to January 2008, Dr. Craig Haytmanek and Diane Rowe were Board President and Vice President, respectively. Lesson and Dexter were members of the Board, but not officers, during that period. Lesson and Dexter were elected Board President and Vice President, respectively, for the period of January 2008 to January 2010.

³ The Middle School Principal was arrested on February 27, 2007. He was immediately removed from his position and subsequently resigned. He pleaded guilty in August 2007 to two counts of delivery of crystal methamphetamine and one count of possession with intent to deliver methamphetamine. After serving 18 months of a two-to-four-year sentence, he was granted parole, released from state prison, and placed in an inpatient drug and alcohol treatment facility, where he resides as of the date of this report.

⁴ Specifically, the District’s internal investigation regarding missing computers (discussed in Finding I) was a completely different internal investigation than that regarding the Middle School Principal’s drug arrest (discussed in Finding II).

⁵ Dr. Joseph A. Lewis, who served as the District’s superintendent during the time period under review and during the investigation itself, has retired from the District, effective January 2, 2010. Due to vacation and sick leave, his last day on the job was September 25, 2009. Unless otherwise noted, references to the “current Superintendent” or “Superintendent” throughout this report refer to Dr. Lewis.

previously employed at the Pocono Mountain School District (“PMSD”) in Monroe County, Pennsylvania. This fact is significant because, in recent years, the Department has conducted both an audit and an investigation of PMSD that raised issues quite similar to those involved in Finding I of this report.

First, the Department’s Bureau of School Audits (“Bureau”) conducted an audit of PMSD for the years ended June 30, 2001 and 2002, with additional findings and observations through September 2, 2004.⁶ The audit found inadequate inventory control and physical security over computer equipment and provided five recommendations to address the finding. PMSD agreed with the finding and stated that it would take corrective actions.

In August 2004, during the course of audit test work, the auditors discovered that 7 of 22 laptop computers that they attempted to locate could not be found. When the auditors questioned PMSD officials about the missing computers, the auditors were told that these computers were stolen. However, that assertion was inconsistent with documentation that PMSD had provided previously to the auditors.

OSI conducted a special investigation into this issue. The period of review covered the 1999-2000 school year through the 2004-2005 school year. In August 2005, OSI released an investigation report,⁷ which found that PMSD had inadequate internal controls in place and did not properly oversee over \$7.3 million in computer equipment in the possession of the district and, as a result, spent over \$77,000 in payments for 69 computers that the district could not locate or were not in use. The report included five recommendations to address the finding. PMSD acknowledged the internal control problems and committed to taking corrective actions to improve its controls and prevent the problems from occurring again.

The Bureau’s subsequent audit of PMSD found that the district had taken appropriate corrective actions to address the findings and recommendations of both the previous audit and the special investigation.⁸ OSI’s own follow up to its investigation also found that corrective actions had been taken.

The former assistant superintendent of PMSD, who resigned on June 30, 2002, became the current superintendent of the Bethlehem Area School District on July 1, 2002. The Superintendent was employed by PMSD during the time period covered by the Department’s audit and investigation of PMSD. During an interview with OSI on December 18, 2005 as part of the investigation of PMSD, the Superintendent stated that

⁶ Pennsylvania Department of the Auditor General, *Pocono Mountain School District, Monroe County, Pennsylvania, Audit Report for the Years ended June 30, 2002 and 2001 with Findings and Recommendations Through September 2, 2004* (Sept. 2, 2004).

⁷ Pennsylvania Department of the Auditor General, *Special Investigation of Pocono Mountain School District, Computer Inventory* (Aug. 4, 2005).

⁸ Pennsylvania Department of the Auditor General, *Pocono Mountain School District, Monroe County, Pennsylvania, Audit Report for the Years ended June 30, 2004 and 2003 and in Certain Areas Extending Beyond June 30, 2004 with Findings and Recommendations Through May 19, 2006* (May 19, 2006).

he hoped he would not encounter at Bethlehem Area School District the same computer control problems that had occurred at PMSD.

The District's IT Director worked at PMSD from September 1981 until the late 1990s. Following her resignation from PMSD, the IT Director worked at two other school districts before assuming her position at the District in October 2004. She resigned from the District on October 7, 2008, and is currently working in a similar capacity at a school district in Montgomery County, Pennsylvania.

The prior employment of the Superintendent and IT Director at a school district that experienced problems similar to those later experienced at Bethlehem Area School District was observed by the Current President, Current Vice President, and Associate Superintendent for Human Resources ("Associate Superintendent") during their interviews. Another member of the Board made the same observation after reviewing a draft of this investigation report. The inclusion of this information in this report is intended solely to support the point that the Superintendent and IT Director should have been sensitive to computer security issues and how to correct and avoid problems.

The District was provided with a draft copy of this report for its review and comment. The District responded with a brief response from the Board and a separate, lengthier response from the Superintendent. Those responses are included at the end of this report, followed by the Department's comments on the responses.

FINDINGS AND RECOMMENDATIONS

FINDING I: The Bethlehem Area School District has inadequate internal controls in place and did not properly oversee laptop computers in its possession worth over \$11.5 million.

In the original complaint from the Current Vice President via telephone on January 16, 2008 and during their subsequent joint in-person interview on February 6, 2008, the Board's Current President and Current Vice President alleged the following:

- The District had received technology grant funds from the Pennsylvania Department of Education ("PDE") for laptop computers that were now missing.
- The District does not know the exact number of laptops that the District possesses, how many were actually missing, and who was responsible for the missing computers.
- The Board does not know if the District filed insurance claims with regard to the missing computers.

During the 2002-03 school year, the Superintendent began a new program called "Successful Knowledge Integration: Learning with Laptops for the 21st Century" ("SKILL21"). The goal was to put a laptop computer in the hands of every student in the District and to increase student learning opportunities. From the 2002-03 school year through the 2009-10 school year, SKILL21 was funded by the District's general fund money, federal funding through the Enhancing Education Through Technology ("EETT") program,⁹ and state funding from the Pennsylvania Department of Education ("PDE") through the Classrooms for the Future ("CFF") program.¹⁰

Table 1 lists the over \$18.1 million in funding received by the District for the purchase of laptop computers, desktop computers (which were purchased for employees), software, printers, cabling, infrastructure, and servers, as well as for the cost of staff development and training for the technology. *As stated later in this finding, our investigation determined that these funds purchased 10,978 laptops for the 2002-03*

⁹ The federal No Child Left Behind Act of 2001 established the EETT program "to improve student achievement through the use of technology in elementary and secondary schools." U.S. Department of Education, "Enhancing Education Through Technology (Ed-Tech) State Program," www.ed.gov/programs/edtech, last modified on June 2, 2009.

¹⁰ The Pennsylvania Department of Education created the CFF program during the 2006-07 school year in order to help teachers use technology as an effective tool for educating students and to prepare students to enter and successfully compete in the high-tech global marketplace. Pennsylvania Department of Education, "Classrooms for the Future: About CFF," www.edportal.ed.state.pa.us/portal/server.pt/community/classrooms_for_the_future/475/about_cff/202788, accessed on Aug. 10, 2009.

through 2007-08 school years, for a total value of \$11,581,790. Due to the internal control problems discussed in this finding, neither the District nor OSI were able to break down these purchases by funding source for each type of equipment purchased each year, particularly the laptop computers. The District has stated that no new student laptops were purchased with these funds in 2009-10. The funds were used to purchase laptops for teachers and to pay for prior leases of existing systems.

Table 1*
General Fund, State Grants, and Federal Funding Received by the District

Year	General Fund	EETT Fund	CFF	Total
2002-03	\$623,251.77	\$404,022.00	0	\$1,027,273.77
2003-04	\$3,480,016.95	\$403,057.00	0	\$3,883,073.95
2004-05	\$5,127,306.42	\$431,304.00	0	\$5,558,610.42
2005-06	\$661,877.12	\$334,797.00	0	\$996,674.12
2006-07	\$1,048,035.35	\$380,325.00	\$415,146.00	\$1,843,506.35
2007-08	\$1,307,837.49	\$353,500.00	\$1,237,006.00	\$2,898,343.49
2008-09	\$992,696.00	0	\$246,989.00	\$1,239,685.00
2009-10	\$737,187.72	0	0	\$737,187.72
TOTAL	\$13,978,208.82	\$2,307,005.00	\$1,899,141.00	\$18,184,354.82

**Information supplied by the District's Office of Minority Affairs/Governmental Programs and Grants; Business Office; and IT Department.*

Missing/Suspected Stolen Laptop Computers

During an interview with OSI on April 30 2008, the District's SKILL21 Database Supervisor¹¹ provided the following information:

- She had brought the missing computers to the attention of the IT Director on September 27, 2005.
- On September 27 and September 28, 2005, she and the IT Director discussed the missing computers. She was directed to keep the IT Director informed about the missing computers and their delivery to the District's Nitschmann Middle School ("Middle School").
- On October 3, 2005, she e-mailed a spreadsheet to the Middle School Support Technician listing the 84 missing laptops. She directed the Middle School Support Technician to report them as stolen to the Bethlehem Police Department ("Police Department") as soon as possible.

¹¹ Although the Associate Superintendent's report that is discussed later in this finding refers to this employee's title as "Desktop Technology Specialist/Project SKILL21 Director," that appears to have been a previous title. The employee told OSI during her interview that her title was SKILL21 Database Supervisor, which is the title that we use throughout this report.

- During the fall of 2005, the District's Information Technology ("IT") Department assigned additional staff to the Middle School, conducted room-by-room searches, and referenced the records from the vendor, Apple Computer. The District did not have an accurate inventory and, therefore, could not compare its records to those of Apple Computer.
- During a district-wide meeting with parents on December 1, 2005, a parent asked the Superintendent why his child did not have a computer. Unaware of any problems, the Superintendent referred the question to the IT Director, who responded that there was a hardware problem and some teachers chose not to use the laptops.

During an interview with OSI on April 17, 2008, the Middle School Support Technician provided the following information:

- Student laptops are collected at the end of each school year.
- In May 2004, based on the recommendation of the Middle School Principal, the laptops had been stored in a particular room that had no outside windows or exits.
- The daily classroom collection of laptops from students was performed by each homeroom teacher.
- The collected laptops were secured in plastic milk crates with a flat middle bar pulled over the top and secured with a small key lock to secure 11 laptops in each crate.

The total number of computers reported by the District as missing has varied in recent years, even throughout this investigation:

- During the May 2006 collection of computers from the students, an inventory taken by the SKILL21 Database Supervisor confirmed that 20 laptops were unaccounted for.
- On March 1, 2007, the IT Director filed a police report claiming that 11 computers were missing from the Middle School.
- On March 7, 2007, in a memo addressed to the Superintendent and the Associate Superintendent, the IT Director reported that the number of missing computers fluctuated from 20 to 100.
- On March 8, 2007, the Superintendent, the Associate Superintendent, the IT Director, the President of the Bethlehem Education Association ("BEA") (the local teacher's union), and the SKILL21 Database Supervisor met to discuss the fluctuations in determining the total amount of missing computers. They agreed that the computers were missing due to the following reasons:

1. Human accounting errors with the SKILL21 database;

2. Theft of school district property;
 3. No definite policy and procedure for storing the computers over the summer months;
 4. Summer help at the District's warehouse had the password to access the SKILL21 database; and
 5. Inadequate record keeping for computers out for repair.
- It was decided at the March 8, 2007 meeting that a complete inventory of the SKILL21 computers would be conducted over the next several weeks. The SKILL21 Database Supervisor wanted union protection against possible disciplinary action. Consequently, she asked the BEA President to join her in submitting a report to the Associate Superintendent on the number of missing computers; on May 14, 2007, she listed the figure at 78.
 - On August 2, 2007, the IT Director reported to the Police Department that, after a district-wide audit completed in June 2007, a total of 48 laptops were missing from four different District middle schools: Broughal (1), Nitschmann (34), Northeast (6), and East Hills (7).
 - On August 9, 2007, the IT Director notified the Police Department that two of the missing 2005 computers appeared in the repair maintenance logs of the District's computer vendor. One of the missing laptops was tracked to a vendor retail store in Danbury, Connecticut, and the other to a vendor retail store in the Bronx, New York. They have not been recovered by the District.
 - During an interview with OSI on June 24, 2008, the Superintendent stated that official number of computers missing in 2005-07 was closer to 50.
 - In the insurance claim filed on September 10, 2008, the District reported that 70 computers were stolen, with a loss date of August 2, 2007.

District's Internal Investigation

During a meeting on May 14, 2007, the SKILL21 Supervisor and the BEA President informed the Associate Superintendent that the missing 2005 laptop computers had gone unreported and that the SKILL21 database was altered. The records of missing computers and computers that were out for repair, which had been deleted on March 2, 2005, were restored on March 7, 2005. A follow-up meeting with the Superintendent was held on June 28, 2007. The Superintendent authorized an internal investigation into the missing computers and placed the Associate Superintendent in charge of the investigation. It was determined that, as part of the investigation, the Associate Superintendent would interview IT staff and other union members to determine who had access to the database and how many laptops were missing.

The Associate Superintendent presented his report to the Superintendent on August 24, 2007, and the Superintendent the report to the Board on August 27, 2007. The report, titled *Workplace Investigation*, stated in the introduction:

The purpose of this investigation is to conduct an impartial and thorough investigation obtaining truthful information relative to the probable reason for the existence of missing and unaccounted for laptop computers within the Bethlehem Area School District.¹²

The report presented the following findings of fact for the reasons for the disappearance of the computers:¹³

- Computers were not adequately secured at the Middle School during the summer of 2005 and thereafter. At least 27 computers were stolen from the Middle School during the summer of 2005, most likely between the second week of July and the third week of August.
- The combination of failing laptops, unaccounted for laptops, and human error compounded the problems inherent in the error-prone SKILL21 database.
- The database password was accessible to IT Department staff members and remains easily obtained.
- The database was remotely accessed and altered to delete computers between March 2 and March 7, 2007. Laptop computers that were believed to have been stolen were deleted from the database, with some being re-entered prior to March 7, 2007.
- The IT Director knew about the missing computers in the fall of 2005, but did not file a police report in a timely manner. One report was filed in February 2007 regarding 11 stolen computers;¹⁴ another report was filed in April 2007 regarding an additional 11 stolen computers. Since the filing of those reports, three computers were located, including one at the home of the Middle School Principal.
- The IT Director did not provide a reliable and accurate report to the Superintendent in April 2007, when she reported that 36 laptops were missing at four middle schools, including 18 that had already been reported as missing.

¹² Associate Superintendent, *Workplace Investigation*, Aug. 27, 2007, p. 2 (“District Report”).

¹³ District Report, p. 14. OSI concurs with these findings based on our review of the Associate Superintendent’s report and our own independent investigation, which generally followed the same methodology as the District’s internal investigation. As discussed in this finding, our investigation went considerably further in its equipment inventory, review of documents, and employee interviews.

¹⁴ This was shortly after the Middle School Principal was arrested on drug charges; although one computer was found at his home, he has never been implicated in the missing computers. The Associate Superintendent and others stated that the first police report had been filed in February 2007, but our examination of the police report itself indicates that it was filed on March 1, 2007.

- The total number of missing computers from the Middle School and two other schools between the summer of 2005 and the date of the Associate Superintendent's report was 58.

The Associate Superintendent told OSI that his internal investigation could not draw a conclusion as to what actually happened to the missing computers.

The Associate Superintendent's report concluded that the following Board policies may have been violated:¹⁵

- Maintaining a complete and updated inventory of all District assets and reporting major losses to the Board (Board Policy 706, "Property Records");
- Maintaining security of school buildings to prevent theft (Board Policy 709, "Building Security"); and
- Conducting oneself in an appropriate manner, cooperating with other employees, and complying with District policies (Board Policy 317, "Conduct and Disciplinary Procedures (Administrators)"; Board Policy 417, "Conduct and Disciplinary Procedures (Professional Staff)"; Board Policy 517, "Conduct and Disciplinary Procedures (Support Staff)").

The report noted that the Superintendent and the Board would have to determine whether disciplinary action was warranted against the employees involved, particularly if any employee was charged with, or convicted of, theft.¹⁶

On January 15, 2008, the Superintendent placed the IT Director on a two-week unpaid suspension. The District also placed the Middle School Support Technician on a five-day unpaid suspension for bad record keeping of computer inventory and lack of security. It is not clear why there was a four-and-a-half-month delay in imposing these disciplinary actions following the submission of the Associate Superintendent's report. The Middle School Support Technician was subsequently reinstated with full pay after winning his appeal before the Board due to insufficient evidence against him.

In a statement to a local newspaper, Dr. Craig Haytmanek, who was the president of the Board at that time,¹⁷ ("Former President") provided the following explanation for the suspension of the IT Director.

I don't want [the IT Director] to come out of this with a black eye. She was not engaged in any underhanded behavior. The problem was her

¹⁵ District Report, pp. 15-16.

¹⁶ District Report, p. 16.

¹⁷ See discussion in footnote 2.

supervision of her departmental charges, the people who worked under her, was not sufficient and that was the reason for her suspension.¹⁸

Database Alteration

During an interview with OSI on March 19, 2008, the IT Director admitted that she did alter the Remove from Inventory (“RFI”) database, which is different from the SKILL21 database. This was a process to add and delete information and to remove records of staff who were not working on laptops. This was accomplished using the computer in her office.

The IT Director stated during the District’s internal investigation that she did not have access to the SKILL21 database and did not access the SKILL21 database from her home. However, she had instructed one of the IT Department secretaries to ask the District’s Data Administrator for the SKILL21 database password. Individuals using this password had the capability of adding and deleting records from the SKILL21 database. Twenty members of the District’s IT Department staff were in possession of this password.

The District filed its first police report on March 1, 2007. Two days later, after accessing the SKILL21 database, the SKILL21 Database Supervisor discovered that the information for computers that were “missing” or out for “repair” had been deleted from the database. The only people who had access to the database at that time were the IT Director, the SKILL21 Database Supervisor, and the BEA President. Both the SKILL21 Database Supervisor and BEA President stated during their OSI interviews that they did not access the database from outside of the District.

During an interview with OSI on May 19, 2008, the Data Administrator stated that, on March 7, 2007, when schools were closed for a snow day, he accessed the SKILL21 database based on the SKILL21 Database Supervisor’s request and discovered that it had recently been accessed from an Internet provider in Sellersville, Bucks County, Pennsylvania. We note that the IT Director lived at the time in a neighboring municipality served by that Internet provider.

Police Reports Filed

On February 26, 2008, OSI met with a Bethlehem Police Department criminal investigator who had been assigned to investigate the laptop thefts from the District. The investigator provided the following information:

- The first police report was filed by the IT Director on March 1, 2007 for 11 missing Middle School laptops, missing from November 2005 to May 2006.

¹⁸ Steve Esack, “Bethlehem schools’ tech suspended,” *Allentown Morning Call*, Jan. 16, 2008 (quoting the Former President).

In the police report, the IT Director placed the cost of each laptop at \$1,050, for a total loss of \$11,550.

- A second report was filed by the Acting Principal of the Middle School on April 11, 2007 for an additional 11 missing laptops with occurrence dates of April 4, 2007 to April 10, 2007, valued at a total of \$11,500.
- A report was filed by the principal of the William Penn Elementary School on June 25, 2007 for 10 missing laptop computers, valued at a total of \$8,000.¹⁹
- After a district-wide audit conducted by the IT Department in June and July 2007, the IT Director filed a police report on August 2, 2007. This report listed 48 missing laptops from various locations, with a total value of \$48,000.

On September 10, 2008, the District filed an insurance claim for “70 laptops discovered stolen after [the 2006-07] school year,” which the District stated were “discovered missing after June-August audit.” The date of loss was identified as August 2, 2007, over one year earlier.

Table 2 lists the total official number of computers that the District reported missing through four different reports to the Police Department from March to August 2007, as well as the value of those computers. The table also lists the number of computers purchased by the District after the filing of the insurance claim to replace the missing computers, as well as the replacement costs.

Table 2
Missing and Replacement Computers

Item	Value
80 reported stolen computers	\$84,400
70 replacement computers	\$73,850
TOTAL	\$158,250

Neither the Bethlehem Police Department’s investigation nor OSI’s investigation found a connection between the missing computers and the arrest of the Middle School Principal. It was not until after the Middle School Principal’s arrest on drug charges (February 27, 2007) that the missing computers were first reported to the Police Department (March 1, 2007).²⁰

¹⁹ The IT Director was originally unaware of these missing computers. She was not aware of them until OSI’s investigation, after OSI asked the Police Department for a list of all computer thefts within the District.

²⁰ One of the missing computers was recovered by the Police Department from the Middle School Principal’s residence after his arrest.

OSI interviewed the incarcerated Middle School Principal at Greensburg State Correctional Institution on March 31, 2008.²¹ During the interview, the Middle School Principal provided the following information:

- Keeping track of the computers at the Middle School was a huge problem.
- The Middle School received 300 laptop computers during the 2004-05, 2005-06, and 2006-07 school years.
- At the end of the 2004-05 school year, his assistant principal and several teachers conducted a physical inventory of the laptop computers.
- The computers under his control at the Middle School were all accounted for and inventoried.
- At the beginning of the 2005-06 school year, the District's IT Coordinator for the Middle School told him that 150 computers were potentially missing.
- The next day, the IT Coordinator told him that the total was closer to 75 computers missing.
- The IT Coordinator explained to him that some of the coding was wrong and that the IT Department did not count the computers out for repairs.
- He did not take any computers from the District to support his drug habit.

OSI's Investigative Actions and Results

Because of inadequate inventory controls, the number of laptop computers in the possession of the District and the total number of missing laptops were unknown until OSI conducted its analysis on June 9-11, 2008.

In four requests made to the District, OSI asked for complete laptop computer purchase records from July 1, 2002 through June 9, 2008.²² The District could not provide a complete listing of the laptop computers in its possession during that time period. Therefore, OSI reconstructed the total number of laptop computers listed on the District's inventory schedules using purchase orders and corresponding invoice documentation. We found the following:

- Based on records provided by the District in response to OSI's first request for records on February 6, 2007, OSI determined that the District had purchased 5,663 laptop computers at an average cost of \$1,055 per laptop,²³ for a total value of \$5,974,465.
- On February 27, 2008, the second set of records yielded numerous discrepancies between purchase orders, invoices, and actual quantities

²¹ The District had never interviewed the Middle School Principal regarding the missing computers.

²² OSI requested these documents beginning in July 2002 because that is when the District's SKILL21 program began.

²³ During OSI's interview of the IT Director on March 19, 2008, she stated that the average cost of each laptop purchased by the District was \$1,055.

received, as well as duplication of serial numbers reported by the District in its documentation. OSI's review of District computer purchase orders found that the District had only ordered 8,038 computers. However, OSI's analysis of the invoices found that only 7,717 computers in the District's possession were paid for and received by the District. Those 7,717 laptops had a total value of \$8,141,435.

- On March 19, 2008, OSI received a third set of records from the District. These records indicated that the District had purchased 10,543 laptops, but invoices could only support payment for 10,222 laptops, for a total value of \$10,784,210.
- The fourth set of records received on March 31, 2008 indicated that the District had 10,978 laptops in its District's possession, for a total cost of \$11,581,790.²⁴

The figure of 10,978 laptop computers is the official number that OSI used in drawing a sample for OSI's June 2008 review. However, this total may not be accurate because numerous pieces of inventory data referencing serial numbers, locations, and the District asset tags were missing from the schedules that the District provided.

The following objectives were established by OSI prior to the sampling and subsequent testing of the District's laptop inventory:

- Whether there was reasonable assurance that additional laptops are not missing from the District;
- Whether adequate internal controls were in place for the tagging and tracking of portable fixed assets;
- Whether changes took place in the treatment and handling of portable fixed assets prior to the discovery of thefts and going forward from that discovery;
- Whether all computers and related periphery devices were tagged, recorded, and scheduled appropriately on a master inventory list maintained by District personnel; and
- Whether existed in the District's internal control structure and, if so, how to correct such deficiencies.

OSI decided to randomly select a total of 254 laptop computers listed on the invoices and purchase orders provided by the District to test for physical existence and a fixed asset tracking schedule. With the assistance of District staff, OSI located 253 of the

²⁴ The records also indicated that the District possessed 133 desktop computers, none of which are believed to be missing.

254 laptop computers. The one laptop computer that could not be located was an older model used for parts without records to support its removal from service.

Table 3 lists the numerous instances in which various types of information required for adequate inventory control were not provided, incomplete, or missing:

Table 3
Missing Inventory Control Information

NUMBER OF INSTANCES	CONTROL ISSUE REASONS
4,546	The computer location was not provided or incomplete
2,226	The purchase order number for the computer is missing
2,030	The purchase date for the computer was missing
1,876	The make and model number of the computers were not provided
775	The computer asset tag number was missing or incomplete
102	The computer serial number was missing
63	The laptops were sold to a third party due to faulty logic boards
50	The District asset tag number was not listed or listed twice
29	No District building number was listed or the wrong number was listed
5	The computer was listed with a student, but was used as a spare
1	The computer was listed as stolen
11,703	TOTAL INSTANCES

On March 19, 2008, OSI conducted its first interview with the District's IT Director, who provided the following information:

- The official total number of laptop computers that were missing is 51.
- The District should have filed a police report in 2005 concerning the missing laptop computers. The Superintendent had told her "to keep him posted" as to the status of the laptops, but did not direct her to file a police report.
- The reporting of missing computers was put on hold because the District was not certain whether computers were missing or merely the result of poor record keeping.
- The missing computer amounts were changing from day to day because laptops would be discovered to be in storage areas, out for repair, or in a teacher's desk.
- There was no policy and procedure in place in 2005 for reporting missing or stolen computer equipment to the Police Department by the IT Department,²⁵ nor was there a district-wide technology assets management software program.
- She did not know who altered the computer inventory database from outside of the Middle School.

²⁵ After repeated requests from OSI, the IT Department could not produce a comprehensive computer policy and procedure manual.

- She should have controlled database security, but relied on the SKILL21 Database Supervisor to ensure database security.
- One password is used for accessing the SKILL21 database distributed to 20 individuals.
- No archival information is available for the transfer of equipment from District buildings and no annual inventory is performed.
- There is no current comprehensive security and safety policy and procedure for usage, access to, and the safekeeping of district-wide technology equipment.
- There was no IT Department Technology Committee comprised of IT staff, District administrators, facility/security management staff, and Board members in place to monitor the technology initiatives of the District and make recommendations
- The District etches the asset tag number on some equipment.
- Several of the milk crates used for storage have been replaced with locking cabinets.
- There is some coordination between the IT Department, the Business Office, and vendors with regard to payment made for computers, equipment received, equipment specifications, serial and model numbers, or repair costs.

On June 17, 2008, OSI interviewed the Associate Superintendent, who provided the following information:

- No centralized computer inventory exists at the District. A District computer manual does not exist.
- The inadequacies of the IT Department to provide proper inventory and asset tag management made it impossible to determine the number of missing computers.
- The IT Director has failed in her position. Although she had good intentions, she lacked the tools to perform the job.
- There was a breach of public trust by the District in terms of computers and lack of tracking \$20 million worth of computers.²⁶
- The District's controls are not adequate in order to prevent theft of computers.
- The Superintendent and the IT Director failed in correcting the computer inventory problems at the District after knowing about the missing computers at both the District and at Pocono Mountain School District, where they had both been employed previously.

On June 24, 2008, during an interview of the Superintendent, OSI asked him when and how he learned of the 2005 missing computers. He provided the following information:

- He was informed in 2005, but he did not know the exact date.
- He received either an e-mail or a telephone call from the IT Director.

²⁶ See Table 1.

- He directed the Assistant to the Superintendent for Finance and Administration, who was also the Board Secretary,²⁷ (“Assistant to the Superintendent”) to file insurance claims and call the police.
- The IT Director was not intentionally trying to conceal the fact that the computers were missing. She made a lapse in judgment in not reporting the matter to the police in September 2005.
- He made an error in judgment in not confirming that the IT Director reported the issue to the police.

Conclusions and Recommendations:

The SKILL21 initiative began as a commendable attempt to provide every District student with a computer. However, the failure of the District to exercise reasonable control and oversight over the District’s computer inventory and protect against losses undermines the confidence of residents and taxpayers in the District’s ability and willingness to conduct its business affairs properly. The repeated lack of oversight adds to the overall picture of weak management in the day-to-day operations of the IT Department

Our investigation determined that the District was solely responsible for the missing laptop computers because of its total disregard for the implementation of policy and procedures to manage over \$11.5 million in laptop computers²⁸ and the lack of direction and oversight from District administrators. We found numerous instances of inadequate computer inventory controls, including a failure to develop the District’s own inventory schedules, a failure to compare purchase orders to invoices, and a failure to develop a comprehensive IT policy and procedure manual.

In addition, the District failed to immediately report missing computers and delayed the filing of police reports for 18 months. Ultimately, this lack of official reporting made it difficult for the Police Department and OSI to determine who, if anyone stole the missing computers.

Because of the District’s inability to determine how many computers were actually missing, OSI placed the total number of missing computers at 80, which was derived from the four reports filed by the District with the Police Department from March 2007 to August 2007. The value of each computer was placed at an average of \$1,055 after our discussions with the IT Director and analysis of District computer purchase orders. The loss to the District was \$84,400.

Therefore, we recommend that the District:

²⁷ The individual who served as the Assistant to the Superintendent for Finance and Administration during the time period under review and during the investigation itself has recently submitted his resignation from his position at the District effective February 8, 2010, and the Board accepted his resignation on September 8, 2009 without comment.

²⁸ The same would apply to over \$18.1 million in technology equipment and software generally. See Table 1.

- Implement an asset management software program to adequately control inventory;
- Develop and implement a comprehensive information technology policy and procedure manual;
- Ensure that all technology assets in its possession are correctly protected by:
 - Limiting and controlling access to inventory databases;
 - Providing technical specifications for equipment;
 - Listing purchase order numbers and equipment value;
 - Copying equipment serial numbers;
 - Etching District asset tag numbers on equipment;
 - Recording shipment and received dates of equipment;
 - Recording the building name/number and the recipient of the equipment; and
 - Providing complete repair history and reporting the transfer or moving of equipment;
- Establish a collective effort between the District's IT Department and the Business Office to implement a review process for review of purchase orders and matching invoices;
- Perform an annual inventory of computer equipment for each district building;
- Monitor and review contract and lease agreements with technology vendors;
- Consult with the District's independent auditor to establish an appropriate internal control checklist for the IT Department;
- Seek additional guidance and assistance from the Board, administrators, faculty, and staff in the creation of a Technology Committee to monitor the District's technology initiatives;
- Create a procedure for the timely reporting of missing computers to the local police department, state agencies, contractors, vendors, and insurance carriers; and
- Establish a proactive environment to protect against losses by:

- Initiating building risk and vulnerability assessments for physically securing laptop computers and other technology assets;
- Performing annual district-wide building key and access card inventories;
- Purchasing locking cabinets for all laptop storage and eliminating current milk crate locking devices; and
- Adding or replacing computer storage door locks and building door locks when personnel changes occur.

We are also providing copies of this report to the Pennsylvania Department of Education, the U.S. Department of Education, the Pennsylvania Office of Attorney General, the Office of the District Attorney of Northampton County, and the Bethlehem Police Department for their review and whatever further action they may deem appropriate.

The referrals to the education agencies are due to the District's potential mismanagement of state and federal grant funds for the SKILL21 program. The referrals to the law enforcement agencies are due to the potential thefts of the missing computers. As of the date of this report, the Bethlehem Police Department's investigation into the missing computers is still ongoing.

FINDING II: The Bethlehem Area School District failed to exercise adequate oversight of expenditures of \$52,726 for an internal investigation related to the drug arrest of a former middle school principal and allowed the final invoice to be paid without approval by the school board.

In an interview with OSI on February 6, 2008, the Board's Current President and Current Vice President alleged the following:

- The District paid \$52,726 to a law firm for an independent investigation related to the Middle School Principal's drug arrest.
- The estimated cost for the investigation was \$30,000. However, the final invoice was for \$60,670.21 and payment was made without Board approval.
- Paying for the independent investigation without the Board's approval violated state law and District policy.²⁹

On February 27, 2007, the Middle School Principal was arrested for selling drugs in his school office. The Superintendent met with senior-level District administrators that night. The participants decided that the District should commission an independent investigation in order to address public concern about the arrest.

The District hired a Philadelphia-based law firm, which has an office in Allentown, ("Law Firm") to conduct the investigation. During interviews, District officials provided conflicting reasons to OSI about why this particular law firm was selected. There is no documentation or evidence that the District made an effort to determine whether other law firms or private investigative firms could have performed the same or better quality work for the District and at a more favorable price. There is no evidence that the Law Firm was the only entity in the immediate area that was capable of providing the service. Even with time being of the essence to address this important matter, some type of competitive selection process could have saved the District money.

The decision to hire the Law Firm was announced by the Superintendent at a special meeting of the Board on March 2, 2007. The Superintendent stated that he would be coordinating the investigation and that all information would flow through him. The Current Vice President questioned whether it was appropriate for the Superintendent to be in charge of the investigation, given that his administration and staff were already under investigation for the missing laptops and whether the new investigation was even necessary.

²⁹ The Current President and Current Vice President also expressed concern to OSI that the final invoice lacked detail. However, in reviewing the invoice, we found that the bill contained a standard amount of information about tasks performed, given the desire to protect the attorney-client privilege. However, this assessment would not justify the withholding of further details from Board members outside of the context of the invoice.

During an executive session of the Board on March 5, 2007, representatives from the Law Firm presented the Former President with a proposed scope of work letter. There was more discussion regarding who from the District should coordinate the investigation. The attorneys from the Law Firm and the Board determined that the Superintendent should remain independent and not be in charge of the investigation. The Board and the Law Firm agreed that the Former President would direct the investigation because he would remain independent of District personnel involved in the investigation.

The scope of the Law Firm's investigation included:³⁰

- Reviewing policies, procedures, and personnel records;
- Interviewing administration, staff, Board members, and former employees having a relationship with the Middle School Principal; and
- Submitting a written report addressing findings and recommendations.

On May 21, 2007, the Law Firm submitted its report to the Board and released a summary report to the public.³¹ The report presented the following conclusions:³²

- The Middle School Principal's conduct appeared to have been an independent act on his part without involvement by any other District personnel;
- There was no evidence that such conduct was either known or reasonably anticipated by any District personnel; and
- There was no evidence that such conduct placed District students in jeopardy, directly or indirectly.

It was not the objective of OSI's investigation to determine whether or not the Law Firm's conclusions, or the recommendations derived from those conclusions, were correct. Instead, we focused solely on issues related to the cost of the Law Firm's investigation. However, we do note that several of the individuals who we interviewed during our investigation expressed their disagreement and/or disappointment with the outcome of the Law Firm's investigation.

By correspondence dated March 5, 2007, the Law Firm provided a detailed fee agreement, which the Former President signed. The fee agreement stated that the firm would bill the District on a monthly basis. A separate engagement letter on the same date provided the proposed scope of work and estimated the cost of the investigation, as listed in Table 4.

³⁰ Law Firm, *Confidential Report to the Board of Directors of the District*, May 21, 2007 (Exhibit 2, letter from the Law Firm to the Former President, dated March 5, 2007) ("Law Firm Report").

³¹ The summary report consisted of the two-page "Summary of Findings" section of the full report.

³² Law Firm Report, pp. 11, 37.

Table 4
Estimated Investigation Cost, Per Law Firm's March 2007 Engagement Letter

Hourly Rate	Estimated Number of Hours	Estimated Fees
Attorney 1: \$225	50-75	\$11,250-\$16,875
Attorney 2: \$175	50-75	\$8,750-\$13,125
Estimated Total		\$20,000-\$30,000

However, during an interview with OSI on June 19, 2008, the Former President stated that no fee agreement was signed with the Law Firm. He stated that there was only a verbal understanding for the initial estimated payment of \$30,000-\$40,000 quoted by the Law Firm. In addition, he stated that there was no maximum threshold on what could be spent on the investigation.

At a Board meeting on March 19, 2007, the Former President told the Board that the District chose the Law Firm because of an established relationship in a prior unspecified legal matter. There was no discussion about a competitive selection for the firm. The Board approved the appointment of the Law Firm by a majority vote of 7-2. However, the Law Firm incorrectly stated in its final report that the Board made a unanimous vote in the Board's executive session to retain the Law Firm.³³

Voting for the investigation were the Former President; Diane Rowe, who was the vice president of the Board at that time; and five other members of the Board. Voting against the investigation were the Current President and the Current Vice President. The Current Vice President stated her belief that the investigation should be conducted by a completely impartial outside firm that had no business relationship with the District. The Current President wanted the investigation to be broader in scope and not limited to simply the dealings with the Middle School Principal and his drug charges.

Payment Process

The District did not require the Law Firm to submit monthly itemized invoices because the Former President was in regular contact with the firm. During an interview with OSI, the Former President stated, "I should have asked how much the attorneys were spending, but I did not." The Superintendent told OSI, "I was aware of the status of the bill. In retrospect, I should have questioned it. I made an error."

The District failed to follow its own policies regarding payment of bills, resulting in an uncontrolled and unmonitored number of hours and charges. Board Policy 616, "Payment of Bills," emphasizes that "the Board's intent [is] to direct prompt payment of bills but at the same time to ensure that due care has been taken in the review of district bills." The policy requires each bill to be fully itemized, verified, and approved by the Board before a check can be drawn for its payment. The policy further states:

³³Law Firm Report, p. 6

It shall be the responsibility of the Director of Business Affairs or designee upon receipt of an invoice to verify the purchase invoice in order, goods were received in acceptable condition or services were satisfactorily rendered, funds are available to cover payment, the Board had budgeted for the item, and invoice is for the amount contracted.

On June 26, 2007, the Law Firm submitted an invoice for the District's investigation, totaling \$60,670.21, more than double the estimated cost. This was the first invoice, despite the requirement in the fee agreement that the firm would submit monthly invoices. Table 5 lists the Law Firm's final invoice totals.

Table 5
Investigation Fees and Expenses

Attorney	Hourly Rate	Hours	Fees
Attorney 1	\$225.00	156.5	\$35,212.50
Attorney 2	\$175.00	132.8	\$23,240.00
Attorney 3	\$175.00	8.2	\$1,435.00
Attorney 4	\$100.00	1.5	\$150.00
Paralegal	\$50.00	7.0	\$350.00
		TOTAL: 306	\$60,387.50 <i>plus \$282.71 for overtime, binding, and messenger delivery,</i> FOR A TOTAL INVOICE OF \$60,670.21

During an interview with OSI on June 19, 2008, the Former President stated that taxpayer money was well spent because, "out of a school district budget of \$170 million, \$60,670.21 is not a lot of money to pay a law firm for the investigation."

The Law Firm's attorneys were present during an executive session of the Board held on June 20, 2007 to advise the Board on the issue of whether the report should be released in its entirety to the public. The Current Vice President requested that the attorneys forward the bill to the entire Board, and the Law Firm was instructed to do so. However, the Law Firm sent the bill only to the Former President, on June 26, 2007,³⁴ and he did not inform the other Board members that he had received it.

The Superintendent signed the invoice on July 20, 2007. The Superintendent told OSI, "[The Former President] forgot he had the bill. He held onto it for a couple of weeks." The Board met for a regular meeting on July 23, 2007, but the Law Firm's invoice was not discussed or included in the agenda packet for payment by the Board.

At a Board meeting on August 13, 2007, the Former President told the Current Vice President that the Law Firm invoice was received about a week prior to the meeting.

³⁴ The Current Vice President told OSI that she was later told by the Superintendent that the Law Firm would not submit the bill to the entire Board because the Law Firm feared that the confidentiality of the report would be jeopardized.

However, that is not true – as discussed above, the Former President received the invoice in June and the Superintendent signed it in July. At this meeting, neither the Former President nor the Superintendent could recall the amount of the bill or any details.

The Board met again on August 20, 2007. The Assistant to the Superintendent told the Board that he did not see the bill himself or become aware that it had been received until August 17, 2007, just prior to the meeting.³⁵ At this meeting, the six-page invoice listing the Law Firm's fee and expense totals was not included with the Board's agenda. The \$60,670.21 amount was hidden in eight-point font within a 35-page list of bills presented for ratification and approval by the Board. By a unanimous vote, the Board decided to table the payment of the legal services. The Board voted to approve the bill during a Board meeting on September 17, 2007. The minutes do not reflect the voting tally.

The Law Firm invoiced the District for \$3,055.97 for attending the Board meeting on June 20, 2007, bringing the total to \$63,726.07. The District successfully negotiated a reduction of \$11,000 on October 15, 2007.³⁶ Therefore, the final amount paid to the Law Firm for the independent investigation after the adjustment was \$52,726.18.

Conclusions and Recommendations:

Proper financial management of a school district includes compliance with the district's own policy and procedures and applicable state law. Section 439 of the Public School Code of 1949, as amended, states that the treasurer of each district shall receive all state appropriations, district school taxes, and other funds belonging to the school district and make payments out of the same on proper orders approved and signed by the school directors.³⁷ Yet the District failed to comply with either state law or its own policy.

The District failed to adequately involve the Board members in the oversight of the independent investigation and paid the charges for the investigation without Board approval, resulting in an uncontrolled and unmonitored number of hours and charges. In fact, our investigation showed that the Superintendent and the Former President controlled the investigation, delayed and disguised the final payment, and then publicly praised the results of an investigative report that produced more questions than answers. The bill from the Law Firm, double the estimate, was paid and the check was cashed before the bill could be examined and reviewed by the Board.

³⁵ During an interview with OSI on June 24, 2008, the Assistant to the Superintendent stated that the Law Firm invoice was not reviewed by him before a check was issued by a clerk in the District's Business Office on July 26, 2007 for \$60,670.21.

³⁶ In his separate response to the draft report, the Superintendent emphasizes that it was he who negotiated this reduction. Two members of the Board informed OSI that the Superintendent did not have full authority to do so but that the Board ratified the reduction at the meeting on September 17, 2007.

³⁷ 24 P.S. § 4-439 (Receipt and payment of school funds).

The District also failed to use a competitive selection process for hiring a firm to conduct the investigation. We are not suggesting that the District select legal services solely on the basis of the lowest hourly rate. As in the case of all professional services, cost is one factor to be considered and the lowest rate does not always guarantee the best service. The objective must always be cost-effective, quality services that provide the best value to the taxpayers.

Therefore, we recommend that the District:

- Ensure that its review process for legal services, like all other professional services, includes consideration of quality of services and the reasonableness of fees;
- Use a competitive process to select legal counsel, even when time is of the essence;
- Ensure that the responsibility for all questions, comments, discussions, and approval of bills involves the Board;
- Ensure that all services charged in legal bills submitted to the District, but not included in written agreements or detailed engagement letters, are properly authorized by District officials or the Board;
- Ensure that the District's bill payment process is in compliance with state law and the District's own policies and procedures; and
- Consult with its independent auditor to establish an appropriate internal controls checklist to audit charges for legal services.

BETHLEHEM AREA SCHOOL DISTRICT'S RESPONSES TO DRAFT REPORT




MEMORANDUM

CONFIDENTIAL

September 22, 2009

TO : Pennsylvania Auditor General's Office

FROM : Dr. Joseph A. Lewis  Superintendent of Schools

SUBJECT : Revised Response to the Auditor General's Report on Missing Computers and Expenditures for External Investigation Report

Please find attached a revised memorandum to the response of the Auditor General's Report on Missing Computers and Expenditures for External Investigation Report. The Auditor General's Office received three responses from the school district and requested which response they should accept. At Executive Session with the Board of School Directors on Monday, September 21, 2009, at East Hills Middle, seven of the nine board members were present and agreed that the attached memorandum that was sent from the superintendent would be the response with additional information added to the last page regarding the board's response.

Mr. Stephen Bandura from the Auditor General's office contacted the district via email today requesting that the report be sent to him as soon as possible.

JAL:dln

Att.

pc: Board of School Directors
Solicitor
Assistant Board Secretary




**REVISED
MEMORANDUM**

CONFIDENTIAL

September 22, 2009

TO : Auditor General's Office

FROM : Dr. Joseph A. Lewis,  Superintendent of Schools

SUBJECT: Response to Auditor General's Report on: Missing Computers;
Expenditures for External Investigation Report

This response will address several issues in need of clarification and several inaccuracies, by section in the AG draft report of 8/31/09.

Background and Introduction

1. In the initial paragraph the description of Bethlehem Area School District is missing Bethlehem Township as one of the five municipalities.
2. The initiation of this report as attributed to board members Leeson and Dexter in a call to the AG Office is not accurate. Mrs. Dexter, current vice president, acknowledged solely making the contact.
3. The reference to the Pocono Mountain in Paragraph 4 and their audit is unrelated to either the superintendent's tenure there or to that of Bethlehem Area School District former IT director, Robin Lutchter, who left Pocono Mountain in the late 90's, not 80's (another inaccuracy). Nonetheless, an inference is made that their employment at Pocono Mountain may have contributed to similar problems. This is a speculative statement that simply creates innuendo.

Finding I

1. The value of 10,978 laptops in 2008 is grossly overestimated in that the \$11,581,790 total value takes no depreciation into consideration. Nor is the dollar value of lost laptops accurate at 80 laptops at \$84,400 (Page 14) as once again no depreciation is calculated in this number. While some computers may have been in year one, several of these computers should have been valued at the end of their life cycle at the end of their lease at that time. The actual loss value has been estimated by IT between \$18,000 and \$30,000 depending on the final count of

lost laptops. It is noteworthy that this report mirrors and at times repeats verbatim the internal investigation conducted by Assistant Superintendent Robert Gross at the superintendent's direction. The most significant difference is in the number of lost computers and the over-evaluation of their value, as no depreciation factor was applied.

2. The Superintendent's Office acknowledges that password access was entirely too broad and addressed that issue as soon as we were advised by Assistant Superintendent Robert Gross. (Page 11).
3. The Superintendent's Office believes the investigation by Assistant Superintendent Robert Gross was thorough and accurate and took immediate action on its findings including employee discipline and directing procedural changes.
4. The Superintendent's Office was troubled when informed that police reporting was lax and not done in a timely matter as was always directed by Mr. Stanley Majewski, Assistant to the Superintendent for Finance and Administration, and the superintendent.
5. On Page 14, the report refers to William Penn Middle School in the second bullet. This should read William Penn Elementary School.
6. Again the values of BASD inventory on Pages 15 and 16 are repeatedly overstated as no depreciation was calculated, with many computers at the middle and end of their life cycle.
7. The random on-site audit of 254 laptops noted in the last paragraph on Page 16, clearly shows all 254 laptops accounted for, which demonstrates controls were put into place. Yet this paragraph and that fact are given little credence in this report as evidence of sound record keeping.
8. In the last bullet, the superintendent did direct the IT Director to file a report with the police; the error in judgment noted was to not confirm that it was filed.
9. The district still estimates the number of missing computers at or about 51 as reported. The value again is between \$18,000 and \$30,000 as many were depreciated or near the end of their life cycle. The value was clearly not \$84,400 as stated on Page 19. This serious miscalculation greatly inflates the loss to the district.
10. The spreadsheet on Page 8 identified as Table 1 is in error and extremely misleading. It is a patchwork of dollar values that in some places has duplicate entries or entries that incorporate other cells in the table. No one in the Business Office, IT, or Minority Affairs/Grants Office can identify the source or existence of the numbers in Column 3, State Funds.

In Column 2, the 2009-2010 General Fund Number of \$737,187 was to purchase teacher laptops, and incorporate prior leases of existing systems, not new student computers. It appears that Column 4 has been incorporated in Column 3.

In the footnote that follows Table 1, the investigator states that the numbers in the spreadsheet were verified by the BASD Grant Office, Business Office, and IT Department. Neither Mrs. Iris Cintron, Supervisor of Minority Affairs/Grants, nor Frank Arbushites, Acting Director of IT, nor Stanley Majewski, Assistant to the Superintendent for Finance and Administration, verified Columns 2 and 3. Nor did anyone in their offices. Neither Frank Arbushites, Acting Director of IT, nor Stanley Majewski, Assistant to the Superintendent for Finance and Administration, verified any numbers in any column in Table 1 whatsoever, nor did anyone in their offices. Mrs. Iris Cintron verified columns 4 and 5 only, which she noted were initially in error with missed numbers and transpositions of numerals corrected by Mrs. Cintron. In the paragraph above the table the estimated value for 10,978 laptops is listed as \$11,581,790 while the table totals \$21,628,997, also misleading. This table has been constructed without any verification and is unaudited.

11. The district had completed most of the following items related to the recommendations prior to ever receiving them. We were told by investigators [REDACTED] to expect this report in October 2008, almost a year prior. This report was extremely late, and we could no longer wait and chose to act. As such, we acknowledged certain systemic issues existed surrounding inventory control, maintenance, and procedures. Consequently, we moved to correct every deficiency we were made aware of since losses were brought to our attention. Ironically, we addressed a majority of these recommendations before they were received. Please note the responses below.

12. Response to Recommendations:

- ❖ Implement an asset management software program to adequately control inventory
 - The district has developed a master inventory database to hold the asset records of all computer equipment and is in the process of importing data into this database.
- ❖ Develop and implement a comprehensive information technology policy and procedure manual
 - The district will develop an information technology policy and procedure manual. To some extent, this already exists, but the policies need to be compiled and unified.
- ❖ Ensure that all technology assets in its possession are correctly protected by:
 - ... limiting and controlling access to inventory databases

- **The new inventory database requires a unique user ID and password to be entered by any user accessing the database. These user IDs have been distributed to IT staff. An access log is maintained so that the IT department knows who is logging into the database, and a “last modified” field is attached to each record so that the IT department knows who is making changes to each record. Only the database administrator has access to modify these fields.**
- ... providing technical specifications for equipment
 - **The fields in the database track the type of equipment, make, model, serial number, BASD number, and technical specifications such as hard disk size, memory, Ethernet address, wireless address, processor speed, processor type, and operating system.**
- ...listing purchase orders and equipment value
 - **The purchase order number is a field that will be added to the database. All new equipment being added to the database will have a purchase order number attached.**
 - **Purchase order numbers for existing equipment will be added to the database as directed by the superintendent.**
 - **Equipment price can be listed in the inventory database for new equipment, but equipment value is subject to depreciation costs. If equipment value is to be used, a depreciation formula needs to be determined.**
- ... copying equipment serial numbers
 - **Serial numbers will be included and updated for all assets in the database.**
- ... etching district asset tag numbers on equipment
 - **This is currently done for laptop computers. The IT Department will, as directed by the superintendent, etch all equipment.**
- ... recording shipment and received dates of equipment
 - **The database currently has fields for the date and time a record is created and the date the record was last updated. If shipment and received dates are needed, the IT Department will, as directed by the superintendent, enter these items in the database.**
- ... recording the building name/number and recipient of the equipment
 - **The database currently has fields for the building name and number of where the item is currently located. If the recipient of the equipment is also needed, the IT Department will, as directed by the superintendent, enter these items in the database.**
- ... Providing complete repair history and reporting the transfer or moving or equipment
 - **There is an “additional info” field in the database that can be used to provide the transfer or moving information. The repair history can be obtained from the Technology Work Order database, which is in the process of being linked to the inventory database.**

- ❖ Establish a collective effort between the District's IT Department and the Business Office to implement a review process for review of purchase orders and matching invoices.
 - **With the district's new Financial System, invoices can be scanned and electronically attached to purchase orders. The system also enables the business office to be notified immediately when an item is received and the invoice is ready to be paid.**
- ❖ Perform an annual inventory of computer equipment for each district building
 - **The IT department will do this each year to keep inventory assets data correct and complete.**
- ❖ Monitor and review contract and lease agreements with technology vendors
 - **The IT department works closely with the business office to plan and execute contracts and lease documents. The district recently consolidated lease payments for laptop computers, and currently the district is in the first year of a new four-year lease.**
- ❖ Consult with the District's independent auditor to establish an appropriate internal control checklist for the IT department
 - **The IT department will, as directed by the superintendent, seek the advice of the auditor on matters pertaining to internal controls.**
- ❖ Seek additional guidance and assistance from the Board, administrators, faculty, and staff in the creation of a Technology Committee to monitor the district's technology initiatives.
 - **The IT department will, as directed by the superintendent, initiate such a committee for the purpose identified, but such committees are frequently devised to set goals, receive input from stakeholders and improve communication.**
- ❖ Create a procedure for the timely reporting of missing computers to the local police department, state agencies, contractors, vendors, and insurance carriers
 - **The IT Department uses a "Missing Equipment" form to collect asset information relating to missing computers and to establish the last known whereabouts of the equipment. This form is filled out by the building support technologist. The building principal files a police report. Copies of the completed form are sent to the IT office and the Assistant Superintendent for Finance and Administration. The IT Department will work with the Business Office to report missing computers to state agencies, contractors, vendors, and insurance carriers.**
- ❖ Establish a proactive environment to protect against losses by:
 - ... initiating building risk and vulnerability assessments for physically securing laptop computers and other technology assets
 - **The IT Department will, as directed by the superintendent, work with the Director of Facilities and Operations to complete this task annually.**
 - ... performing annual district-wide building key and access card inventories

- **The IT Department will, as directed by the superintendent, work with the Director of Facilities and Operations to complete this task annually.**
- ... purchasing locking cabinets for all laptop storage and eliminating current milk crate locking devices
 - **This is very important. Funds need to be budgeted to properly secure the laptops in locking carts.**
- ... adding or replacing computer storage door locks and building door locks when personnel changes occur
 - **The IT Department will, as directed by the superintendent, work with the Director of Facilities and Operations to complete this task.**

13. Related Information:

- ❖ According to the FBI, 97% of stolen computers are never recovered.
- ❖ According to Safeware Insurance, a leading seller of computer insurance, over 600,000 laptops were stolen in 2003.
- ❖ According to Absolute Software, maker of tools to retrieve lost or stolen laptops, over 750,000 laptops were stolen in 2004.
- ❖ **Absolute Software also indicates that the average corporate laptop theft rate is between 3.5 and 5 percent. Using the figures reported in this investigation, BASD has identified 51 laptops missing or stolen out of 10,978, a 0.46% loss.**
- ❖ According to a 2008 study by the Computer Security Institute (CSI) of 69 major corporations, 42% of computer crimes in 2008 were laptop thefts.
- ❖ CSI also estimates that the average major corporation loses 640 laptops, 1,985 USB memory sticks, 1,075 smart phones, and 1,324 other data devices per year.

14. BASD Procedural Information:

- ❖ New teachers coming into BASD receive training from the IT department about acceptable use of their own laptops. This includes “common-sense” security reminders such as not to leave laptops in cars, proper care and handling, data backup, password handling procedures, and not to share their laptop computer with anyone else.
- ❖ Teachers in the former SKILL21 program and the high school CFF program have been trained on how to manage laptops in a classroom, including assigning laptops to students, security, locking unattended carts, crates, proper laptop care and handling, procedures for collecting laptops each day, and proper use of the network.
- ❖ BASD has implemented a software tracking solution for tracking lost or stolen laptops. The software is in the process of being installed on all student and faculty laptops. If a laptop is reported missing, the district has the ability to lock the laptop remotely and use **Skyhook GPS technology** to track its general location. The software can also be used to collect inventory asset data and report it to a central database.

15. Concluding Remarks:

Recommendation for an additional position to be created and a staff member to be hired to assist with completing the above tasks:

❖ (1) Inventory Asset Manager

The Inventory Asset Manager's position would oversee all aspects of the district's IT inventory and work with the building support technologists to insure its timely, consistent, and accurate completion. The detail-oriented person in this position would also be responsible for checking equipment in, retiring and removing old equipment, managing the constant flow of equipment between buildings, establishing internal controls, recording purchase date and purchase order information in the inventory, insuring that the inventory database integrity is maintained, and insuring that the appropriate reports can be generated from the inventory database whenever they are needed.

Finally, the district finds this report, with some inaccuracies, many surrounding numbers and values, to be a somewhat modified repeat of the work of the Assistant Superintendent Robert Gross and his internal investigation. Nonetheless, the recommendations have been for the most part addressed.

Finding II

The response to this finding will respond to inaccuracies and missing information relative to Expenditures for External Investigation Report.

1. On Page 22, OSI notes the superintendent met the day after the arrest of the principal when in fact, the arrest occurred at approximately 5:00 p.m. and everyone in cabinet and the board president met three hours later at 8:00 p.m. to midnight on that same day, February 27, 2007.
2. Also on Page 22, it is casually stated that a competitive bidding process to hire a law firm could have saved the district money. Anyone familiar with competitive school bidding would know it takes 60 days to complete the simplest of competitive bids. Mr. Robert Gross, Assistant Superintendent, contacted Moravian College for assistance as was made aware of a professor teaching there who was well known for conducting workplace investigations. He was unavailable and recommended White and Williams, LLC. Mr. Gross had used them once in a prior workplace investigation and was comfortable with the firm. The superintendent did concur with Mr. Gross' recommendation. Timing was critical, as the public rightfully was demanding answers.
3. On Page 23, it is correct that the superintendent agreed to remain independent of the investigation and the president of the board accepted the leadership role. It is important to note from March 5, 2007, onward the superintendent's only involvement was to be interviewed by the investigators. He then became involved when he received the invoice from the president for payment sometime in July 2007. His staff delivered the invoice to the business office for review.
4. Additionally, the fee agreement identified in the last paragraph on Page 23 and an engagement letter was handled by the board president exclusively. The superintendent and the business manager had no dealings with either.
5. The administration was not aware of, nor requested to, monitor on-going costs, as we were to remain totally independent of the investigation. The superintendent's statement in the fourth paragraph on Page 24, "I was aware of the status of the bill. In retrospect I should have questioned it." Refers to the time of receipt of the total bill of \$60,000 in July 2007. Neither the superintendent nor his designee were charged with monitoring the work, the hours, or the invoicing.
6. The last paragraph on Page 24 notes the "district failed to follow its own policies regarding payment of bills resulting in an uncontrolled and unmonitored number of hours and charges." Again, the administration was clearly directed to remain totally independent of the investigation and in good faith could not monitor the work of the law firm as that could have been construed as restrictive or disruptive to a fair and thorough investigation.

7. The Business Manager also had no ability to verify any matter surrounding the billing as per policy referenced on Page 25 because of the directive for all administration to remain independent of the investigation.

Conclusion and Recommendation

8. The superintendent did receive a requisition for payment from the business office with Mr. Majewski's stamped signature. While it is apparent the requisition was not signed by the business manager directly, someone in accounts payable executed the requisition. As per policy, once reviewed and signed off by the business office, the superintendent customarily signs off! To suggest that the superintendent and former board president controlled the investigation in concert or in part, is not accurate. Again, the superintendent was instructed to stay independent and had absolutely no contact with the investigators beyond the interview he was asked to participate in, as were all central administrators.

These findings and conclusions are subjective, highly opinionated, and without foundation. There exists no evidence to support the suppositions that are stated. The verifiable facts are simply as follows:

- A. To select a law firm as soon as possible was critical to gain answers for the public.
- B. A sixty day competitive bid process was impractical.
- C. The entire administration was directed as stated in the report (Page 23) to remain totally independent of the investigation.
- D. The entire administration as a result of this directive could not monitor, could not review work, and did not receive on-going invoices from the law firm.
- E. Interviewee's, many of whom were teachers, were reluctant to testify unless their names were redacted; thus the reason given by the law firm for hours only appearing on the final detail billing.
- F. There existed an overrun that the administration could not control; could not direct to cease, even if it were aware.
- G. There was a signed engagement letter the superintendent was not privy to.
- H. The invoice was approved in the business office and sent with a requisition to the superintendent. Invoices with potential interest charges or discounts are typically paid prior to formal approval to save the district costs as per policy 616.
- I. The superintendent, after the payment was made, negotiated the \$11,000 discount and refund, not the district.

- J. The directive to be independent of the investigation created a Catch-22 for the administration, as they could not monitor any part of the process.
- K. Reference throughout the document to “the District” has no antecedent. Who is the “District?”

In conclusion, in any governmental institution there exists a legislative branch, in this case the school board, and an executive branch, in this case the administration. When roles are shifted, as they were in this case, with the Board President performing the administration process, certain facets can and were affected.

The expectation that an unpaid Board Officer had the time, wherewithal, and knowledge to execute the process of this law firm’s investigation was unfair and unrealistic. As troubling as the event was on which this investigation was predicated and while the costs of this investigation are in question, the spirit in which it was conducted was purposeful and with the proper intention.

Board Response

The Bethlehem Area School District Board of School Directors has received the draft of Auditor General’s report on the missing laptops and the payment of the investigator’s bill. We thank the Auditor General and his staff for their services in providing the board and our public with a clearer picture of these incidents.

We are prepared to address the findings and recommendations, and have already begun the process of remediation. We reserve the right to take further action upon receipt of the final report.

Thank you for your efforts on behalf of the citizens of the Bethlehem Area School District.

JAL:bac

pc: Board of School Directors
Solicitor
Assistant Board Secretary

DEPARTMENT OF THE AUDITOR GENERAL'S COMMENTS ON BETHLEHEM AREA SCHOOL DISTRICT'S RESPONSES TO DRAFT REPORT

The Department of the Auditor General commends the Board of School Directors of the Bethlehem Area School District for its positive response to this investigation report and for its commitment to addressing the issues identified herein.

Unfortunately, the tone and substance of the Board's response is not reflected in the separate and more lengthy response submitted by the Superintendent. We note that the Superintendent is among those employees whose actions were the subject of this investigation. He has effectively left the District as of September 25, 2009.³⁸ We are hopeful that his successor will embrace the primary message of this report, which is the need for greater accountability, oversight, and transparency by the District, particularly by the administration.

This final public report does not materially differ from the draft report furnished to the District for its review and response. However, minor revisions have been made to the report to address certain issues raised by the Superintendent's separate response. In addition, we wish to point out the following:

Introduction and Background

- The prior employment of the Superintendent and IT Director at a school district that experienced problems similar to those later experienced at the District is relevant for the reasons adequately explained in this report. The inclusion of this information is intended solely to support the point that the Superintendent and IT Director should have been sensitive to computer security issues and how to correct and avoid problems.

Finding I

- The number and value of the computers reflect the information and data that were provided to OSI by the District and that were cited in the District's insurance claim and police reports. The state of the District's records would not allow depreciation to be accurately taken into account. Regardless, the cost of purchasing replacements for the missing laptops is the cost that should be of most concern to the taxpayers of the District.
- The data in Table 1 was provided and confirmed by District personnel during the course of the investigation. Upon further review and discussion with District personnel, we have made minor adjustments to the table, but the total dollar amount has not changed significantly.

³⁸ See footnote 5.

- The length of this investigation was appropriate, given the issues under investigation, the state of the District's records, and the degree of cooperation that we received. While our report acknowledges the internal investigation conducted by the Associate Superintendent, our investigation went considerably further in its equipment inventory, review of documents, and employee interviews. In addition, contrary to the Superintendent's statement, our random sample of 254 laptop computers did not find that all of the laptops were accounted for and that adequate controls were in place.
- We are pleased that the District began to take corrective actions even before receiving our draft report. This is a positive step in the right direction, one that we are certain resulted from what District administrators learned about their own operations as our investigation proceeded. The Department will follow up at the appropriate time to determine whether the District has implemented all of our recommendations, as well as all recommendations made in the Associate Superintendent's investigation. To date, the District has provided no documentation to support its claim as to the latter.

Finding II

- We understand the need for the District administration to have maintained independence from the investigation into the Middle School Principal's arrest. If the Superintendent truly believed that this need extended to matters involving the law firm's bill and the payment thereof, he should have ensured that someone else was appropriately handling those matters. However, his involvement in those matters, not to mention his initial desire to coordinate and control the investigation as a whole, is not consistent with the concerns expressed in his response about independence.
- Nowhere in our report did we state or imply that the District should have taken 60 days to select a firm to conduct the investigation. Even with time being of the essence to address this important matter, some type of competitive selection process could have saved the District money.
- It is not clear why the Superintendent emphasizes in his response that he, "not the [D]istrict," negotiated the reduction to the law firm's bill. This is particularly odd given that references to "the District" throughout this report encompass both the school district as an entity and its administration, which clearly includes the Superintendent. In addition, two members of the Board informed OSI that the Superintendent did not have full authority to negotiate the reduction to the bill.

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