

# PERFORMANCE AUDIT

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## East Stroudsburg University Pennsylvania State System of Higher Education

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March 2015



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

March 27, 2015

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

Dear Governor Wolf:

This report contains the results of a performance audit of East Stroudsburg University of Pennsylvania of the Pennsylvania State System of Higher Education (State System) from July 1, 2011 to June 30, 2013, unless otherwise noted. We conducted our audit under the authority of Section 2015-A (relating to Annual audit) of Article XX-A of the Public School Code of 1949, 24 P.S. § 20-2015-A, which states, “Activities of the system under this article shall be subject to the audit of the Department of the Auditor General.” The audit was also conducted under the authority provided for in Section 402 of The Fiscal Code and in accordance with generally accepted government auditing standards.

Our report details our audit objectives, scope, methodology, findings, and recommendations. Among the major objectives of our performance audit were an evaluation of East Stroudsburg’s efforts to ensure the safety and welfare of minors attending youth camps on university property.

Our findings indicate the following:

- East Stroudsburg University failed to ensure that all individuals who had direct contact with minors at internal camps obtained appropriate background checks.
- East Stroudsburg University did not adequately ensure that employees of external organizations sponsoring youth events on university property, who had direct contact with minors at the events, obtained the required background checks and child abuse clearances, which could place minors attending these events at risk.
- East Stroudsburg University did not maintain adequate inventory controls over computers and other computer-related equipment.

- East Stroudsburg University did not ensure that all professional service contracts awarded by the university president were reviewed and approved by the council of trustees prior to being awarded.
- East Stroudsburg University's financial position remained positive and current assets exceeded current liabilities during the entire three year audit period.

Finally, the report notes that the university either implemented or partially implemented our prior audit recommendations.

We discussed the contents of the report with the management of the university, and all appropriate comments are reflected in the report.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

Eugene A. DePasquale  
Auditor General

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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#### Table of Contents

Background Information.....	1
Objectives, Scope, and Methodology .....	6
Audit Results.....	8
Finding 1: East Stroudsburg University failed to ensure that all individuals who had direct contact with minors at internal camps obtained appropriate background checks.....	15
Finding 2: East Stroudsburg University did not adequately ensure that employees of external organizations sponsoring youth events on university property, who had direct contact with minors at the events, obtained the required background checks and child abuse clearances, which could place minors attending these events at risk .....	21
Finding 3: East Stroudsburg University did not maintain adequate inventory controls over computers and other computer-related equipment .....	25
Finding 4: East Stroudsburg University did not ensure that all professional service contracts awarded by the university president were reviewed and approved by the council of trustees prior to being awarded .....	29
Finding 5: East Stroudsburg University’s financial position remained positive and current assets exceeded current liabilities during the entire three year audit period. ....	37
Status of Prior Audit .....	44
Audit Report Distribution List .....	52

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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#### Background Information

Pennsylvania's 14 state-owned universities are part of the Pennsylvania State System of Higher Education, generally referred to in this report as the State System. Prior to the enactment of Article XX-A of the Public School Code of 1949 through Act 188 of 1982, as amended,<sup>1</sup> that created the State System, the Pennsylvania Department of Education had administrative control of the 14 institutions,<sup>2</sup> 13 of which were then known as state colleges.<sup>3</sup>

The purpose of the State System is to provide students with the highest quality education at the lowest price. The 14 universities include the following:

Bloomsburg	Kutztown
California	Lock Haven
Cheyney	Mansfield
Clarion	Millersville
East Stroudsburg	Shippensburg
Edinboro	Slippery Rock
Indiana	West Chester

The State System also includes four branch campuses, the McKeever Environmental Learning Center, and the Dixon University Center.

#### State System Board of Governors

A centrally established 20-member board of governors has overall responsibility for planning and coordinating the operations and development of the State System. As a result, the State System's board of governors dictates many of the universities' operational and administrative procedures. Examples of the board's statutory powers include the following:

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<sup>1</sup> 24 P.S. §20-2001 – A *et seq.*

<sup>2</sup> These institutions originated as “state normal schools” and teachers colleges.

*See*

[http://www.portal.state.pa.us/portal/server.pt/community/institution\\_types/8713/pennsylvania\\_state\\_system\\_of\\_higher\\_education\\_\(passhe\)/522469](http://www.portal.state.pa.us/portal/server.pt/community/institution_types/8713/pennsylvania_state_system_of_higher_education_(passhe)/522469) accessed on October 6, 2014

<sup>3</sup> East Stroudsburg University of Pennsylvania has a long and illustrative history as a state normal school established on September 4, 1893, and has been part of the State System of Higher Education since 1983. [http://www4.esu.edu/about/history\\_beliefs/index.cfm](http://www4.esu.edu/about/history_beliefs/index.cfm) accessed on October 6, 2014. By way of further background, while Indiana University of Pennsylvania was already known as a university as early as 1965 and prior to the creation of the state system, each of the other 13 state colleges, including East Stroudsburg became known as the (Name) University of Pennsylvania of the State System of Higher Education effective July 1, 1983.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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- Establishing broad fiscal, personnel and educational policies under which the State System universities operate;
- Appointing university presidents;
- Coordinating, reviewing, amending, and approving university operating and capital budgets;
- Setting tuition and fee levels;
- Creating new undergraduate and graduate degree programs; and
- Promoting cooperation among institutions.

Board members include four legislators or his/her official representative, and 14 members appointed by Pennsylvania's governor with the approval of the state senate, including three university students, five trustees of constituent institutions, each from different universities, and six members of the public. The governor and the state's secretary of education, or their designees, also serve on the board.<sup>4</sup> Additionally, the board appoints a chancellor to serve as the chief executive officer of the State System's board and shall have the right to speak on all matters before the board, but not have a vote.<sup>5</sup>

At the university level, each university has a president and an 11-member council of trustees, including a full-time undergraduate student in the upper classes in good academic standing. While the State System appoints the university president, the members with the exception of the student member of the university's council of trustees is appointed by the governor, with approval of the state senate.<sup>6</sup>

University trustees make recommendations to the State System chancellor for the appointment, evaluation and dismissal of the university president. Trustees also assist with setting the university budget and new academic programs. The university trustees also approve all fees, other than tuition.<sup>7</sup> The State System chancellor serves as an ex-officio member for all the universities' council of trustees.<sup>8</sup>

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<sup>4</sup>24 P.S. § 20-2004-A(a).

<sup>5</sup> 24 P.S. §§ 20-2004-A(e) and 20-2006-A(a)(1).

<sup>6</sup> 24 P.S. §§ 20-2008-A(a) and (b) and 20-20010-A. Please note that the student member is appointed by the governor **without** the approval of the state senate.

<sup>7</sup> 24 P.S. §20-2009-A.

<sup>8</sup> 24 P.S. §20-2005-A (10).

## **A Performance Audit**

### **East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education**

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#### **East Stroudsburg University's operating environment**

While East Stroudsburg received its charter in 1893 as a State Normal School, for the education of teachers, it now offers a wide range of graduate and undergraduate majors. As of April 9, 2014, the university offered 57 undergraduate degree programs and 23 graduate degree programs.<sup>9</sup>

According to recent statistics, East Stroudsburg has a 24:1 student to faculty ratio. The freshman retention rate, meaning those students who complete the first year and return for a second year, is 75 percent.<sup>10</sup>

Like all State System universities, admission is open to non-Pennsylvania residents; however, 75 percent of East Stroudsburg's student population is from Pennsylvania.<sup>11</sup>

#### **State funding to East Stroudsburg University**

As a member of the State System, East Stroudsburg receives a portion of its funding from the State System's yearly allocation from the commonwealth budget. Act 188 of 1982, as amended, outlines the parameters for East Stroudsburg's share of the State System appropriation as follows:

State funds appropriated to the [State] System shall be allocated to the individual institutions on a formula based on, but not limited to, such factors as enrollments, degrees granted, and programs.<sup>12</sup>

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<sup>9</sup> [http://www4.esu.edu/faculty\\_staff/oaie/quick\\_facts.cfm](http://www4.esu.edu/faculty_staff/oaie/quick_facts.cfm) viewed April 9, 2014.

<sup>10</sup> <http://colleges.usnews.rankingsandreviews.com/best-colleges/east-stroudsburg-university-of-pennsylvania-3320> viewed April 9, 2014.

<sup>11</sup> [http://www4.esu.edu/faculty\\_staff/oaie/quick\\_facts.cfm](http://www4.esu.edu/faculty_staff/oaie/quick_facts.cfm) viewed April 9, 2014.

<sup>12</sup> 24 P.S. § 20-2002-A(b).

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

The following chart illustrates East Stroudsburg's appropriation related to full-time equivalent (FTE)<sup>13</sup> students:

<b>Year End June 30,</b>	<b>Appropriation</b>	<b>FTE Students</b>	<b>Appropriation Per FTE Student</b>
2012	\$21,500,000	6,592	\$3,262
2013	\$20,800,000	6,030	\$3,449

According to the State System, the formula is updated annually to reflect changes in enrollment, physical plant inventory, and inflation.

The following table provides basic statistics regarding revenue, tuition and fee rates, FTE, and number of degrees conferred during the academic years ended 2012 and 2013.

<b>East Stroudsburg University Selected Statistics</b>	<b>2011-12</b>	<b>2012-13</b>
Revenue (\$Millions)		
Tuition/Fees	\$70.2	\$69.2
State Appropriation	21.5	20.8
Federal Appropriation	1.9	1.6
Tuition/Required fees for Full-time Resident Undergraduate Students (Academic Year)	\$8,351	\$8,758
FTE Students		
Undergraduate	6,037	5,562
Graduate	555	468
<b>Total</b>	<b>6,592</b>	<b>6,030</b>
Degrees Conferred		
Undergraduate	1,453	1,240
Graduate	315	284
<b>Total</b>	<b>1,768</b>	<b>1,524</b>

*Developed by the Department of the Auditor General from audited financial statements obtained from East Stroudsburg and from information obtained from the Joint State Government Commission.*

<sup>13</sup> FTE students include in-state and out-of-state undergraduate and graduate students as reported by the Joint State Government Commission.



## **A Performance Audit**

### **East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education**

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#### **East Stroudsburg accreditation**

The Middle States Council of Higher Education academically accredits the university. The university's accreditation was last reaffirmed on November 15, 2012. The next accreditation visit will be in the 2016-17 school year.<sup>14</sup> Other program accreditations at East Stroudsburg include the National Council for Accreditation of Teacher Education, Pennsylvania Department of Education, National League for Nursing Accrediting Commission, Pennsylvania State Board of Nursing, and the Council on Education for Public Health.<sup>15</sup>

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<sup>14</sup> <https://www.msche.org/documents/sas/157/Statement%20of%20Accreditation%20Status.htm> viewed April 9, 2014.

<sup>15</sup> [http://www4.esu.edu/faculty\\_staff/oaie/accreditation.cfm](http://www4.esu.edu/faculty_staff/oaie/accreditation.cfm) viewed April 9, 2014.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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#### **Objectives, Scope, and Methodology**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our performance audit of East Stroudsburg had four objectives. We selected the objectives from the following areas:

- youth camps
- computers and computer related equipment
- contracts
- expense analysis

The specific audit objectives were as follows:

One: To evaluate the measures East Stroudsburg has implemented to ensure the safety and welfare of minors attending camps, conferences, workshops, and other programs (collectively referred to as camps) held on university property. (Findings 1 and 2)

Two: To determine if East Stroudsburg maintains effective controls over its inventory of computers and computer-related equipment. (Finding 3)

Three: To determine if East Stroudsburg procured consulting or professional contracts in accordance with Act 188 of 1982. (Finding 4)

Four: To determine if East Stroudsburg's net financial position remained positive and if East Stroudsburg's current assets exceeded their current liabilities during the three year period in order to meet their current and overall obligations. (Finding 5)

The scope of our audit includes the period July 1, 2011, through June 30, 2013, unless indicated otherwise.

## **A Performance Audit**

### **East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education**

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To accomplish our objectives, we obtained, reviewed, and analyzed university records as well as policies, agreements, and guidelines of the university, the commonwealth and the State System. In the course of our audit, we interviewed various members of East Stroudsburg's management and staff. The audit results section of this report contains specific inquiries, observations, tests, and analyses conducted for each audit objective.

We also conducted inquiries and tests as part of, or in conjunction with, our current audit to determine the status of the implementation of the recommendations made during our prior audit. Those recommendations addressed East Stroudsburg's control deficiencies in the following areas: use of social security numbers; contracts approved without documentation of adequate liability insurance; utilization of maintenance management software system; and safeguarding dance company cash receipts.

East Stroudsburg management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the university is in compliance with applicable laws, regulations, contracts, grant agreements, and administrative policies and procedures. In conducting our audit, we obtained an understanding of East Stroudsburg's internal controls, including information system controls. For internal controls that we considered to be significant within the context of our audit objectives, we assessed whether these controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

## **A Performance Audit**

### **East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education**

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#### **Audit Results**

The audit results are organized into four sections. Each section is organized as follows:

- Statement of objective;
- Relevant laws, policies and agreements;
- Audit scope in terms of period covered, types of transactions reviewed, and other parameters that define the limits of our audit;
- Methodologies used to gather sufficient and appropriate evidence to meet the objective;
- Finding(s);
- Recommendation(s), where applicable;
- Response by East Stroudsburg management, where applicable; and
- Our evaluation of East Stroudsburg management's response, where applicable.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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#### Audit Results for Objective

#### One

#### *Youth Camps*

#### The objective

Objective one was to evaluate the measures East Stroudsburg has implemented to ensure the safety and welfare of minors<sup>16</sup> attending camps, conferences, workshops, and other programs (collectively referred to as camps) held on university property.

#### Relevant laws, policies, procedures, and agreements<sup>17</sup>

The Pennsylvania General Assembly has enacted various laws that are intended to protect minors by requiring individuals working, or seeking to work, directly with children to secure certain criminal background checks and child abuse clearances (collectively, referred to as background checks) prior to employment. For example:

The Public School Code of 1949<sup>18</sup> includes the following:

- Act 34 of 1985<sup>19</sup> - This act requires a Pennsylvania State Police Criminal Background Check that is dated no more than one year earlier than the date of the employment application. In this report, we refer to this requirement as “Act 34 criminal background check.”
- Act 114 of 2006<sup>20</sup> - This act requires a request for a federal criminal history record and fingerprints be sent to the Federal Bureau of Investigation (FBI) that are dated no more than one year earlier than the date of the employment application. In this report we refer to this requirement as “Act 114 federal criminal background check.”
- Act 114<sup>21</sup> - The act also specifies that all applicants for employment including independent contractors and their employees who have direct contact with minors must undergo

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<sup>16</sup> The definitions of a “Minor” and “Adult” are as follows, respectively: “An individual who is not an adult” and “An individual who is 18 years of age or older.” 23 Pa.C.S. § 6102.

<sup>17</sup> Please note that enacted legislation that was part of a larger child protection package will impact on our interpretation of the CPSL pertaining to background checks beginning on December 31, 2014.

<sup>18</sup> 24 P.S. § 1-101 *et seq.*

<sup>19</sup> 24 P.S. § 1-111, as amended; see in particular 24 P.S. § 1-111(b).

<sup>20</sup> 24 P.S. § 1-111(c.1).

<sup>21</sup> 24 P.S. § 1-111(a.1).

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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background checks dated no more than one year earlier than the date of the employment application.<sup>22</sup>

The Child Protective Services Law<sup>23</sup> - includes the following:

- Act 151 of 1994<sup>24</sup> - This act requires a Pennsylvania child abuse clearance to be obtained prior to the school employee beginning work with minors. In this report, we refer to this requirement as “Act 151 child abuse clearance.”<sup>25</sup>

Section 8.1 (relating to Definitions) of the State Board of Education’s regulations, 22 Pa. Code § 8.1, includes the following:

- “*Criminal history background check* – A report of criminal history record information from, or a statement that no information is on file with, the State Police; or, for nonresidents of this Commonwealth, a report of Federal criminal history record information from, or a statement that no information is on file with, the Federal Bureau of Investigation.”<sup>26</sup>
- “*Direct contact with children* – The possibility of care, supervision, guidance or control of children by a paid employee or contractor of, or an employee of a person under contract with, a school entity, and routine interaction with children by a paid employee of a school entity or a person under contract with a school entity.”<sup>27</sup>

In addition to the legal requirements discussed above, the State System’s Board of Governors and East Stroudsburg have developed policies and procedures related to criminal background investigations. These policies include:

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<sup>22</sup>24 P.S. § 1-111 does not currently require background checks for volunteers. However, it has become a common practice among schools, both public and private, to adopt related policies requiring background checks for such individuals.

<sup>23</sup> 23 Pa.C.S. § 6301 *et seq.*

<sup>24</sup> 23 Pa.C.S. § 6355; please note that Acts 44 and 45 of 2014, enacted May 14, 2014, have repealed this section and related provisions in Subchapter C.2. (relating to Background Checks for Employment in Schools) in the CPSL **effective December 31, 2014**. Act 45 replaced these provisions with Section 6344.2(a.1) (pertaining to school employees) of the CPSL, 23 Pa.C.S. § 6344.2(a.1), which will assist in integrating school employment criminal background checks and child abuse clearances.

<sup>25</sup> 24 P.S. § 1-111 does not currently require background checks for non-paid volunteers. However, it has been a common practice among schools, both public and private, to adopt related policies requiring background checks for individuals.

<sup>26</sup> 22 Pa. Code § 8.1.

<sup>27</sup> *Ibid.*

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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- State System Policy 2009-01, “Criminal Background Investigations.” This policy requires criminal background investigations to be completed for candidates for employment for all positions in the State System. According to this policy, criminal background investigations include inquiries to determine past criminal convictions and these inquiries must comply with all state and federal laws.
  
- East Stroudsburg University of Pennsylvania, “Pre-Employment Background Check” Number HR - 56, issued February 1, 2009. This policy and accompanying procedures were written to conform to the State System Policy 2009-01, “Criminal Background Investigations” which required its member institutions, including East Stroudsburg University to implement a policy that required criminal background investigations for employment candidates prior to being hired. The purpose of this policy “...is to ensure that appropriate information about an appointee’s education, employment history, and history of criminal convictions is considered prior to the start of employment.” This policy applied to all newly hired employees but did not apply to temporary camps and conferences employees. The policy required temporary camps and conferences employees to provide appropriate criminal history reports as required under Pennsylvania law. According to university management, temporary camps and conferences employees provided the following criminal history reports directly to East Stroudsburg’s office of human resources:
  - Act 34 criminal background check;
  - Act 151 child abuse clearance; and
  - If not a Pennsylvania resident for at least two years, Act 114 federal criminal background check
  
- East Stroudsburg University of Pennsylvania, “Pre-Employment Background Check,” Number AF-2014-001, adopted February 24, 2014. This policy and accompanying procedures expanded East Stroudsburg University Policy Number HR - 56 by requiring the university to complete pre-employment background checks for temporary camps and conference workers. According to East Stroudsburg officials, AF-2014-001 was implemented in the fall of 2012.

## **A Performance Audit**

### **East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education**

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Additionally, on July 8, 2014, the State System's board of governors passed Policy 2014-01: Protection of Minors. The policy, which becomes effective December 31, 2014, applies to all State System universities and their administrators, faculty, coaches, staff, students, contractors and volunteers in state system sponsored programs or in programs for minors held on university property. The policy directs each university to establish policies and procedures which include requirements to establish and maintain a registry of university-authorized adults, program staff and programs for minors. The policy further outlines topics that must be addressed in planning and evaluating registered programs which includes the identification, selection, and screening of authorized adults or program staff, including criminal background checks; training in areas such as detecting and reporting abuse or neglect, safety and security protocols, and crime reporting procedures; response protocols to accusations of misconduct and record retention. Additionally, the policy includes a code of conduct that program staff are required to follow when interacting with minors and requires all those working with minors to be trained on policies and issues related to minor safety and security. However, due to the December 31, 2014, effective date of this policy being subsequent to the end of field work, we could not audit the implementation of this policy.

For internal camps sponsored by the university's athletic department, East Stroudsburg utilized its full-time sports coaches to host the camps. The staffs of internal camps may or may not include full-time East Stroudsburg assistant coaches as well as temporary camps and conferences employees. Temporary employees include students and student - athletes hired by the university as student employees; coaches from local high schools; and/or volunteers. For internal academic camps sponsored by departments other than East Stroudsburg's athletic department, East Stroudsburg utilized its full-time employees as hosts.

For camps sponsored by external organizations, it required the organizations to sign a "Facilities Use Agreement" for the use of its facilities. However, this agreement used by East Stroudsburg's office of conference services did not require the camp sponsors from external organizations to provide a list of its employees assigned to the camps and also did not require the camp sponsors to provide proof that all employees or staff associated with the camps had obtained the Act 34, Act 114, and Act 151 clearances. This oversight is discussed in more detail in Finding 2.



## **A Performance Audit**

### **East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education**

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#### **Scope and methodology to meet our objective**

This objective is related to the athletic and academic youth camps held on East Stroudsburg University's property during the audit period. These camps were sponsored by East Stroudsburg University as well as external organizations.

Various university athletic coaches/teams, as well as other departments on occasion, host camps for minors each summer. These camps are hosted by university employees and are considered to be sponsored by East Stroudsburg. We refer to these camps as internal camps. A few examples of the internal camps held on campus include soccer, swimming, and basketball camps, Camp Colors and ESU for Kids. East Stroudsburg uses profits generated from these internal camps to help fund athletic scholarships. During the summers of 2011, 2012, and 2013, East Stroudsburg hosted 65 internal camps for minors.

External organizations contract with East Stroudsburg to use the university's facilities for a fee and we refer to these as external camps and non-university events. For external and non-university events conducted at East Stroudsburg, the external organizations employed their own event staff. External camps include overnight stays on campus and occur in the summer. Profits generated from external camps also help fund athletic scholarships. During the summers of 2011, 2012, and 2013, East Stroudsburg permitted external organizations to conduct 79 external camps with minors on university property.

Non-university events include non-residential programs that take place anytime during the year. Usage fees collected from non-university events cover equipment purchases, such as the tables, chairs, etc. used during camps and events. During our audit period, East Stroudsburg permitted external organizations to conduct 150 non-university events on campus with participants that included adults and/or minors.

To accomplish our camp safety objective, we reviewed the laws and legal requirements discussed above to gain an understanding of the background investigation requirements for the university with regard to persons employed with or volunteering to work directly with minors at these youth camps and events.

We also reviewed the applicable State System and East Stroudsburg policies related to criminal background investigations to gain an understanding of the university's background investigation process.

## **A Performance Audit**

### **East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education**

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We conducted interviews with East Stroudsburg officials including the director of conference services, director of human resources, and associate director of human resources.

We obtained a listing of the 65 internal camps held on campus during the summers of 2011, 2012, and 2013 as well as the names of the university employees who hosted each of the internal camps. There were a total of 20 university employees who hosted the 65 internal camps. We then obtained the employment start dates of the 20 employees to determine how many of these employees were hired prior to February 1, 2009, which was the effective date of East Stroudsburg's pre-employment background check policy.

East Stroudsburg could not provide a list of all university employees who worked at each internal camp; however the university did provide a list of the employees who hosted the internal camps. To determine whether the university obtained the three required background checks (Act 34, Act 114, and Act 151) for East Stroudsburg employees who were hired after February 1, 2009, which was the effective date of East Stroudsburg's pre-employment background check policy, and who may have worked at or came into contact with minors at internal camps, we obtained a listing of the university staff members from the athletics, camps and conferences, residence life, and custodial departments. The listing consisted of a total of 298 employees. We then selected 25 of the 298 employees to verify whether the university obtained the three background checks required by university policy.

We also reviewed "Facilities Use Agreements," dated February 11, 2014, for two external organizations scheduled to hold youth events on East Stroudsburg's campus during the summer of 2014. One agreement was for an external camp and the other agreement was for a non-university event. These agreements detailed the responsibilities and requirements of external sponsors conducting youth oriented events on university grounds.

Specifically, we reviewed each agreement to determine whether it contained a stipulation that adults working with youth participants were required to obtain the three required background checks (Act 34, Act 114, and Act 151).

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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#### Finding 1

**East Stroudsburg University failed to ensure that all individuals who had direct contact with minors at internal camps obtained appropriate background checks.**

Our audit found that on February 1, 2009, East Stroudsburg issued a policy that required new employees to obtain a criminal background check prior to employment.<sup>28</sup> The policy applied to all newly hired employees and it did not apply to temporary camps and conference employees. East Stroudsburg required temporary camp and conference employees to provide criminal history reports directly to East Stroudsburg's Office of Human Resources. The criminal background checks required to be submitted included:

- Act 34 criminal background check;
- Act 151 child abuse clearance; and
- If not a Pennsylvania resident for at least two years, the Act 114 federal criminal background check

This policy was revised in the fall of 2012 according to university officials. The revised policy was implemented in the fall of 2012 and formally adopted on February 24, 2014. The revised policy expanded East Stroudsburg University Policy Number HR - 56 by requiring the university to complete pre-employment background checks for temporary camps and conference employees.

Neither policy applied retrospectively to employees hired prior to February 1, 2009. Therefore, university employees hired prior to February 1, 2009, who may have had direct contact with minors, did not obtain any of the three background checks noted above.

Additionally, university policies did not require newly hired employees to obtain the Act 151 child abuse clearance or the Act 114 federal criminal background check with fingerprinting. Further, the policy for temporary employees, that was effective until the fall of 2012, only required the Act 114 federal criminal check if the employee did not reside in Pennsylvania for at least two years.

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<sup>28</sup> In lieu of utilizing the Pennsylvania State Police's web-based computer application to apply for criminal background checks, East Stroudsburg utilizes a contracted vendor, Justifacts Credential Verification Inc., to conduct background checks for new employees. The vendor conducts both a state-wide unified courts criminal search and a search in the national criminal database. A complete list of data sources used by the vendor to perform a National Criminal Database search can be found at [http://www.justifacts.com/pdfs/national\\_criminal\\_database.pdf](http://www.justifacts.com/pdfs/national_criminal_database.pdf). Accessed May 1, 2014.

## **A Performance Audit**

### **East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education**

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Our audit found that 15 of the 20 university employees who hosted the internal sports and academic camps during the summers of 2011, 2012, and 2013, were hired prior to February 1, 2009, and were never required by university policy to obtain criminal background checks.

Our review of records for 25 of 298 university staff members hired after the effective date of the background check policies found that East Stroudsburg failed to adhere to its own policy related to background checks.

East Stroudsburg's human resources department (HR) was responsible for completing background checks for 18 of 25 staff members in our test group. HR utilized the services of a contracted vendor<sup>29</sup> to obtain the background checks. The remaining seven staff members in our test group were hired in the summers of 2011 or 2012 and were considered "temporary." During that time period "temporary" employees were required to submit their own copies of background checks to the university's human resources department. The results of our review of these seven employees are discussed on page 19.

The following table shows the number of Act 34 criminal background checks, Act 151 child abuse clearances, and Act 114 federal criminal background checks the university obtained through the vendor for the 18 of 25 staff members.

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<sup>29</sup> Justifacts Credential Verification, Inc.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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<b>Number of background checks East Stroudsburg University obtained for staff members who may have come in contact with minors at youth camps July 1, 2011 – February 18, 2014</b>				
<b>University Department</b>	<b>Number of employees required to have Act 34 background checks on file</b>	<b>Number of Act 34 criminal background checks on file</b>	<b>Number of Act 151 child abuse clearances on file</b>	<b>Number of Act 114 federal criminal background checks on file</b>
Athletic Department	10	10	0	0
Camps and Conferences Department	4	4	0	0
Residence Life Department	3	1	0	0
Custodial Department	1	0	0	0

In addition to the results noted above, we found that ten of the 18 background checks were completed by the vendor **after** the employees' start date.

Furthermore, one of the 18 employees' background checks disclosed that the employee was charged with two misdemeanors. One of the misdemeanors was for fictitious driver's license possession and the other misdemeanor was for "Physical control" which resulted in 30 days jail (27 days suspended) one year probation, costs and fines.

According to East Stroudsburg management, it was determined that these misdemeanors did not impact employment eligibility. This employee's background check was also completed after the employee's start date rather than prior to employment as required by the policy.

With respect to the seven temporary employees, our audit disclosed that East Stroudsburg's human resources department did not maintain a criminal background check file for one of the seven employees and it did not include a complete set of background checks for the other six temporary employees.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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The following table shows the number of Act 34 criminal background checks, Act 151 child abuse clearances, and Act 114 federal criminal background checks East Stroudsburg maintained for the seven temporary employees.

<b>Number of background checks East Stroudsburg University maintained on file for temporary staff members who may have come in contact with minors at youth camps Summers of 2011 and 2012</b>				
<b>Description</b>	<b>Number of Employees</b>	<b>Number of Act 34 criminal background checks on file</b>	<b>Number of Act 151 child abuse clearances on file</b>	<b>Number of Act 114 federal criminal background checks on file</b>
Camps and Conferences Department	6	5	1	2
Custodial Department	1	0	1	1

East Stroudsburg did not obtain required background checks for its staff members or its temporary employees. And, not all of the background checks it did obtain were obtained prior to employment. Nevertheless, East Stroudsburg allowed these staff members and temporary employees to work and have direct contact with minors at internal camps.

When we discussed the lack of Act 114 federal criminal background checks and the Act 151 child abuse clearances with East Stroudsburg's human resources department, management stated that in addition to searching the national criminal database, the contracted vendor searches "state courts, local arresting agencies and Department of Corrections information, sex offender records for all states and numerous Indian tribes; most wanted lists."

We believe that East Stroudsburg should obtain Act 151 child abuse clearances and Act 114 federal criminal background checks with fingerprinting for all persons who work directly with minors at youth oriented camps. Because these background checks are required by the Public School Code and the Child Protective Services Law for persons working with minors in school settings, those same minors should have

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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the same level of protection when participating in youth camps on university property.

Including the Act 151 child abuse clearances and Act 114 federal criminal background checks into its policy and procedures will allow East Stroudsburg to obtain all background data available on the individuals and to fully screen employees. Further, including the Act 151 clearance and the Act 114 federal criminal background check will add another measure to East Stroudsburg's efforts to provide a safe environment for its students, faculty, staff and visitors, including minors who attend camps on university property.

#### **Recommendations for Finding 1**

1. East Stroudsburg should ensure that it obtains Act 34 criminal background checks, Act 114 federal criminal background checks with fingerprinting, regardless of length of state residency, and Act 151 child abuse clearances for all staff members and temporary employees that have direct contact with minors through their work at the camps and other youth-oriented activities held on East Stroudsburg property or sponsored by East Stroudsburg University.
2. To comply with State System Policy 2014-01: Protection of Minors, East Stroudsburg should establish a written policy that states that Act 34 criminal background checks, Act 114 federal criminal background checks, and Act 151 child abuse clearances must be obtained before anyone can be employed or volunteer to work directly with minors at the youth camps.
3. East Stroudsburg should obtain and retain copies of background checks for current staff members and for temporary employees who worked directly with minors at the youth camps.

#### **Management Response**

*East Stroudsburg University is committed to providing a safe environment for everyone on its campus, at its centers and other facilities controlled by the University; this commitment is especially true for minors. For more than four years, the University has required employees who have direct contact or work with minors at its internal camps and conferences go through criminal background checks, as well as additional screening through State, Federal and Sex Offender Registry searches. The University has been diligent in its efforts of the protection of minors and will continuously evolve its policies and practices to meet this objective. As a result of recent legislation defining the requirements for clearance checks for employees of State Universities, ACT 153 of 2014 which is effective December 31, 2014, the University is in the process of reviewing*

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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*and updating its policies on background checks and the protection of minors on-campus to ensure that the University is compliant with all applicable laws and policies. Furthermore, the University will continue to be proactive in its efforts to provide a safe environment.*

#### **Auditor's Conclusion**

We are pleased that East Stroudsburg University management agrees with our recommendations and that management has already taken action to implement them. In addition, we are very glad to learn that East Stroudsburg is taking appropriate steps to ensure that any of the recently enacted changes to the Child Protective Services Law that may impact on state-owned universities, effective December 31, 2014, including Act 153 of 2014, are fully complied with. During our next audit, we will review the new and improved policy and evaluate whether our recommendations and the latest legislative changes have been implemented.



## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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#### Finding 2

**East Stroudsburg did not adequately ensure that employees of external organizations sponsoring youth events on university property, who had direct contact with minors at the events, obtained the required background checks and child abuse clearances, which could place minors attending these events at risk.**

Our audit found that during the summers of 2011, 2012, and 2013, East Stroudsburg entered into agreements with external organizations to conduct 79 external camps with minors on university property. External camps include overnight stays on campus. Also, during the audit period, July 1, 2011, through June 30, 2013, the university permitted external organizations to conduct 150 non-university events on campus with participants that included adults and/or minors. Non-university events are non-residential programs that take place anytime during the year.

External organizations that hold external camps or non-university events on East Stroudsburg property enter into a facilities use agreement with the university and pay a fee for the use of equipment and university facilities, such as dormitories, dining halls, and recreational areas. The external organizations are responsible for supplying their own employees and volunteers to function as instructors or counselors for their camps and events.

According to East Stroudsburg's director of conference services, the facilities use agreements never included any requirements for external organizations to follow regarding criminal background checks for their camp and event staff.

Our review of two standard facilities use agreements dated February 11, 2014, one for an external camp and one for a non-university event both scheduled for the summer of 2014, found that the agreements did not require the external sponsors to provide a list of its workers assigned to the camps and did not require the sponsors to provide proof that its workers obtained Act 34 criminal background checks, Act 151 child abuse clearances, or Act 114 federal criminal background checks.

However, as of February 25, 2014, the director of conference services began updating all facilities use agreements to include a section on the safety of minors with the assistance of a member of the State System's legal counsel.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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On February 25, 2014, the director of conference services sent letters to external organizations that had already contracted with the university for the summer of 2014. The letter stated that there was now an addendum to the 2014 agreement and required the sponsor to sign and forward the addendum to East Stroudsburg's office of conference services.

The addendum required the external sponsors to:

- provide the included attestation attached as a Rider;
- identify any members or employees who are mandatory reporters and verify that these individuals understand their obligation as it relates to the approved use; and
- implement procedures to ensure protection from abuse for minors for duration of the approved use.

The attestation states that no employee or volunteer has been identified as having a criminal or child abuse history and procedures are in place to reasonably ensure protection from abuse for minors attending the event.

All future agreements made with external organizations hosting external camps and non-university events on campus will also include the Rider.

Although East Stroudsburg began requiring external organizations to provide attestation that their employees had obtained criminal background checks and child abuse clearances as of February 25, 2014, the university did not require the organizations to provide a list of its workers assigned to the events and proof that each had obtained the required criminal background checks. Therefore, East Stroudsburg has placed reliance on the agreements without actually verifying that background checks were obtained.

East Stroudsburg should ensure that anyone working with minors on university property has all three of the required background checks. Requiring background checks for all event workers is a reasonable and prudent measure to improve the safety of minors attending these events on university property.

#### **Recommendations for Finding 2**

4. East Stroudsburg should amend its "Facilities Use" agreement to require external organizations utilizing campus facilities to provide copies of Acts 34, 114, and 151 clearances for all workers prior to the start of the event.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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5. East Stroudsburg should establish procedures to review and verify the submission of all required background checks, in order to ensure that any event worker or volunteer with disqualifying convictions/child abuse adjudications is prohibited from any involvement in the event.

#### **Management Response**

*East Stroudsburg University is diligent in its efforts in the protection of minors and is in compliance with all laws and policies related to this matter. The University's efforts are evident by the continuous review and modification of policies and practices addressing the safety of minors, as noted in this report. The University currently requires external organizations sponsoring events at the university to ensure that all of their employees and volunteers who may have contact with minors at university facilities go through background screenings. These screenings include State, Federal and Sex Offender Registry searches in addition to searches that would be compliant with ACT 34. The University has modified its practices to verify that external organizations satisfy this requirement.*

*As a result of recent legislation, ACT 153 of 2014 effective December 31, 2014, and recently enacted State System policies on the Protection of Minors, Board of Governors Policy 2014-01, East Stroudsburg University is in the process of reviewing and updating its policies and procedures on background checks and the protection of minors on-campus to ensure that the University is compliant with these changes in laws and policies. The University welcomes the recommendations sited in this report and will take them into consideration in its continuous efforts to maintain a safe university.*

#### **Auditor's Conclusion**

We are pleased that East Stroudsburg University management agrees with our recommendations and that management has already taken action to implement them. In addition, we are very glad to learn that East Stroudsburg is taking appropriate steps to ensure that any of the recently enacted changes to the Child Protective Services Law that may impact on state-owned universities, effective December 31, 2014, including Act 153 of 2014, are fully complied with. During our next audit we will review the new and improved policy and evaluate whether the recommendations and the latest legislative changes have been implemented.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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#### **Audit Results for Objective**

#### **Two**

*Computers and  
computer-related  
equipment*

#### **The objective**

Objective two was to determine if East Stroudsburg maintains effective controls over its inventory of computers and computer related equipment.

#### **Relevant criteria**

East Stroudsburg management is responsible for establishing and maintaining an effective internal control system over their computers and computer related equipment. Neither the State System nor East Stroudsburg established any formalized policies and procedures related to recordkeeping and inventorying of computers nor computer related equipment.

During the period July 1, 2011, through June 30, 2013, East Stroudsburg purchased \$1,688,535 worth of computer and computer related equipment from three vendors.

#### **Scope and methodologies to meet our objective**

We focused our analysis on reviewing computer and equipment data and purchase related documentation for the two year period July 1, 2011, through June 30, 2013.

In order to accomplish our objective, we performed the following procedures:

We interviewed East Stroudsburg's chief information officer and associate director in order to obtain an understanding of the internal controls used over computers and computer-related equipment.

We obtained a listing of the university's purchases for computer and computer-related equipment, by vendor, during the two year period from July 1, 2011, through June 30, 2013.

We obtained multiple listings of computer and computer-related equipment and, where possible, traced 25 purchased computers and computer-related equipment to those listings.

We also performed existence testing for those same 25 purchased computers and computer-related equipment.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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#### **Finding 3**

#### **East Stroudsburg did not maintain adequate inventory controls over computers and other computer-related equipment.**

Our audit found that East Stroudsburg did not maintain one comprehensive or master inventory listing of all the university's computers and computer-related equipment, such as iPads and printers. As a result, East Stroudsburg officials were unable to provide us with the total number of computers and computer-related equipment, their location, who the computer was assigned to, or the dollar value of the equipment.

In addition, East Stroudsburg did not conduct an annual inventory of their computers and computer-related equipment. In order to conduct an annual inventory, a comprehensive or master inventory listing is required.

We attribute the lack of adequate controls over computers and computer-related equipment to the fact that policies and procedures have not been established by either East Stroudsburg or the State System.

In the summer of 2013, East Stroudsburg began to use a software system that included an asset control module,<sup>30</sup> to create a comprehensive listing of all computers and computer-related equipment for tracking purposes.

Prior to using the system, the university's computing and communication services department staff members began compiling numerous inventory listings, on excel spreadsheets, of the university's computers and related equipment that were to be subsequently recorded into the system. In addition, East Stroudsburg previously kept numerous listings of computers and related equipment on capital inventory index cards that were also to be recorded into the system.

We selected 20 computers and five iPads from a listing of university purchases made between July 1, 2011, and June 30, 2013, to determine if the purchases were recorded into inventory listings for recordkeeping purposes. The results of our testing found that five iPads and eight of the 20 computers that we selected from the purchase documentation were not recorded on any of the multiple computer listings. In addition, none of the 20 computers or five iPads were recorded on the automated inventory system. However, we were able to physically locate all 25 items on campus

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<sup>30</sup> The software system East Stroudsburg University utilizes is HelpSTAR ServicePRO.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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East Stroudsburg did not input or record their computers and related equipment into the system until the equipment was connected by the computing and communications department to the university network. According to a university official, if a department purchased computer equipment directly out of its own budget and did not request help to connect to the university's network, that computer equipment was not recorded into the system.

As a result, East Stroudsburg did not have a complete or comprehensive listing of all their computers and related equipment and the individuals or departments that they were assigned. Therefore, we concluded that the university did not have adequate controls over these assets.

East Stroudsburg officials stated that inputting all of their computers and related equipment recorded into the system is a work in progress

Prudent business practice would require that a complete and accurate listing of all computers and related equipment be recorded into a comprehensive or master listing, and that management performs periodic inventories using that master listing to help ensure that computer and computer related equipment are adequately accounted for and safeguarded.

University management supplied us with a listing of computer and computer-related purchases from three vendors that totaled \$1,688,535 during the period July 1, 2011, to June 30, 2013. The significance of these purchases warrants that East Stroudsburg establishes procedures that will provide assurances that computers and related equipment are being properly maintained and accurately inventoried so that theft or misuse of the equipment is prevented or detected in a timely manner.

#### **Recommendations for Finding 3**

6. East Stroudsburg should take a complete physical inventory of all university computers and related equipment and record all equipment into the system that will serve as the university's comprehensive or master listing to be used for control purposes.
7. East Stroudsburg should develop policies and procedures requiring periodic inventorying of the university's computers and related equipment.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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8. East Stroudsburg should take steps necessary to ensure that all purchased computers and related equipment, not just computer equipment connected by the university's computing and communications department, are recorded into the system.

#### **Management Response**

*East Stroudsburg University has improved its inventory controls over computers and other computer-related equipment during this review period, but acknowledges that a process of continuous improvements are necessary to keep pace with the rapidly changing technology.*

*As noted in this report, in the summer of 2013, we began using the asset control module of a software system to monitor and track our computer and computer-related equipment. Since that time we have been working to establish this as the central repository of all computer and computer-related equipment inventory. While inventory was housed in multiple listings during the scope of this audit, the University was able to successfully demonstrate that it could identify the physical location of all computers in the Auditor General's random sample selection.*

*East Stroudsburg University welcomes the recommendations in this report and will continue to strengthen inventory controls.*

#### **Auditor's Conclusion**

We are pleased that East Stroudsburg University management agrees with our recommendations and that management has already taken action to implement them. During our next audit we will review the new policy and evaluate whether the recommendations have been implemented.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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#### **Audit Results for Objective**

#### **Three**

#### *Contracts*

#### **The objective**

Objective three was to determine if East Stroudsburg procured consulting or professional contracts in accordance with Act 188 of 1982.

#### **Relevant law**

Act 188 of 1982 as amended (Code), which established the State System, empowers and mandates that each university's council of trustees review and approve all contracts and purchases negotiated or awarded by the university president with or without competitive bidding and all contracts for "consultative services" entered by the president.<sup>31</sup>

#### **Scope and methodology to meet our objective**

We focused our analysis on consulting contracts awarded during the two year period July 1, 2011, through June 30, 2013.

In order to accomplish our objective, we performed the following procedures:

We obtained and reviewed Act 188 of 1982.

We obtained a listing of all consulting (professional) service purchase contracts over \$25,000 incurred during the period July 1, 2011 through June 30, 2013. There were five vendors or contractors associated with the nine (9) professional service contracts in excess of \$25,000.

We requested East Stroudsburg management to describe how the contracts were reviewed and approved by the university's council of trustees.

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<sup>31</sup> 24 P.S. § 20-2009-A(9).



## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

#### Finding 4

**East Stroudsburg did not ensure that all professional service contracts awarded by the university president were reviewed and approved by the council of trustees prior to being awarded.**

East Stroudsburg did not comply with Act 188 of 1982 when it did not obtain the approval of the council of trustees prior to awarding contracts for professional consulting services. Our audit found that all nine professional service (consulting) contracts we selected for testing were awarded without being reviewed and approved by the council of trustees. The total cost of the contracts was \$1,094,430.

Act 188 of 1982 requires the university's council of trustees to review and approve all contracts and purchases negotiated or awarded by the president with or without competitive bidding and all contracts for consultative services entered by the president.<sup>32</sup> The purpose of the approval process is to ensure that no services are accepted or work begun on any contract prior to being properly reviewed and approved by the university's council of trustees in accordance with the Act.

The following is a list of consulting contracts, including the description of services, date, and dollar amount of the services procured that were not properly reviewed and approved by the council.

<b>Contractor</b>	<b>Description of Services</b>	<b>Date Awarded</b>	<b>Amount</b>
1.	Audit of Enrollment Management	9/14/2012	\$138,100
2.	Human Resources Assessment	6/4/2013	\$38,400
3.	Intercollegiate Athletics Consultant	4/23/2013	\$40,000
4.	Consulting	9/25/2012 6/30/2012	\$162,360 \$540,500
5.	Consulting	7/23/2012 8/1/2012 1/31/2013 3/14/2013	\$25,000 \$89,570 \$30,000 \$30,500
<b>Total</b>			<b>\$1,094,430</b>

<sup>32</sup> Ibid.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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We asked if the council of trustees specifically approved each of these nine contracts. East Stroudsburg provided this response regarding each of the nine contracts: “COT (council of trustees) approved on monthly disbursements journal.” East Stroudsburg officials further stated that they routinely send a list of cash disbursements to the council of trustees for their approval two weeks before each meeting. The council of trustees approved the dollar amounts on the monthly disbursements journal that included payments on each contract. While we are pleased the university routinely sends a list of cash disbursements for council of trustees’ approval, we do not believe that approval of these disbursements entirely fulfills the university’s obligations under Act 188 of 1982. Again, Act 188 requires the university to ensure that the council of trustees reviews and approves all contracts negotiated or awarded by the president with or without competitive bidding and all contracts for “consultative” services entered by the president.

In response to our audit inquiries regarding the review and approval process, East Stroudsburg provided council meeting minutes for April 24, 2014, in which the council approved a motion to continue to review and approve a detailed list of every expenditure item the university makes.

However, the council’s process to continue to review and approve a detailed list of every university expenditure does not bring the University into compliance with the Act. The approval of expenditures is a distinct function separate from reviewing and approving proposed contracts.

To comply with the Act, the university’s process must require the council to review and approve all contracts and purchases negotiated or awarded by the university president with or without competitive bidding and all contracts for “consultative services” entered by the president.

**Recommendations for Finding 4** 9. East Stroudsburg should ensure that the university’s council of trustees reviews and approves all contracts in compliance with Act 188 of 1982.

**Management Response** *East Stroudsburg University’s process for awarding professional service contracts is compliant with Pennsylvania law and State System policies. Specifically, the University’s procurement process adheres to: Act 188, Establishment of the State System of Higher Education; Act 57, Pennsylvania Procurement Code; and State System Policy 1998-04-A, Procurement of Goods, Services, Supplies and Construction.*

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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*As indicated in discussions with representatives of the Office of the Auditor General, the University's process for the review and approval of professional service contracts has been in place for more than 20 years. This process which provides a detailed description and listing of all university contracts and payments to the Council of Trustees was established after consultation with the Council and recently reaffirmed by the Council in spring 2014 under the new university administration.*

*In addition to Council's reaffirmation, the process was also reviewed in spring 2014 by State System Legal Counsel. As stated in Act 188, Section 20-2009-A. Powers and Duties of Councils of Trustees, article (9): To review and approve all contracts and purchases negotiated or awarded by the president with or without competitive bidding and all contracts for consultative services entered by the president.*

*The process authorized by the Council of Trustees is based on several key fundamentals: 1) the University adheres to all State laws, 2) all contracts adhere to all State System procurement policies, and 3) all contracts are within the budget approved by the Council. More specifically, the five contracts referenced by the Office of the Auditor General:*

- 1. Three of the contracts were reviewed and approved by the Office of the Attorney General before any services were rendered.*
- 2. All of the contracts were reviewed and approved by State System Legal Counsel before any services were rendered;*
- 3. Three of the five contracts (3 of 5), totaling \$895,720 were State System contracts established by the Office of the Chancellor.*

*The University remains vigilant in maintaining sound fiscal controls and ensuring the prudent use of resources in its efforts to provide affordable, high quality education.*

#### **Auditor's Conclusion**

We continue to disagree with East Stroudsburg's current and past practices regarding its professional consulting contract approval process which does not comply with Act 188 of 1982. We believe that the following provision in Act 188 makes the General Assembly's intent clear that such contracts must be approved by the council:

In accordance with the rules and regulations adopted by the board, the council of each institution shall have the power and **its duty shall be:**

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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(9) To review and approve all contracts and purchases negotiated or awarded by the president with or without competitive bidding and **all contracts for consultative services entered by the president.**<sup>33</sup>

It remains our position that the council of trustees has the duty to approve all the president's consulting services contracts he/she enters into prior to their **final** execution. To agree with the university's argument that its current practice of sending a list of cash disbursements to the council for their approval prior to each meeting makes it in compliance with this requirement would render the General Assembly's inclusion of this provision in Act 188 virtually meaningless.

Section 1922 (relating to Presumptions in ascertaining legislative intent) of the Statutory Construction Act provides, in relevant part:

In ascertaining the intention of the General Assembly in the enactment of a statute the following presumptions, among others, may be used:

- (1) That the General Assembly does not intend a result that is absurd, impossible of execution or unreasonable.
- (2) That the General Assembly intends the entire statute to be effective and certain....<sup>34</sup>

Further, Section 1921 (Legislative intent controls) of the Statutory Construction Act states:

The object of all interpretation and construction of statutes is to ascertain and effectuate the intention of the General Assembly.<sup>35</sup>

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<sup>33</sup> 24 P.S. § 20-2009-A(9) (emphasis added).

<sup>34</sup> 1 Pa.C.S. § 1922(1) and (2).

<sup>35</sup> 1 Pa.C.S. § 1921(a).

## **A Performance Audit**

### **East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education**

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The General Assembly placed this requirement into Act 188 for a valid reason to ensure that the council, as the university's governing body, approves all professional service contracts entered into by the president prior to these contracts being signed and finally issued. We note that merely because a practice has been in place for 20 years and recently reaffirmed does not mean this is a legitimate interpretation of the provision and meets the legislative intent.

As to managements' other arguments regarding their contracts, we note that the failure of the council to approve all professional service contracts entered into by the president prior to final issuance and execution is not remedied by the review and approval of them by the Office of Attorney General, which reviews contracts for form and legality pursuant to Section 204 of the Commonwealth Attorney Act,<sup>36</sup> and State System Legal Counsel or that certain contracts were those of the system itself.

Therefore, we stand by our recommendation to require Council of Trustees approval for professional service contracts entered into by the president and we intend to evaluate the university's compliance with the provision during our next audit.

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<sup>36</sup> 71 P.S. § 732-204(f).

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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#### **Audit Results**

#### **for**

#### **Objective Four**

#### *Expense Analysis*

#### **The objective**

Objective four was to determine if East Stroudsburg's net financial position remained positive and if East Stroudsburg's current assets exceeded their current liabilities during the three year period in order to meet their current and overall obligations.

#### **Relevant policies**

The Pennsylvania State System of Higher Education's (State System) Board of Governors (board) has developed a budget policy for universities to follow.<sup>37</sup> Policy number 1993-03, entitled "Budgetary Reporting and Review" was developed to provide a framework for university budgetary reporting and board review.

Each university is responsible for preparing their respective institution's individual budget, which is then submitted to the board for approval. Each university budget also must be approved by its individual council of trustees. Mid-year budget updates are submitted by each university to the State System and necessary revisions are made based on actual student enrollments and revenue (tuition and fee) collection.

The policy requires the board to annually review and approve the operating budgets of each university. This review is an integral part of the board's review and adoption of the State System's appropriation request to the commonwealth for the next fiscal year.

As a member of the State System, East Stroudsburg receives a portion of its funding from the commonwealth's annual appropriation to the State System.<sup>38</sup>

In addition to funds received through the state appropriation, universities received revenue through tuition and fees collected from students. The State System's board is responsible for establishing tuition rates. All

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<sup>37</sup> 24 P.S. § 20-2009-A(6) provides: "[T]he council of each institution shall have the power and its duty shall be:...(6) To review and approve the recommendations of the president pertaining to annual operating and capital budget requirements for forwarding to the board."

<sup>38</sup> 24 P.S. § 20-2002-A(b) provides, in part: "The State System of Higher Education shall have the same preferred status for appropriations as is enjoyed by its constituent institutions. State funds appropriated to the system shall be allocated to the individual institutions on a formula based on, but not limited to, such factors as enrollments, degrees granted and programs."

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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universities in the State System charge the same tuition for Pennsylvania students.<sup>39</sup> However tuition for out-of-state students varies by university.<sup>40</sup> In addition, each university establishes its own mandatory fees charged to all students.<sup>41</sup>

In order to evaluate East Stroudsburg's financial position, we analyzed financial data provided by the University to calculate their net position and current ratio. Best business practices and/or general financial statement analysis tools dictate that the current ratio of assets to liabilities should be at least 2 to 1 or better. A current ratio below 2 to 1 raises concerns about whether an entity has sufficient resources to meet its current obligations.

#### Scope and methodologies to meet our objective

We focused our analysis on financial data for the three year period July 1, 2010 through June 30, 2013.

To accomplish our objective, we conducted the following procedures:

We interviewed East Stroudsburg's controller regarding the budget process including the monitoring of actual revenues and expenses.

We obtained and reviewed the following documents to obtain financial data in order to evaluate the university's financial position:

- East Stroudsburg's annual audited financial statements for fiscal years ending June 30, 2011, through June 30, 2013.
- East Stroudsburg's budget reports for the fiscal years ending June 30, 2012 and June 30, 2013.

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<sup>39</sup> 24 P.S. § 20-2003-A(a) provides: "(a) The State System of Higher Education[']s... purpose shall be to provide high quality education at the lowest possible **cost** to the students." [Emphasis added.]

<sup>40</sup> 24 P.S. § 20-2006-A(a)(11) provides, in part: "(a)...The powers and duties of the Board of Governors shall be: (11) To fix the levels of tuition fees, except student activity fees. Tuition fees shall include a differential for such charges between students who are residents of the Commonwealth and students who are nonresidents."

<sup>41</sup> 24 P.S. § 20-2009-A(7) provides: "[T]he council of each institution shall have the power and its duty shall be:... (7) To review and approve charges for room and board and other fees except student activity fees."

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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- Instructional Output and Faculty Salary Costs of the State-Related and State-Owned Universities Staff Analysis Data for the fiscal years ending June 30, 2011, through June 30, 2013.

We utilized East Stroudsburg's audited financial statements to calculate East Stroudsburg's current ratio. The current ratio is determined by dividing current assets<sup>42</sup> by current liabilities<sup>43</sup>. This ratio provides the ability to assess the university's short-term liquidity position and its ability to meet its current liabilities. For example, if the university had \$2,000,000 in current assets and \$1,000,000 in current liabilities, its current ratio would equal 2. In other words it had \$2 of current assets for every \$1 of current liabilities.

We also reviewed East Stroudsburg's budget reports to compare East Stroudsburg's budgeted projections to actual revenues and expenditures.

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<sup>42</sup> A current asset is an item on an entity's balance sheet that is cash, a cash equivalent, or can be converted into cash within one year. Examples include cash, investments, accounts receivable, and inventory.

<sup>43</sup> A current liability is an item on an entity's balance sheet that is payable within one year. Examples include accounts payable such as amounts due to suppliers, short term loans, and interest due to the lenders.



## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

#### Finding 5

**East Stroudsburg University's financial position remained positive and current assets exceeded current liabilities during the entire three year audit period**

Our analysis of East Stroudsburg University's financial statements for a three year period, disclosed that East Stroudsburg's total assets exceeded their total liabilities in all three years. As a result, East Stroudsburg remained in a positive position.

The following chart documents the university's positive net position by comparing its total assets and total liabilities as reported on its balance sheet in its audited financial statements.

<b>Year End June 30</b>	<b>Total Assets</b>	<b>Total Liabilities</b>	<b>Total Net Position</b>
2011	\$169,158,671	\$132,644,288	\$36,514,383
2012	\$179,394,406	\$139,922,331	\$39,472,075
2013	\$164,037,284	\$132,177,231	\$31,860,053

Our analysis also showed that although East Stroudsburg had a positive net position for all three years, during the 2012-13 fiscal year the university's expenses exceeded revenues resulting in a decrease in net position of \$7,612,022.

The following chart documents the university's change in net position during the years ended June 30, 2011, through June 30, 2013, as reported in their audited financial statements.

<b>Year End June 30</b>	<b>Revenue<sup>44</sup></b>	<b>Total Operating Expenses</b>	<b>Change In Net Position<sup>45</sup></b>	<b>Net Position End Of Year</b>
2011	\$117,030,143	\$116,267,992	\$ 762,151	\$36,514,383
2012	\$120,643,325	\$117,685,633	\$2,957,692	\$39,472,075
2013	\$113,040,207	\$120,652,229	(\$7,612,022)	\$31,860,053

<sup>44</sup> Revenue = Total Operating Revenues + Non-operating Revenues, Net + Other Revenues.

<sup>45</sup> Change in Net Position = Revenue – Total Operating Expenses.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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During fiscal year 2012-13, the university anticipated a balanced budget but it experienced a shortfall. The shortfall was greater than anticipated because actual revenues were less than budgeted while expenditures and transfers were higher than budgeted. The 2012 positive net position of \$39,472,075 enabled the university to absorb the \$7,612,022 decrease in net position and still continue to have a positive net position of \$31,860,053 in 2013.

Factors that contributed to East Stroudsburg's \$7,612,022 decrease in net position during the 2012/2013 fiscal year included:

- Increased expenses including bad debt expense;
- Decline in enrollment; and
- Decline in revenue from state appropriations and tuition and fees.

#### Increased Expenses Including Bad Debt Expense

We attributed the decrease in net position, in part, to a significant increase in bad debt expense and to increases in expenses for employee salary and benefit costs including post-retirement benefit costs. East Stroudsburg recognized bad debt expense<sup>46</sup> of \$4.4 million in fiscal year 2012-13. This had a major impact on the decrease in net position during the fiscal year.

#### Decline In Enrollment.

East Stroudsburg's net position decreased during the 2012-13 fiscal year, in part, due to a decline in student enrollment which resulted in a decrease in revenue (tuition and fees). The number of full time equivalent students (students<sup>47</sup>) for the 2012-13 academic year was 9% lower when compared to the 2011-12 academic year.

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<sup>46</sup> Bad debt expense is the amount of accounts receivable, such as amounts owed to the university from students, that is considered to not be collectible.

<sup>47</sup> Full-time equivalent (FTE) students is a standardized measure of student enrollment. In a FTE, a student's actual course load is standardized against the normal course load. A FTE of 1.0 for a student means that the student is equivalent to a full-time student, while a FTE of 0.5 for a student means that the student is half-time. Data for each year represents the summer term preceding the academic year plus the academic year. Full-time equivalent students are calculated by dividing undergraduate student credit hours by 30 and graduate student credit hours by 24.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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The following chart documents the university's decreasing enrollment:

<b>Academic Year</b>	<b>Number of Undergraduate Students</b>	<b>Number of Graduate Students</b>	<b>Total FTE Students</b>
2011-12	6,037	555	6,592
2012-13	5,562	468	6,030

#### Decline in Revenue from State Appropriations and Tuition and Fees

As a member of the State System, East Stroudsburg is allocated a portion of its funding from the annual appropriation the State System receives from the commonwealth. The amount of state appropriation received by East Stroudsburg decreased during each of the three years reviewed.

The following chart shows the university's revenue from state allocations and tuition and fees. State System allocations decreased \$4,529,846 or approximately 18% between the fiscal years 2010-11 and 2012-13. Tuition and fee revenue decreased \$997,205 from fiscal year 2011-12 to 2012-13.

<b>Year End June 30,</b>	<b>State System Allocation</b>	<b>East Stroudsburg Tuition And Fees</b>	<b>Total Revenue from Allocation, Tuition and Fees</b>
2011	\$ 25,336,581	\$64,579,537	\$89,916,118
2012	\$21,456,188	\$70,179,758	\$91,635,946
2013	\$20,806,735	\$69,182,553	\$89,989,288

Revenue from State System allocations, tuition and fees decreased \$1,646,658 from fiscal year 2011-12 to fiscal year 2012-13.

East Stroudsburg's financial position is also reflected in its current ratio.

At fiscal year ending June 30, 2013, East Stroudsburg's current assets of \$57,519,839 exceeded its current liabilities of \$20,654,907 by \$36,864,932. Its current ratio was 2.78. This means that East Stroudsburg had \$2.78 of current assets for every \$1.00 of current liability.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

---

The following chart shows the university's current ratio over three fiscal years.

<b>Year End June 30</b>	<b>Current Assets</b>	<b>Current Liabilities</b>	<b>Current Ratio</b>
2011	\$56,759,634	\$24,383,707	2.33
2012	\$67,130,297	\$29,585,454	2.27
2013	\$57,519,839	\$20,654,907	2.78

This indicates that East Stroudsburg has been able to meet its current obligations with existing resources. Potential creditors use this ratio to measure an entity's ability to pay its short term debts and to determine the terms and conditions, including interest rates, of loans.

Although East Stroudsburg's net position remains positive, the financial position of the State System as a whole has declined. This decline has been observed by Moody's Investors Service (Moody's). In October 2012, Moody's Investors Service, Inc.<sup>48</sup> downgraded the State System's outstanding bonds from Aa2 to a rating of Aa3.<sup>49</sup> However, this is not a direct reflection of East Stroudsburg. The downgrade is in the rating of the State System and it was due in part to weakening state support, declining enrollment, political limitation on the system's ability to raise tuition and fees, and challenges in reducing expenditures. In a recent news article,<sup>50</sup> Moody's reported on the annual operating margins (%) of each of the 14 state-owned universities. The annual operating margin reflects the university's ability to maintain financial balance in any given year. The margin is determined by dividing the university's operating surplus or (deficit) by its total operating revenue. Because East Stroudsburg operated with a deficit in 2013, its operating margin was negative 1.86%. However, due to variables that can exist in key revenues and expenses, an average annual operating margin that measures the operating margin over

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<sup>48</sup> Moody's Investors Service, is the [bond credit rating](#) business and provides international financial research on [bonds](#) issued by commercial and government entities and, with [Standard & Poor's](#) and [Fitch Group](#), is considered one of the [Big Three credit rating agencies](#). The company ranks the [creditworthiness](#) of borrowers using a standardized ratings scale which measures expected investor loss in the event of [default](#). In Moody's Investors Service's ratings system, securities are assigned a rating from Aaa to C, with Aaa being the highest quality and C the lowest quality. Moody's appends numerical modifiers 1, 2, and 3 to each rating classification. The modifier 1 indicates the higher end of its rating category.

<sup>49</sup> Moody's Investors Service – Rating Action: Moody's assigns Aa3 rating to State System of Higher Education (PA); outlook is stable" as viewed at [https://www.moody.com/research/moodys-assigns-Aa3-rating-to-state-system-of-higher-educations--pr\\_275314#](https://www.moody.com/research/moodys-assigns-Aa3-rating-to-state-system-of-higher-educations--pr_275314#) on March 17, 2014.

<sup>50</sup> "Legislators propose bill to split up Pennsylvania-owned university system" by Brad Bumsted, accessed at <http://triblive.com/news/adminpage/5740551-74/state-system-universities#axzz2wPe9Gpd8>, viewed on October 8, 2014.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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a period of three or more years is a better measure of the university's ability to maintain financial balance. East Stroudsburg's average operating margin over fiscal years 2009 thru 2013 was a positive 3.23%. Despite having a positive operating margin over the five year period, East Stroudsburg should monitor to ensure the negative operating margin it experienced in fiscal year 2012-13 does not become a trend.

#### Management Response

*After several years of very difficult financial decisions and ongoing cost management efforts, East Stroudsburg University welcomes this positive response to its financial position. Unfortunately current ratio calculations, as used in this finding, do not appropriately reflect the full financial condition of the University. While the mechanics of the calculation performed are technically correct, there are shortcomings in using this measure to assess the University's financial position given the calculation includes not only unrestricted Educational and General (E&G) funds but also restricted and auxiliary funds which are not available for use in the general operations of the university. If the calculation were performed using only E&G Unrestricted Funds, the results would not be as positive with ratios ranging from 1.09 to 1.32, suggesting the need to improve the university's margin of safety. Additionally, it is important to note that the financial reports used in the Auditor General's analysis reflect \$6.4M of cost cutting measures taken by the University during the scope of the audit. These cost cutting measures were taken in an effort to stabilize and improve the financial condition of the university. Without these measures, the University's position would be far worse.*

*This report also notes that "...analysis of East Stroudsburg University's financial statements for a three year period disclosed that East Stroudsburg's total assets exceeded their total liabilities in all three years. As a result, East Stroudsburg remained in a positive position". While this statement is true to the extent that total assets exceeded total liabilities in all three years, again, it must be noted that because the figures used in the calculation included restricted and auxiliary funds, this is not a good source for this analysis. A better measure would be E&G Unrestricted Net Assets. When examining the E&G Unrestricted Net Assets for the years included in the scope of the audit, all showed negative Unrestricted Net Assets with a troubling trend of steady decline. Without the cost cutting measures taken, the negative change in East Stroudsburg University's E&G Unrestricted Net Assets would have been far worse.*

*Additionally, this report goes on to discuss the downgrading of the Pennsylvania State System of Higher Education's rating by Moody's Investor's Service noting "..., this is not a direct reflection of East*

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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*Stroudsburg. The downgrade is in the rate of the State System and it was due in part to weakening state support, declining enrollment, political limitation on the system's ability to raise tuition and fees, and challenges in reducing expenditures." This conclusion is unsupported and contradictory to other comments in this report:*

- 1. "As a member of the State System, East Stroudsburg is allocated a portion of its funding from the annual appropriation the State System receives from the commonwealth. The amount of state appropriation received by East Stroudsburg decreased during each of the three years reviewed." East Stroudsburg University's state appropriation decreased from \$25,336,581 in FY 2011 to \$20,806,735 in FY 2013 or 17.9% which is on par with the decrease in the overall State System's appropriation which was approximately 18%.*
- 2. "East Stroudsburg's net position decreased during the 2012-13 fiscal year, in part, due to a decline in student enrollment which resulted in a decrease in revenue tuition and fees."*
- 3. East Stroudsburg is facing the same challenges in reducing expenditures as the State System. However, this report fails to recognize these challenges which include the constraints placed on the university's ability to manage expenses due to the unionization of faculty and staff and the rising cost of pension and healthcare benefits which continue to challenge the university, its sister institutions, and the Pennsylvania State System of Higher Education.*

*Finally, the report's discussion on Operating Ratios highlights that "Because East Stroudsburg University operated at a deficit in 2013, its operating margin was negative 1.86%". The discussion goes on further to note that "East Stroudsburg's average operating margin over fiscal years 2009 thru 2013 was a positive 3.23%". However, the period used to arrive at this average operating margin includes years outside the scope of the audit (the scope of the audit was fiscal years 2011 through 2013). When calculated on the 3 years covered by the scope, the average operating margin is a less favorable 2.78%.*

*In conclusion, while the calculations performed by the auditors are accurate, the University does not concur with source data and conclusions drawn. It must be recognized that certain restricted and auxiliary funds used in the auditors calculations are unavailable for use in the general*

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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*operation of the university and should be differentiated when examining financial position. When doing so, the results indicate the need existed during the scope of the audit to improve the university's margin of safety. Through good financial management and cost cutting measures, the university has begun to improve the health of the university. Without those cost cutting measures, the university's financial position would have continued a downward trend.*

#### **Auditor's Conclusion**

We acknowledge that management made difficult decisions to place the University in a positive financial position.

We stand by the results of our analysis and recommend East Stroudsburg to continue to address the areas of concern cited in our finding.

The downgrading of the Pennsylvania State System of Higher Education (State System) by Moody's Investor's Services was based on conditions that existed in the State System's universities. The conditions that existed at East Stroudsburg alone did not solely or directly result in the downgrade of the State System. Our report clearly identifies and substantiates several negative conditions that existed at East Stroudsburg that were consistent with the downgrade of the State System by Moody's. Conditions at East Stroudsburg included: decline in revenue from state appropriations, decline in enrollment, decline in tuition and fees, and increased expenses. Our report also notes that the downgrade of the State System was due in part to weakening state support, declining enrollment, limitations on the system's ability to raise tuition and fees, and challenges in reducing expenditures.

Management is correct that the average operating margin we presented was for a five year period although the audit period is three years. Using a five year period diminishes the impact a particularly positive or negative annual operating margin can have on a three year average calculation.

In conclusion, we recommend that East Stroudsburg continue to address the areas of concern cited in our finding. During our next audit we will evaluate the measures taken by management to further improve the University's financial position.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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#### Status of Prior Audit

Our prior audit report of East Stroudsburg University covered the period July 1, 2007, through January 27, 2011, and contained six findings. Two of the findings (Findings 1 and 5) were positive and thus had no recommendations. The remaining findings (Findings 2, 3, 4, and 6), accompanying recommendations, and the status of East Stroudsburg University's implementation of the recommendations are presented below.

To determine the status of the implementation of the recommendations made during the prior audit, we held discussions with appropriate institution personnel and performed tests as part of, or in conjunction with, the current audit.

#### Prior Finding 2 **East Stroudsburg University used student social security numbers as its primary means of accessing student information and exposed the numbers to personnel who did not need access. (Resolved)**

When our prior audit began in 2009, the university was awaiting the installation of the student information module in SAP that would eliminate the need for the university to use social security numbers as primary student identifiers. However, the project was delayed several times during the course of our prior audit.

Additionally, we found that five East Stroudsburg University departments had access to the university's mainframe computer system thereby granting them unnecessary access to student social security numbers.

We recommended that university management:

- Re-evaluate the need for departments to access student's vital information, possibly deleting or inactivating the user codes that are no longer in use and regularly change passwords for the user codes within the mainframe.
- Follow through on the purchasing and implementing of the new student management system.

In response to our recommendations, East Stroudsburg University management stated that:

*East Stroudsburg University, as of January 27, 2011, is in the 13<sup>th</sup> month of an 18 month conversion process to a new student information system. The new system does not and will not use social security numbers as the student identifier. The new system will use assigned student ID #'s to*



## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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*replace the use of social security numbers and should be operational by the 2011/2012 fall semester.*

**Status as of this audit.** During our current audit, East Stroudsburg management stated that the new student information system, which does not use social security numbers as student identifiers, became operational on July 1, 2011. The new student information system utilizes a sequential nine digit identifier instead of social security numbers.

Other precautions that East Stroudsburg implemented to protect social security numbers include encrypting the social security number field in the student information system and masking all social security number fields on student information forms. As a result of the actions taken by East Stroudsburg, we concluded that this finding has been resolved.

#### **Prior Finding 3 East Stroudsburg University's contracts were approved even though they did not have documentation of adequate liability insurance. (Resolved)**

During our prior audit we found that five of the ten contracts we tested did not include certificates of liability insurance with the formal bid applications as required by policy.

PASSHE's policy states that all vendor/contractors doing business with the university must maintain \$1,000,000 of liability insurance. In addition, the policy states that East Stroudsburg University, PASSHE, and the Commonwealth are named as additional insured.

We recommended the following:

- East Stroudsburg University should contact all contractors that have not provided the required certificate of liability insurance and request the certificate of liability insurance.
- If no certificate of liability insurance exists, the university needs to either instruct the contractor to purchase the required liability insurance immediately or cancel the contract and rebid the contract to include the proper liability insurance needed to protect East Stroudsburg University, the State System of Higher Education, and the Commonwealth of Pennsylvania in case of an accident.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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In response to our finding, East Stroudsburg University management stated that:

*The procurement department follows standard PASSHE practices and requests insurance certificates for our contracts as appropriate. In the specific cases related to the audit finding, most of these certificates were indeed in our possession; however, they were not physically filed with the actual contract. They were kept in a binder in alphabetical order by company. For the one or two certificates that we did not have in our files, we notified the vendor(s) and had them supplied immediately.*

*Towards adopting the recommended actions, we have taken steps to request any absent certificates and have put additional emphasis on this step in our process going forward. In regard to the filing of certificates, we are maintaining our binder practice but also file a copy with the actual SPC.*

**Status as of this audit.** Our current audit found that East Stroudsburg complied with our recommendations.

We randomly selected five contracts and found that properly maintained copies of certificates of liability insurance were on file for each of those contracts. As a result of our audit work, including a review of East Stroudsburg's response, we concluded that East Stroudsburg University implemented our prior audit recommendations.

**Prior Finding 4 East Stroudsburg University's facility management department did not fully utilize its \$79,000 maintenance management software system. (Resolved)**

Our prior audit found that East Stroudsburg University's facility maintenance department did not completely utilize all of the capabilities of the purchased computerized maintenance management software system.

Specifically, we found that:

- Management did not prioritize work orders in accordance with the computerized maintenance management software system manual. All work orders tested had the same priority code, which the system automatically defaulted to level 1- routine. Management's lack of assigning a priority code also prevented the system from

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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signifying the time frame necessary or acceptable for completing the work.

- Management did not utilize the tracking component for including materials used and labor costs on each completed work order. By not tracking work order material and labor costs, management did not take advantage of a valuable tool for economy, efficiency, and fiscal control purposes.
- Although a key tracking module was purchased at the cost of \$1,995, management did not utilize the module.

We recommended that East Stroudsburg University management develop additional policies and procedures to oversee the maintenance management software system operations. These policies and procedures should require documentation of the following procedures:

- Assignment of priority codes;
- Prioritizing of work orders based on priority codes; and
- Inclusion of materials and labor costs on each work order.

We also recommended that East Stroudsburg University management take advantage of the key control module purchased to help improve the overall efficiency and effectiveness of their key controls.

In response to our recommendations, East Stroudsburg University management stated that:

*The Facilities Management Department has formed a committee to develop procedures that aim at promoting optimal utilization of the computerized maintenance management computer system (TMA). The two main goals of the committee will be:*

- *Work Order Prioritization*
- *Capturing of Material/ Labor Costs*

*The committee will establish the criteria for prioritization of work orders by October 31, 2011. They will then conduct training for all FM staff included in the work order process with go-live by January of 2012 and begin using the established criteria for the prioritization of work order.*

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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*The issue of recording materials and labor for work orders has remained a concern because of the incompatibility of SAP and TMA. It is also more difficult to determine a per work order cost when materials are purchased in bulk and not in manner where they are individually packed. In addition, the effort to reduce in-house inventory and move toward an on-time delivery concept (by vendors), recording of sundries is impractical. Buying the items in bulk allows material purchasing to be more economically feasible as well as environmentally friendly (due to packaging). Considering the issues mentioned, the committee is charged with researching how other universities handle their per work order material cost. They will also reevaluate the relationship between SAP and TMA to determine whether integration may be possible.*

*As far as the key control module is concerned, the University adopted the key control software from BEST Locking Systems instead of the software that is referred to in the report (which is essentially integrated as a part of TMA) due to the fact that all University locks are on the BEST Locking System. The effectiveness of this software compared to the one referenced in the audit report is greater because it not only allows effective tracking and control but also helps with the coding of keys. With the decision to use the BEST Locking System, ESU has not renewed its license for the Key Control Module.*

**Status as of this audit.** Our current audit showed that university management has taken steps to either comply with our recommendation or eliminate unnecessary cost.

First, East Stroudsburg management has implemented procedures requiring that each work order be assigned priority codes and that those priority codes include descriptions regarding the level of importance assigned to the work. East Stroudsburg's codes include: (1) routine, (2) normal, (3) priority, (4) urgent, (5) emergency, and also include a description associated with each of those codes. Our follow-up review of January 2014 work orders showed that different priorities are now being assigned to work orders.

Next, East Stroudsburg did not renew the license for the key control module. East Stroudsburg now utilizes the key control software from BEST locking systems because all university locks are on that same system.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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Finally, East Stroudsburg management indicated they cannot record material purchases on each work order because the university purchases materials in bulk, which is more economical. Based on our current audit work and review of East Stroudsburg's responses, we concluded that East Stroudsburg University implemented our recommendations or took steps to eliminate unnecessary costs.

#### **Prior Finding 6 East Stroudsburg University's university dance company did not establish sufficient controls to safeguard its cash receipts. (Resolved)**

Our prior audit found that internal controls and monitoring over miscellaneous revenue in the university dance company account were not sufficient to properly safeguard all collections. We found that control weaknesses existed in both the community dance program as well as the university dance company stage performance program. Specifically, we identified the following weaknesses:

##### Community Dance Program

- University dance company employees did not keep records of the number of dance classes offered, the price of each class, and the actual number of participants.
- University dance company employees did not provide the participants with a cash receipt.
- University dance company employees did not reconcile the number of actual participants with money collected.

##### University Dance Company Stage Performance Program

- University dance company employees did not document the number of tickets sold due to the use of unnumbered tickets and open seating.
- University dance company employees did not document the price of the tickets sold or perform a reconciliation of tickets sold to cash receipts.

We recommended that university management establish internal controls and a monitoring system over the university dance company's miscellaneous revenue. Specifically, the following procedures should be established:

- Use pre-numbered performance tickets
- Maintain a listing of all complimentary tickets by ticket number

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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- Maintain a listing of all stage performance prices by year and show
- Maintain a list of all dance lessons being offered by class, session, price, number of participants, and year
- Maintain a list of all advertising sold by year, size, price, and show
- Assign a monitor independent of the university dance company to account for all cash collections related to tickets sold and dance classes attended
- Maintain individual records to identify university dance company revenue by program (community dance program and stage performance)

In response to our recommendations, East Stroudsburg University management stated that:

*The Business office has had discussions with the University Dance Coordinator regarding the establishment of an internal control and monitoring system over the University dance company's (UDC) miscellaneous revenue.*

*As a result of these discussions, cash control recommendations were drafted. These recommendations were communicated to the coordinator. The University Dance Coordinator then confirmed a plan of action to implement the cash control recommendations in a practical and timely schedule.*

*These controls were implemented in the fall of 2009 and did include pre-numbering performance tickets, recording costs of all tickets sold including complimentary tickets, publishing all stage performance prices by year and show, printing of a brochure and display ad for all dance lessons being offered and recording the number of participants in each class.*

*The University Dance coordinator is now in the process of developing a spreadsheet to record the sale of all advertising by year, size, price and show. An independent monitor has not been assigned and this has been a challenge that will have to be discussed with the Dean. In lieu of an independent monitor, information on the Community Dance Program is kept by the Office of Continuing Education and data on number and cost for individual tickets sold for the UDC performance have been kept since fall 2009.*

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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**Status as of this audit.** Our current audit showed that East Stroudsburg complied with our recommendations. On November 3, 2009, procedures were drafted by the assistant controller requiring the head of dance department to ensure controls be implemented over the community dance program and the university dance company stage performance program. Our follow-up review for the 2012-13 fiscal year found that controls were implemented.

Records for the community dance program were now kept and included: the number of dance classes offered, the actual names and number of class participants, the price of each dance class, with a reconciliation of the cash received and revenue recorded. In addition, the university dance company stage performance program now keeps a listing of pre-numbered tickets indicating the price charged for each ticket and reconciliations are now prepared between the number of tickets sold and the price per ticket with the cash received and revenue recorded.

As a result of our current audit work, we concluded that East Stroudsburg University implemented our recommendations.

## A Performance Audit

### East Stroudsburg University of Pennsylvania Pennsylvania State System of Higher Education

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