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Human Resources/Special Projects

Irene N. Duggins, Assistant Superintendent  
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**Superintendent**

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November 9, 2011

Ms. Connie L. Derr, Audit Coordinator  
Division of Budget  
Bureau of Budget and Fiscal Management  
Department of Education  
333 Market Street – 4<sup>th</sup> Floor  
Harrisburg, PA 17126-0333

Re: Auditor General's Performance Audit Report  
Fiscal Years Ending June 30, 2008 and 2007

Dear Ms. Derr:

Below you will find our response to your findings, recommendations and/or observations. Please accept our apologies for inadvertently not responding to your first letter dated August 12, 2011 due to an oversight on our part.

**Finding No. 1 – School District Did Not Follow Proper Bidding Procedures –**

➤ School Buses -

- Per the Performance Audit Report, "The District purchased 132 new school buses, without bidding and without a formal written contract." While noting the following explanation and corrective actions, the school district concurs with this finding.
- This transaction had historically been viewed as a lease transaction and has been in place for at least two decades. Current "purchases" were viewed as an add-on schedule to the existing lease document. Buses were purchased and resold three years later to the bus vendor at a fixed annual rate. For the year 2006-2007, the fixed annual rate was \$7,900 and for 2007-2008, the rate was \$8,250. This annual rate is deemed to be a financially attractive option since newer buses require only routine maintenance (no need for numerous mechanics and garages) and less buses are needed in the fleet (no need for "loaners" when buses are out of commission for repairs).
- Corrective action - Beginning with the 2010-2011 school year and at the October 19, 2009 regular board meeting, the Board approved the contract for the purchase of school buses from Wolfington Bus Company. The board approved the 2011-2012 bus purchases at the December 20, 2010 regular school board meeting. For the 2012-2013 school year, the

school district will put to bid its acquisition of school buses per the terms of Section 807.1 of the School Code.

- The net annual bus cost (annual purchases less annual buy back revenue) was:

7/1/2006 purchases	\$2,205,900.00
6/30/2007 Buy-back revenue	\$1,501,500.00
Net 2006-2007 cost	\$ 704,400.00

7/1/2007 purchases	\$3,212,775.00
6/30/2008 Buy-back revenue	\$1,408,100.00
Net 2007-2008 cost	\$1,804,675.00

7/1/2008 purchases	\$3,375,550.00
6/30/2009 Buy-back revenue	\$1,329,000.00
Net 2008-2009 cost	\$1,570,875.00

➤ Lease Purchases for Computers -

- Apple Computers – Per the Performance Audit Report, page 7, "The District failed to bid for the computers and attempted to join a purchasing consortium after the purchase was made." Based upon the following explanation, the school district does not concur with this finding.
- This item is proprietary and cannot be competitively bid since the contractor was the only contractor capable of providing the computers. Nonetheless, ESASD used the Chester County School Districts' Joint Purchasing Board contract to obtain volume pricing. At the time of the purchase, however, the ESASD consortium membership had lapsed and the district was not a current member. The membership was renewed 2 ½ months after the date of the transaction. The volume pricing savings were nonetheless realized by ESASD, none of the parties to the transaction objected to the technical lapse in membership, and no violation of law occurred in this transaction. ESASD has maintained our membership and we have been assured that the pricing we received when our membership had lapsed was the current consortium pricing. The price paid for the computers was in line with statutory joint purchasing requirements.

➤ Roof Repair –

- Per the Performance Audit Report, page 7, the school district personnel indicated this was done with a State contract, but were unable at that time to provide documentation to support that fact. Given the following explanation, the school district does not concur with the finding.
- JTL Roof phase 1 – ESASD used the AEPA Contract # AEPA-005A-W500-PA through the purchasing consortium located within the Central Susquehanna Intermediate Unit. While ESASD staff members, when meeting with the auditors, referenced a "State contract" as the purchasing, in reality the school district was using a purchasing consortium to which it is a member. Contract documentation and membership documentation were supplied with the school district's Management Response. No violation of law occurred in this transaction and consortium pricing was obtained.

➤ Employee Time Keeping System

- Per the Performance Audit Report, page 7-8, the school district purchased an employee Time Keeping System from Kronos without subjecting the purchase to bid. The school district does not concur with this finding.
- Kronos Timekeeping System – A committee of ESASD administrators viewed several timekeeping systems prior to the selection of the Kronos product. The product supplied by Kronos was deemed to be the only solution that could smoothly integrate with our payroll system, and thus was not subject to bid since Kronos was the only contractor who was capable of providing the system. No violation of law occurred in this transaction.

**Corrective Action –**

1. While the school district concurred with some of the above findings and did not concur with others, the school district has implemented the following corrective action concerning all of the findings cited in the Performance Audit Report to bring the school district within what should be considered best practices concerning all of the Auditor General's findings.
2. All purchase orders are required to have the purchasing source (state contract #, Costars Contract # or Consortium purchasing contract) reference clearly stated in the body of the document. In addition, consortium membership must remain current and these memberships are monitored by the business office under the direction of the Business Manager. The administrative team and business office have been reminded to adhere to the State purchasing guidelines. All transactions must be presented to the board for approval.
3. ESASD administrators involved in purchasing or purchasing decisions received an all-day training provided by PASBO – Pennsylvania Association of School Business Officials. This training reviewed all of the State laws and regulations associated with purchasing. While helpful, the ESASD staff believes that minor adjustments must be made to the purchasing philosophy and substantial compliance has been maintained through the audit period. These corrective actions have been immediately implemented.
4. Annual district purchases are being reviewed for possible bid requirements. Constant monitoring by the entire administrative team, and specifically by the business office under the direction of the Business Manager, is being done on all purchasing.

**Finding No 2 - Tuition Billing Internal Control Weakness –**

- Per the Performance Audit Review, page, 11, the billings & collections to outside school districts for services received by students residing at Shawnee Academy were not fully reconciled to payments paid to Shawnee for those services. The school district concurs with this finding.

- After a thorough examination of the process, the following steps were implemented: Payments to Shawnee Academy are made in 60 days and only after full and complete documentation is received. Sending districts are billed monthly and prior to any payment being made to Shawnee Academy. Four district personnel are involved with this transaction and those staff members have improved the work flow and communication by defining job functions and responsibilities. Additional steps were taken to ensure that invoices and payments can be reconciled on a per student bases. Although the current contract complied with the law, the contract in place with *Shawnee Academy – Residential Program* would have been renegotiated based on the recommendations of the State Auditors to ensure a full and accurate accounting for both ESASD and sending districts. However, Shawnee Academy ceased operations on March 31, 2011 before any new contract could be negotiated.
- Per the Performance Audit Review, page 12, there was a “Failure to receive from Shawnee Academy a breakdown per day / per student for services before payment to Shawnee.” The school district does not concur with this finding.
  - Sections 1306-1309 of the PA School Code, the relevant statutes to this transaction, do not require that an institution such as Shawnee Academy provide a cost breakdown per day and per student for services. The contract, as-is, follows statutory requirements. Although neither the current superintendent nor business manager were in her current position at the time this contract, in its current form, was negotiated, the Administration believes the contract was negotiated in good faith for the benefit of both parties by the previous Administration. That being said, the District would have required that Shawnee Academy provide an acceptable form of breakdown of charges in the upcoming 2011-2012 contract so as to follow what may be considered “best practices.” However, Shawnee Academy ceased operation on March 31, 2011 before any new contract could be negotiated.
- Per the Performance Audit Review, page 11, there was a “Failure to have board approve contract” with Shawnee Academy. The school district concurs with this finding.
  - On June 25, 2007, the Board of Directors did approve the rates set forth in the Shawnee Academy contract in question. Prior to that, the Board had approved a contract with Shawnee Academy for the exact services set forth in the contract in question. However, beginning in the 2007-2008 contract and continuing in future contracts, there was a change in the payment schedule that was not submitted to the Board for approval. Given that at that time, neither the current superintendent nor business manager was in her current position, the District cannot say why the modified contract was not submitted, other than the changes in rates. Certainly, prospectively, all changes to existing contracts will be submitted in whole to the Board for approval.
  - In addition, the Shawnee Academy suspended operations on March 31, 2011. ESASD continues to monitor the collection of tuition from sending districts and our current receivable from the 2010-2011 school year is \$3,114.72 and the total receivable from all school years is \$182,258.59. ESASD has sent all old, uncollected invoices to PDE to be deducted from future subsidy payments to each district as follows:

Carbondale	\$ 2,781.00
Council Rock	\$ 1,038.24
Leighton	\$31,174.99
Montrose	\$ 6,489.00
Nazareth	\$10,897.40

Norristown	\$29,488.90
Philadelphia	\$68,644.03
SE Delaware	\$ 5,186.05
Southern Lehigh	\$ 2,076.48
Uniontown	<u>\$24,462.50</u>
Total	<u>\$182,258.59</u>

**A subsidy deduct by PDE from the above school districts for the above mentioned amounts should be encouraged under the authority of Section 1308 of the School Code.**

Sincerely,

Sharon S. Laverdure  
Superintendent