

PERFORMANCE AUDIT

Easton Area School District Northampton County, Pennsylvania

October 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. John Reinhart, Superintendent
Easton Area School District
1801 Bushkill Drive
Easton, Pennsylvania 18040

Mr. Frank Pintabone, Board President
Easton Area School District
1801 Bushkill Drive
Easton, Pennsylvania 18040

Dear Mr. Reinhart and Mr. Pintabone:

We have conducted a performance audit of the Easton Area School District (District) for the period April 12, 2011 through October 24, 2014. We evaluated the District's performance in the following areas:

- ü Academics
- ü Governance
- ü Financial Stability
- ü Contracting
- ü School Safety
- ü Bus Driver Requirements
- ü Pupil Membership
- ü Administrator Contract Buy-outs

We also determined the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit found that the District performed adequately in the areas listed above except as noted in the following finding and observation:

- The Easton Area School District Financially Supported a Local Library and Listed Library Employees as District Employees When Reporting to the Public School Employees' Retirement System (PSERS)
- Payments for Unused Vacation Days were Inflated

We discussed the finding and observation with the District and provided recommendations to assist the District in improving its operations.

Mr. John Reinhart
Mr. Frank Pintabone

We appreciate the District's cooperation during the course of the audit.

Sincerely,

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

Eugene A. DePasquale
Auditor General

October 21, 2015

cc: **EASTON AREA SCHOOL DISTRICT** Board of School Directors

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Background Informationⁱ

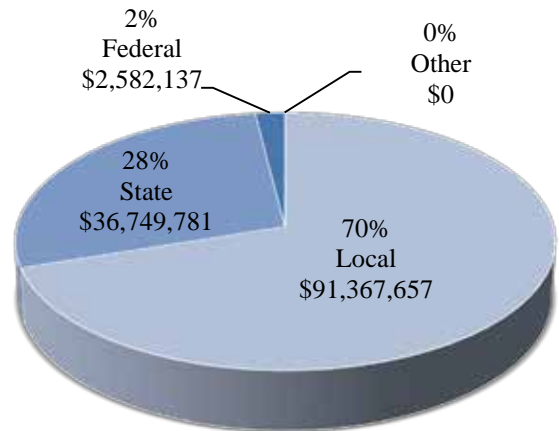
School Characteristics 2011-12 School Year ⁱⁱ	
County	Northampton
Total Square Miles	28
Resident Population ⁱⁱⁱ	63,711
Number of School Buildings	10
Total Teachers	702
Total Full or Part-Time Support Staff	514
Total Administrators	35
Total Enrollment for Most Recent School Year	9,187
Intermediate Unit Number	20
District Vo-Tech School	Career Institute of Technology

Mission Statement

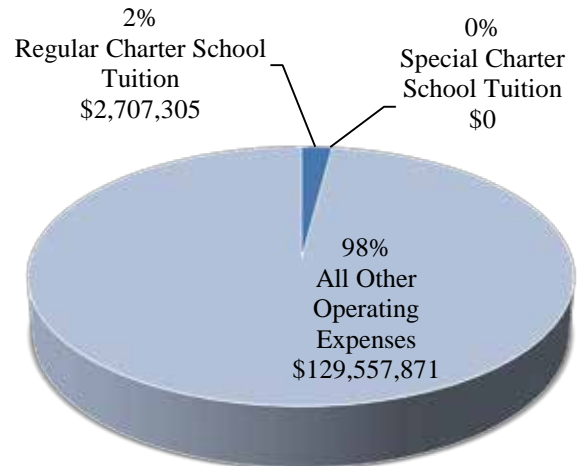
“The Easton Area School District respects the diversity of its student population and is dedicated to the importance of developing our students into responsible citizens. We will provide each student with an academically challenging program that enhances creativity, develops an ability to use technology, and encourages critical thinking and problem solving. In support of this mission, we will ensure a safe instructional environment and promote life-long learning.”

Financial Information

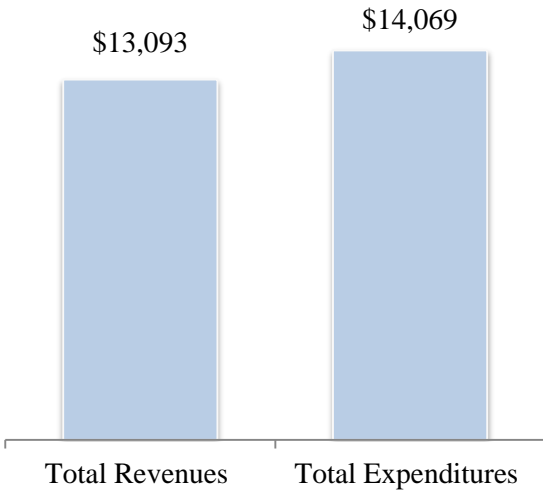
Revenue by Source for 2012-13 School Year



Select Expenditures for 2012-13 School Year

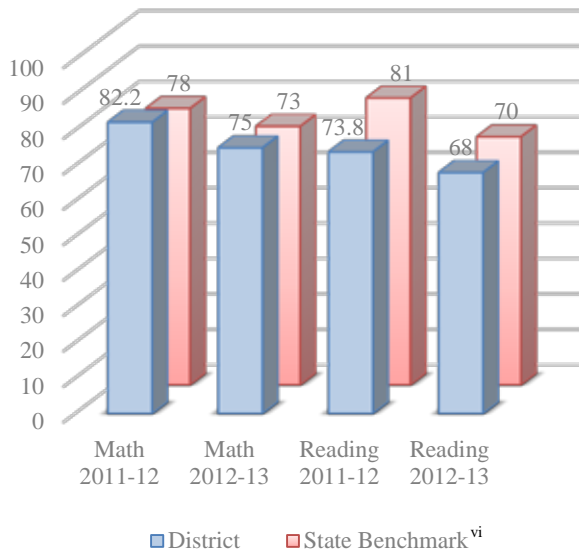


**Dollars Per Student
2012-13 School Year**



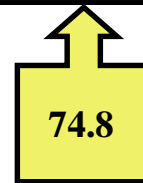
Academic Information

Percentage of District Students Who Scored "Proficient" or "Advanced" on 2011-12 and 2012-13 PSSA^{iv v}



District's 2012-13 SPP Score^{vii}

A	B	C	D	F
90-100	80-89.9	70-79.9	60-69.9	<60
▲	▲	■	▼	▼



**Individual Building SPP and PSSA Scores^{viii}
2012-13 School Year**

School Building	SPP Score	PSSA % School Proficient and Advanced in Math	PSSA % Statewide Benchmark Proficient and Advanced in Math	PSSA % School Proficient and Advanced in Reading	PSSA % Statewide Benchmark Proficient and Advanced in Reading	Federal Title I Designation (Reward, Priority, Focus, No Designation)^{ix}
Cheston Elementary	71.8	84	73	58	70	No Designation
Easton Area High School	64.3	47	73	66	70	Focus
Easton Area Middle School 5-6	65.3	70	73	60	70	Not Applicable
Easton Area Middle School 7-8	81.6	77	73	72	70	Not Applicable
Forks Elementary	88.6	93	73	83	70	Not Applicable
March Elementary	75	84	73	70	70	No Designation
Palmer Elementary	90.4	88	73	70	70	Not Applicable
Paxinosa Elementary	74.5	84	73	66	70	No Designation
Shawnee Elementary	87.2	94	73	89	70	Not Applicable
Tracy Elementary	84	95	73	88	70	Not Applicable

Findings and Observations

Finding

The Easton Area School District Financially Supported a Local Library and Listed Library Employees as District Employees When Reporting to the Public School Employees' Retirement System

Criteria relevant to the finding:

The Manual of Accounting and Financial Reporting for Pennsylvania Public Schools states that:

“The accounting system of an LEA [local education agency] shall provide the information necessary to: (a) prepare financial reports that present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the LEA in conformity with generally accepted accounting principles (GAAP); (b) determine and demonstrate compliance with finance-related and contractual provisions (such as subsidy calculations).” (Chapter 1, pg 1.7)

The Manual of Accounting and Financial Reporting for Pennsylvania Public Schools Chart of Accounts states:

“Funding Source dimension permits LEAs to accumulate expenditures to meet a variety of specialized reporting requirements at Local, State and Federal levels. The first two digits of this dimension identify the funding source . . . or expenditure purpose.” (pg A-3)

Our audit of the District found that the District financially supported the Easton Area Public Library (Library) and listed Library employees as District employees when reporting to the Public School Employees Retirement System (PSERS). This occurred despite evidence indicating that the Library is a legally separate entity whose employees are not employees of the District and whose users are primarily individuals other than District students.

The use of District funds to support the Library resulted in a portion of the local tax money intended to be collected for use by the District to be used to support the Library instead. Additionally, because the Commonwealth of Pennsylvania reimburses school districts for a portion of their contributions to PSERS (which are based on a percentage of employee compensation), the inclusion of Library employees in the District's reporting of District employees to PSERS resulted in additional state tax money that was appropriated for the purpose of primary and secondary education being used to fund retirement contributions for Library employees.

Library Employees Reported to PSERS as District Employees

By viewing the Library's website and contacting PSERS, we found that all 18 employees that were identified by name on the Library's organizational chart were noted as active members in PSERS with the employer listed as the Easton Area School District. PSERS personnel found nothing in their records regarding approval of membership for the employees of the Library, and the Library is not listed as a PSERS reporting unit. Because the District reported the Library employees to PSERS as employees of the District, PSERS had no way of knowing that those members were actually working for the Library.

*Criteria relevant to the finding
(continued):*

PSERS allows only qualified salary and wages to be included for retirement purposes. According to the Public School Employees' Retirement Board's Regulations Employer Reference Manual (ERM), Chapter 2 states, in part:

"Employment type (full-time or part-time) is a key element in determining PSERS membership eligibility."

To be eligible for PSERS membership as a full-time employee, the employee must work 5 hours or more a day, 5 days a week or its equivalent. It further states to be eligible as a part-time employee, the employee must be contracted to work less than 5 hours a day, 5 days a week or its equivalent and must have their salaries and retirement deductions reported to PSERS through monthly Work Report Records.

"Technically, until and unless a part-time hourly or per diem employee works *at least* 500 hours, 80 days, or an equivalent combination, the employee is *prohibited* from PSERS membership. Throughout the school year, however, as long as the employee is otherwise eligible, PSERS views part-time hourly and part-time per diem employees as 'potentially eligible' members..."

Employers are required to enroll and report all part-time employees. Withholding contributions for these part-time hourly and per-diem employees, however, is optional until and unless the employee meets the minimum service requirement and becomes a member of PSERS.

We asked PSERS to provide us with requirements that Library employees would have to meet to be eligible for PSERS membership. PSERS personnel stated that, in order for a Library's employees to be eligible for PSERS membership, the Library would have to be considered part of a public school employer. A public library is not considered to be a public school employer unless it was created by the public school employer and is part of the public school employer.

The Library's website includes the following statement regarding the creation of the Library:

"The Easton Library Company was formed in 1811 when 100 shares of stock were sold to the public. Shareholders then supported the Library with yearly subscription fees."

The Library's employment application, which is available on its website, includes the following statement:

"Easton Area Public Library is an Equal Opportunity/Affirmative Action/A.D.A. Employer."

According to the Library's website, the stated mission of the Easton Area Public Library is, in part:

- To promote literacy, to advance lifelong learning, and to contribute to the development of an active and informed community of citizens.
- The Library offers all citizens the right to obtain information and knowledge freely. A strong library is essential for dynamic community and a free society.
- The Library, as the District Library Center for Eastern Northampton County and Monroe County, promotes and supports local libraries through the provision of consultation and adjunct services.

These statements provide evidence that the Library is the actual employer rather than District. In addition to these statements, the actions and circumstances described below provide additional evidence that the Library is not part of the District.

*Criteria relevant to the finding
(continued):*

Throughout the school year, PSERS will monitor the service reported for these employees and determine if and when the service requirements have been met.

Membership in PSERS is prohibited for the employees categorized below: A person performing services as an independent contractor. If the employer is unable to determine membership eligibility, then the employer must submit a *Questionnaire to Determine PSERS Eligibility* (PSRS-349) form so that PSERS may make the determination. Employers should not enroll, report, or withhold contributions for employees who are prohibited from PSERS membership.

The District has school libraries in 10 of the 11 schools in the District. The only school that doesn't include a school library is the Easton Area Academy. Additionally, the District's website listed a school librarian for each of the 10 schools that had libraries. Therefore, it is unlikely that the District would need the Library for District purposes.

Additionally, and as described in more detail below, the Library reimburses the District for payroll costs, including retirement costs, paid by the District on behalf of the Library. Therefore, Library payroll costs are considered to be the responsibility of the Library rather than of the District, which indicates that the Library is considered to be a separate entity and their employees are not considered to be employees of the District.

According to the Library's website, the Board of Directors of the Library are appointed by the Easton Area Board of School Directors (Board), and there is one District board member that is also on the Library board. We have asked District personnel for Library committee reports submitted to the Board but have not received that documentation. Therefore, we could not determine whether the Board was fully aware of the District's relationship with the Library.

District Funds Supporting the Library

The District collects property taxes on behalf of the Library to fund payments that it makes to the Library to support the Library's operations. The Board paid \$1,050,000 per year for the 2010-11, 2011-12, and 2012-13 school years and \$1,071,000 for the 2013-14 school year. However, the taxes collected for the District's share of the Library budget has not funded 100 percent of the payments made by the District to the Library because the millage rate and amounts budgeted and paid to the Library were based on a 100 percent tax collection rate, while the District's average tax collection rate has been approximately 96 percent. This caused the District to transfer to the Library approximately \$148,365 more than the taxes collected over the four year period as shown in the chart below.

School Year	Payments to Library Based on Tax Collection	Actual % Collected	Estimated Tax Collection ¹	Unfunded Library Cost to the District
2014	\$1,071,000	97.00	\$1,038,870	\$32,130
2013	\$1,050,000	98.55	\$1,034,775	\$15,225
2012	\$1,050,000	95.72	\$1,005,060	\$44,940
<u>2011</u>	<u>\$1,050,000</u>	<u>94.66</u>	<u>\$993,930</u>	<u>\$56,070</u>
4 Year Total	\$4,221,000		\$4,072,635	\$148,365

According to the District’s Chief Operating Officer (Business Manager), the District budgeted for projected shortfalls due to uncollected taxes within the District’s general fund budget effective with the 2012-13 school year. Prior to the 2012-13 school year, the yearly shortfalls in tax revenue allocated for Library payments were taken from the District’s general fund balance.

The District also provided the Library with payroll services. The District intended for the Library to reimburse the District for all Library payroll expenses, including retirement expenses. However, District personnel didn’t have internal controls in place, such as reconciling the payroll costs attributable to the Library to the reimbursement paid by the Library, to ensure that the reimbursements received from the Library equaled the total salaries and benefits applicable to Library employees.

District personnel miscoded the retirement costs attributable to the Library employees, and \$397,317 of those retirement costs were not reimbursed as shown in the chart below. The Business Manager did correct the coding errors and began billing the Library for their retirement costs during the 2013-14 school year.

¹At this time, the District has not provided us with actual collection amounts from the tax collector. Therefore, tax collection is estimated based on the actual percent of collection of District taxes for school years ending 2011-2013 and estimates for 2013-2014 based on the District’s budget.

School Year	Payroll Expense	Reimbursement from Library	Unfunded Library Cost to District
2014	\$1,221,178	\$1,086,758	\$134,420
2013	\$1,146,198	\$946,114	\$122,682
2012	\$1,087,253	\$1,004,473	\$82,780
<u>2011</u>	<u>\$1,085,627</u>	<u>\$1,028,192</u>	<u>\$57,435</u>
4 Year Total	\$4,540,257	\$4,065,537	\$397,317

The District's Business Manager stated that he is not aware of any contract or agreement explaining the relationship between the District and the Library, including the District acting as a taxing authority for the Library and performing payroll services for the Library. He believes the relationship dates back to the 1950s but expressed that it has been in place so long and has not been in writing so it is difficult to know how the relationship began.

The Business Manager also stated that the District does not collect reimbursement for expenses incurred related to processing the Library's payroll, such as the additional time and supplies used to process the Library's payroll.

In addition to providing payroll services, the Business Manager stated that the District owns the building occupied by the Library and pays for maintenance and upkeep. The Library pays for any needed repairs. We were not made aware of the Library having a rental agreement with the District or any rental payments.

Our review of the District's payroll records pertaining to the Library also found a lack of documentation to show that the District received \$77,402 of the \$946,114 that the District indicated that it received from the Library as a reimbursement for payroll paid during the 2012-13 school year. District personnel stated they did bill the Library for these payments and miscoded the revenue; however, no documentation was provided to support that the revenue was miscoded. Therefore, it is possible that the unfunded Library payroll cost to the District for the period could actually be \$474,719 (\$397,317 plus \$77,402).

The District's lack of oversight and poor accounting procedures prevented the former business manager from adequately tracking the difference between the tax dollars collected on behalf of the Library, collections from the

Library, and the amount forwarded to Library from the District's general fund.

The District's failure to recoup \$397,317 in payroll expenses and \$148,365 for uncollected taxes for the Library resulted in \$545,682 of unreimbursed expenses for the District to support the Library over the four school years we reconciled. These funds could have been used on the educational or debt service needs of the District.

We did not review the expenses and reimbursements related to the Library for the school years prior to the 2010-11 school year.

We could not determine whether the Board was aware of the inclusion of Library employees in the list of employees enrolled in PSERS as employees of the District or of the payroll services provided by the District on behalf of the Library. The Board approved annual budgets that included payroll costs for both the District and the Library, but the budgets did not specifically identify the District as the payroll provider for the Library. As a result of the potential lack of transparency and lack of internal controls in tracking revenues and expenditures related to the Library, the Board and the District may not have had complete and accurate information upon which decisions regarding funding and allocation of resources were made.

Recommendations

The *Easton Area School District Board of School Directors* should:

1. Review the arrangement between the District and the Library with the District's solicitor to determine the District's obligation to the Library and reassess any services provided, including payroll, and their related costs.

The *Easton Area School District* should:

2. If the District continues to provide tax collection services to the Library, ensure it separately identifies and tracks the tax dollars collected on the Library's behalf.

3. If the District continues to provide payroll services to the Library, implement written procedures for reconciling payroll benefits paid on behalf of the Library and reimbursements from the Library and present the reconciliation to the Board at least annually.

We encourage the *Public School Employees' Retirement System* to:

4. Determine whether the Library employees are eligible for PSERS membership and, if not, make the necessary adjustments to their PSERS accounts.
5. Provide the District with the appropriate corrective action to resolve the issue.

Management Response

Management stated the following:

“Prior to 2012, there seemed to be a lack of monitoring funds directed to and from the Library. Since that time all funds generated (tax revenue) and expended with the Library have been accounted for and are monitored on a monthly basis. The Board of Directors have been made aware of the shortfall of tax revenue generated compared to the actual expenditures for the Library. The Board and the Library have agreed to eliminate the deficit through the budgeting process moving forward.”

Auditor Conclusion

We are pleased that the District believes it has developed adequate monitoring procedures and found a solution to ensure there will be no future cost to the District. We will review these corrective actions during our next audit of the District. We will also review corrective actions, if needed, based on PSERS determination on membership eligibility of Library employees.

Observation

Criteria relevant to the observation:

**U.S. Department of Labor,
Wage and Hour Division,
29 C.F.R. Part 541:**

**Section 541.602 (relating to
Salary basis) provides, in part:**

“(a) *General rule.* An employee will be considered to be paid on a ‘salary basis’ within the meaning of these regulations if the employee regularly receives each pay period on a weekly, or less frequent basis, a predetermined amount constituting all or part of the employee’s compensation, which amount is not subject to reduction because of variations in the quality or quantity of the work performed. Subject to the exceptions provided in paragraph (b) of this section, an exempt employee must receive the full salary for any week in which the employee performs any work without regard to the number of days or hours worked. Exempt employees need not be paid for any workweek in which they perform no work. An employee is not paid on a salary basis if deductions from the employee’s predetermined compensation are made for absences occasioned by the employer or by the operating requirements of the business. If the employee is ready, willing and able to work, deductions may not be made for time when work is not available....” (*Emphasis added*)

Payments for Unused Vacation Days were Inflated

Our audit found that the District inaccurately calculated the daily rates used to determine payments for unused vacation days.

Each administrator of the District, including the positions of Superintendent and Business Manager, is a twelve-month employee and has a board-approved salary that is divided into biweekly payments. Payroll is based on 365 days less approximately 104 weekend days, or 260 or 261 work days (depending on the calendar year). Nevertheless, each year, payments for unused vacation leave are calculated using a daily rate—salary divided by work days—based off of 245 work days. According to the District’s Chief Operating Officer (Business Manager), the stipulation included in the District’s Act 93 Plan requiring them to use 245 work days to compute a daily rate occurred before he was employed by the District. However, he stated that the reduction of 15 days from 260 work days was believed to be for holidays. His discussion with other District personnel supports this belief.

The Board entered into Employment Agreements (Agreement) with the former Superintendent, former Assistant Superintendent, and former and current business managers.

Position	Date Entered	Contract Term
Former Superintendent	8/5/08	5 yrs.
Former Assistant Superintendent	6/25/09	5 yrs.
Former Business Manager	6/25/09	4 yrs.
Current Business Manager	6/6/11	5 yrs.

All four Agreements included clauses that stated, “The Business Administrator shall also be entitled to all the fringe benefits provided to all District administrators as described in the District’s Act 93 Plan as attached hereto and incorporated herein by reference, provided that to the extent that specific benefits set forth herein exceed those set forth in the Act 93 Plan, the superior benefits herein

Criteria relevant to the observation (continued):

To ensure proper accounting, accurate daily rates must be used in determining payments for unused vacation days. Good business practices dictate that management is responsible for implementing adequate internal controls and procedures to ensure financial transactions including leave payouts are accurate. Rates should be based on annual salary divided by 260 or 261 calendar days (depending on the calendar year).

specified shall control.” The Act 93 Plan stated, “The work year will be based on 245 days. Administrators will be entitled to paid holidays, vacation days, and personal leave days.” However, the wording in the Act 93 Plan that specifies 245 work days does not supersede the U.S. Department of Labor guidelines, nor does it change standard payroll procedures.

The Act 93 Plan also states, “During the term of the compensation plan, vacation days may not be accumulated and/or banked from year to year. Vacation days may be cashed in under the following conditions:

- Written notice must be provided to the business manager prior to December 31 in reference to the number of days for the said year the Administrator desires to cash in.
- The compensation for the cashed in vacation days will be provided to the Administrator during the second pay period in July of the upcoming year.
- Individuals currently in possession of banked days will have the option of holding such days and/or cashing the days in under the parameters outlined above.”

Using the 245 number, instead of 260 or 261, inflates payouts for unused vacation days. We reviewed all leave records for 50, 52, and 46 administrative staff employees that received payments totaling \$45,804 for unused vacation days during the 2010-11, 2011-12, and 2012-13 school years. Using 245 days instead of 260 or 261 days increased their unused vacation payouts by \$14,267, 15,629, and \$15,908, respectively.

When inaccurate daily rates are used in calculating leave payouts for unused vacation days, overpayments or underpayments can result. For example, our review of leave records for two administrators during the 2012-13 school year found that using 245 days instead of 260 or 261 days increased their unused vacation payouts by \$1,003 and \$765, as noted in the table below.

Example	Days per Year	Daily Rate	Days Paid	(Under)/Over Payment
<u>Employee 1</u>				
Per Audit	260	\$655.29	25	\$1,003
Per District	245	\$695.41	25	
<u>Employee 2</u>				
Per Audit	260	\$500.00	25	\$765
Per District	245	\$530.61	25	

Information in these Agreements did not include sufficient or specific language to quantify the number of days that should be used to calculate leave payouts. The language in these Agreements should be as transparent as possible to the public so that taxpayers can consider such information when determining whether the Board has made decisions in the best interest of the District, taxpayers, and students.

The Business Manager stated that the current Act 93 contract expires at the end of the 2015-16 school year and that he is confident that the number of work days will be revised to reflect 260 in the successor agreement.

Recommendations

The *Easton Area School District* should:

1. Ensure that all of the District’s employment agreements be as transparent as possible, so that the District’s taxpayers can evaluate their appropriateness.
2. Divide the annual salary by the individual’s actual number of days to be paid (including holidays) to determine the daily rate for payment of unused days.
3. Implement controls to ensure accurate daily rates are used in determining payments for unused vacation days.
4. Consult with the District’s solicitor to determine if reconciliations for prior payments should be pursued.

Management Response

Management stated the following:

“We disagree with the term ‘unnecessarily inflated.’ Payment for unused vacation days are paid out at the

daily rate of pay based on a number of annual work days as per the ACT 93 agreement with the district.”

Auditor Conclusion

The Board approved an Act 93 contract which provided for 245 work days during a school year. This should not be confused with the number of days in payroll during a school year for salaried employees. If payroll payments were calculated using a daily rate less than the actual number of payroll days of 260, it would cause payments to exceed Board approved salaries. Therefore, the daily rate used to provide payment for unused days should be the same.

Our observation will stand as presented. We will review this issue during the next audit to determine if the next Act 93 agreement addresses our concern regarding the daily rate computation used to pay administrators for unused vacation days.

Status of Prior Audit Findings and Observations

Our prior audit of the District released on October 11, 2011, resulted in one observation. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We interviewed District personnel and performed audit procedures, as detailed in each status section below.

Auditor General Performance Audit Report Released on October 11, 2011

Observation: **Internal Control Weaknesses in Administrative Policies Regarding Bus Driver Qualifications**

Prior Observation Summary:

Our prior audit of the District found that the District did not have written policies or procedures in place to ensure that they would have been notified if current employees had been charged with or convicted of serious criminal offenses, which would have been considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures was an internal control weakness that could have resulted in the continued employment of individuals who may have posed a risk if allowed to continue to have direct contact with children.

Prior Recommendations: We recommended that the District should:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure the District is notified when current employees of the District are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.

Current Status:

During our current audit, we reviewed procedures used to determine if current employees are charged with or convicted of a crime after their date of hire. We found that the District did implement our prior recommendations and on November 14, 2011, notified employees, independent contractors, and student teachers that they are to notify the District of any offense listed in Public School Code (PSC) Section 111(e) within 72 hours of any arrest or conviction. On October 18, 2012, the District followed up with an expanded list of offenses in compliance with the PSC and Act 82.

Appendix: Audit Scope, Objectives, and Methodology

School performance audits allow the Pennsylvania Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each LEA. The results of these audits are shared with LEA management, the Governor, the Pennsylvania Department of Education (PDE), and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code,² is not a substitute for the local annual financial audit required by the PSC of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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.

Scope

Overall, our audit covered the period April 12, 2011 through October 24, 2014. In addition, the scope of each individual audit objective is detailed on the next page.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with PDE reporting guidelines, we use the term *school year* rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

The District's management is responsible for establishing and maintaining effective internal controls³ to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with relevant requirements that we consider to be material within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be material within the context of our audit objectives are included in this report.

² 72 P.S. § 403.

³ Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as: effectiveness and efficiency of operations; relevance and reliability of operational and financial information; and compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, financial reports, annual budgets, and new or amended policies and procedures. We also determined if the District had key personnel or software vendor changes since the prior audit.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies, and best business practices. Our audit focused on the District's performance in the following areas:

- ü Academics
- ü Governance
- ü Financial Stability
- ü Contracting
- ü School Safety
- ü Bus Driver Requirements
- ü Pupil Membership
- ü Administrator Contract Buy-outs

As we conducted our audit procedures, we sought to determine answers to the following questions, which served as our audit objectives:

- ü Did the LEA's Board and administration maintain best practices in governing academics and student achievement by developing and executing a plan to improve student academic performance at its underperforming school buildings?
 - o To address this objective, we considered a variety of District and school level academic results for the 2007-08 through 2012-13 school years to determine if the District had schools not meeting statewide academic standards established by PDE.⁴ Since underperforming schools were identified, we selected one of two underperforming schools during the 2012-13 school year for further review. This review consisted of conducting interviews with the Superintendent and any other designated employees and reviewing required School Improvement Plans and/or optional School Level Plans to determine if the selected underperforming schools have established goals for improving academic performance, are implementing goals, and are appropriately monitoring the implementation of these goals.
- ü Did the LEA's Board and administration maintain best practices in overall organizational governance?

⁴ Academic data for the District and its school buildings included a five year trend analysis of Adequate Yearly Progress (AYP) results from the 2007-08 through 2011-12 school years, Pennsylvania System of School Assessment results in Math and Reading for the "all students" group for the 2011-12 and 2012-13 school years, School Performance Profile scores for the 2012-13 school year, and federal accountability designations (i.e. Priority, Focus, Reward, and No Designation) for Title I schools for the 2012-13 school year. All of the academic data standards and results we examined originated with the Pennsylvania Department of Education.

- To address this objective, we conducted in-depth interviews with the current Superintendent and his or her staff, reviewed board meeting books, policies and procedures, and reports used to inform the Board about student performance, progress in meeting student achievement goals, budgeting and financial position, and school violence data to determine if the Board was provided sufficient information for making informed decisions.
- Ü Based on an assessment of fiscal benchmarks, was the District in a declining financial position, and did it comply with all statutes prohibiting deficit fund balances and the over expending of the District's budget?
- To address this objective, we reviewed the District's annual financial reports, budget, independent auditor's reports, summary of child accounting, and general ledger for fiscal years 2011-12 through 2013-14. The financial and statistical data was used to calculate ratios and trends for 22 benchmarks which were deemed appropriate for assessing the District's financial stability.
- Ü Did the District ensure that its significant contracts were current and were properly obtained, approved, executed, and monitored?
- To address this objective, we reviewed the District's procurement and contract monitoring policies and procedures. We obtained a list of contracts for goods and services that were in effect for the 2012-13 school year. We selected 5 out of 36 significant contracts for detailed testing. Testing included a review of the procurement documents to determine if the contract was procured in accordance with the PSC and District policies. We also reviewed documents to determine if the District properly monitored the selected contracts. Finally, we reviewed board meeting minutes and the Board's Statements of Financial Interest to determine if any board member had a conflict of interest in approving the selected contracts.
- Ü Did the District pursue a contract buy-out with an administrator and if it did, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contracts contain adequate termination provisions?
- To address this objective, we reviewed the two contracts and settlement agreements for the two administrators who resigned between the beginning of the 2010 school year through the end of the 2013 school year. We also reviewed board meeting minutes, board policies, and payroll records for any contract buy-outs to ensure the District abided by employment contract and termination provisions.

Ü Did the LEA ensure that the membership data it reported in the Pennsylvania Information Management System was accurate, valid, and reliable?

- To address this objective, we randomly selected 15 out of 8,736 total registered students (5 resident, 5 non-resident, and 5 area vocational-technical schools) from the vendor software listing for the 2013-14 school year and verified that each child was appropriately registered with the District. In addition, we randomly selected one school term reported on the Summary of Child Accounting and verified the school days reported on the Instructional Time Membership Report and matched them to the School Calendar Fact Template for the 2011-12 school year.

Ü Did the District take appropriate actions to ensure it provided a safe school environment?

- To address this objective, we conducted a review of the prior audit deficiencies to assess whether the District had implemented basic safety practices.

Ü Did the District take appropriate corrective action to address an observation and implement recommendations made in our prior audit?

- To address this objective, we interviewed District administrators to determine what corrective action, if any, was taken to address prior audit recommendations. Where appropriate, we obtained documentary evidence and/or performed audit procedures to verify that corrective action was actually taken and those actions were sufficient to address the prior observation.

Ü Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances as outline in applicable laws?⁵ Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?

- To address this objective, we selected 5 of the 18 bus drivers hired by both the District and District bus contractors, during the school year July 1, 2013 to June 30, 2014, and reviewed documentation to ensure the District complied with the requirements related to bus driver's listed above. We also determined whether the District had written policies and procedures governing the hiring of bus drivers and whether those procedures were sufficient to ensure compliance with bus driver hiring requirements.

⁵ 24 P.S. § 1-111, 23 Pa.C.S. § 6344(a.1), 24 P.S. § 2070.1a *et seq.*, 75 Pa.C.S §§ 1508.1 and 1509, and 22 Pa. Code Chapter 8.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

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This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.

ⁱ Source: School district, PDE, and U.S. Census data.

ⁱⁱ Source: Information provided by the District administration.

ⁱⁱⁱ Source: United States Census <http://www.census.gov/2010census>

^{iv} PSSA stands for the Pennsylvania System of School Assessment (PSSA), which is composed of statewide, standardized tests administered by PDE to all public schools and the reporting associated with the results of those assessments. PSSA scores in the tables in this report reflect Reading and Math results for the “All Students” group for the 2011-12 and 2012-13 school years.

^v PSSA scores, which are Pennsylvania’s mandatory, statewide academic test scores, are issued by PDE. However, the PSSA scores issued by PDE are collected by an outside vendor, Data Recognition Corporation (DRC). The Pennsylvania Department of the Auditor General and KPMG issued a material weakness in internal controls over PDE’s compilation of this academic data in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014, citing insufficient review procedures at PDE to ensure the accuracy of test score data received from DRC.

^{vi} In the 2011-12 school year, the state benchmarks reflect the Adequate Yearly Progress targets established under No Child Left Behind. In the 2012-13 school year, the state benchmarks reflect the statewide goals based on annual measurable objectives established by PDE.

^{vii} SPP stands for School Performance Profile, which is Pennsylvania’s new method for reporting academic performance scores for all public schools based on a scale from 0% to 100% implemented in the 2012-13 school year by PDE.

^{viii} *Id.* Additionally, federal Title I designations of Priority, Focus, Reward, and No Designation are new federal accountability designations issued by PDE to Title I schools only beginning in the 2012-13 school year. Priority schools are the lowest 5%, focus schools are the lowest 10%, and reward schools are the highest 5% of Title I schools. All Title I schools not falling into one of the aforementioned percentage groups are considered “No Designation” schools. The criteria used to calculate the percentage rates is determined on an annual basis by PDE.

^{ix} Title I Federal accountability designations for Title I schools originate from PDE and are determined based on the number of students at the school who receive free and/or reduced price lunches. School lunch data is accumulated in PDE’s CN-PEARS system, which is customized software developed jointly with an outside vendor, Colyar, Inc. The Pennsylvania Department of the Auditor General and KPMG issued a material deficiency in internal controls over the CN-PEARS system in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014.