

PERFORMANCE AUDIT

Wilson Area School District Northampton County, Pennsylvania

April 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. David Seiple, Board President
Wilson Area School District
2040 Washington Boulevard
Easton, Pennsylvania 18042

Dear Governor Wolf and Mr. Seiple:

We conducted a performance audit of the Wilson Area School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period September 15, 2011 through November 14, 2014, except as otherwise stated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the District complied, in all significant respects, with relevant requirements, except as detailed in the one (1) finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with the District's management, and their response is included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale
Auditor General

April 15, 2015

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

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Wilson Area School District (District) in Northampton County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period September 15, 2011 through November 14, 2014, except as otherwise stated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2010-11 and 2011-12 school years.

District Background

The District encompasses approximately 21 square miles. According to 2010 federal census data, it serves a resident population of 15,477. According to District officials, the District provided basic educational services to 2,179 pupils through the employment of 176 teachers, 127 full-time and part-time support personnel, and 13 administrators during the 2011-12 school year. The District received \$9.8 million in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one (1) compliance related matter reported as a finding.

Finding: Possible Inaccurate Reporting of Retirement Wages. During our audit of the Wilson Area School District, we reviewed a former Business Manager's Administrator Compensation Plan, payroll records, and retirement records and found retirement wages may have been overstated in reports submitted to the Public School Employees' Retirement System for the 2011-12 school year. The total possible ineligible compensation reported was \$26,441 for the former Business Manager (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Wilson Area School District (District) from an audit released on January 12, 2012, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 9).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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 local education agency (LEA). The results of these audits are shared with LEA management, the Governor, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period September 15, 2011 through November 14, 2014, except for the verification of professional employee certification which was performed for the period July 1, 2013 through June 30, 2014.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 school years.

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 Pennsylvania Department of Education (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.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ü Were professional employees certified for the positions they held?
 - o To address this objective, auditors reviewed and evaluated certification documentation for all 191 teachers and administrators who were employed during the 2013-14 school year.

Ü In areas where the District received state subsidies and reimbursements based on payroll, did it follow applicable laws [24 P.S. § 8326 and 24 P.S. § 8535] and procedures?

- To address this objective, auditors compared the payroll ledger to the Public School Employees' Retirement System quarterly reports in order to verify the total retirement wages paid for employees who worked for a local education agency (LEA) before June 30, 1994, considered existing employees, and those that were hired at an LEA after June 30, 1994, considered new employees.

Ü Did the District ensure that bus drivers transporting District children at the time of the audit have the necessary license, physicals, training, background checks, and clearances as outlined in 24 P.S. § 1-111, 24 P.S. § 2070, 67 P.S. § 71.1, 22 PA Code Chapter 8, and 23 PA C.S. § 58-6354, and did they have written policies and procedures governing the hiring of new bus drivers?

- To address this objective, auditors selected all five (5) of the “newest drivers” who were employed since the last time the Bureau of School Audits audited the District and reviewed bus driver compliance. Auditors ensured that all of the new drivers not reviewed during the previous audit were selected for review and included both district-employed and contractor-employed drivers, as appropriate.

Ü Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?

- To address this objective, auditors reviewed the contract(s), settlement agreement(s), board meeting minutes, board policies, and payroll records for any administrator who

resigned or retired with special contractual incentives or had their District contract bought-out.

Ü Did the District take appropriate steps to ensure school safety?

- To address this objective, auditors reviewed a variety of documentation including safety plans, training schedules, anti-bullying policies, and after action reports to assess whether the District followed best practices in school safety and 24 P.S. Sect. 13-1302, 1302.1A, 13-1303.1, and 13-1303 A. Generally, the auditors evaluate the age of the plan, whether it is being practiced through training and whether the school has an after action process for trying to improve on the results of its training exercises.

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

To address this objective:

- The auditors interviewed District administrators to determine whether they had taken corrective action.
- The auditors then reviewed documentation to verify that the administration had implemented the prior audit report's recommendations and/or observed these changes in person.

Methodology

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

What are internal controls?

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.
- Compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

The District's management is responsible for establishing and maintaining effective internal controls 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 significant 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 significant within the context of our audit objectives are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies and reimbursements, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, and financial stability.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

To determine the status of our audit recommendations made in a prior audit report released on January 12, 2012, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Possible Inaccurate Reporting of Retirement Wages

Criteria relevant to the finding:

The Public School Employees' Retirement System (PSERS) allows only qualified salary and wages to be included for retirement purposes. According to Pennsylvania School Employees' Retirement Board Regulations, Section 211.2, reported compensation should: . . . "exclude payments for unused sick leave, unused vacation leave . . . or any other payments or similar emoluments which may be negotiated in a collective bargaining agreement for the express purpose of enhancing the compensation factor for retirement benefits."

PSERS Employer Reference Manual (ERM) Chapter 2 states 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.

During our audit of the Wilson Area School District (District), we reviewed a former Business Manager's Administrator Compensation Plan, payroll records, and retirement records and found retirement wages may have been overstated in reports submitted to the Public School Employees' Retirement System (PSERS) for the 2011-12 school year. The total possible ineligible compensation reported for the former Business Manager was \$26,441.

The former Business Manager's retirement letter, dated December 14, 2011, in part stated:

"This letter will serve as official notice that I wish to resign my position as Secretary/Business Manager, effective March 30, 2012. . . . However, if the District desires my services subsequent to March 30, 2012, I will remain as a per-diem employee."

According to District records, the former Business Manager's last day of full-time employment with the District was effective on March 30, 2012. No services were provided by the former Business Manager following the effective date of his retirement. However, District personnel continued making bi-weekly payroll payments through the June 21, 2012 payroll period. Payments for pay periods subsequent to March 30, 2012, were equal to the former Business Manager's 54 days of accrued but unused vacation day's payable at his daily rate of \$489.65. These payments were included in the District's payroll and possibly incorrectly reported as eligible retirement compensation reported to PSERS. According to the *PSERS Reference Manual*, payments for unused vacation and personal leave are not eligible for retirement purposes.

District payroll personnel were unaware that they should have paid all remaining leave days at the effective date of retirement instead of processing through payroll until exhausted.

The reporting of possibly ineligible wages to PSERS for pay periods subsequent to the former Business Manager's last day of employment with the District caused a possible overstatement of eligible compensation to PSERS in the amount of \$26,441.

PSERS has been provided reports detailing the questionable retirement wages. PSERS will make the necessary adjustments to the former Business Manager's individual retirement calculations if they determine the compensation for unused vacation days was ineligible retirement compensation.

Recommendations

The *Wilson Area School District*, in conjunction with PSERS' determination, should:

1. Ensure that District personnel report to PSERS only compensation allowable for retirement purposes, as stated in PSERS regulations and guidelines.
2. Implement procedures for reviewing all salary and employment contracts, in order to ensure that only eligible service time is being reported to PSERS for retirement contributions.
3. If the questionable compensation is determined by PSERS to be ineligible retirement compensation, then return the portion of wages which was incorrectly withheld and submitted to PSERS to be returned to the former Business Manager.

The *Public School Employees' Retirement System* should:

4. Review the propriety of the compensation paid during the 2011-12 school year; as well as credited time of employment as of March 30, 2012, for the above mentioned employee and make any necessary adjustments.

Management Response

Management stated the following:

“The problem was caused due to personnel changes within the District’s payroll department. Newly placed personnel were inadequately trained in what qualifies compensation as includable compensation for PSERS purposes. In addition, the District’s financial management system was not able to adequately separate compensation paid between includable compensation versus non-qualified for PSERS reporting purposes.

Prior to this finding we noted in the State Audit the District had put procedures in place to prevent inaccurate reporting. The following procedures were put in place:

1. Staff participation in training provided by PSERS namely in regards to accurate monthly work reporting.
2. Upgrade of District’s Financial Management System
 - a. New system (Skyward) allows for easier reporting of wages in appropriate categories (includable compensation, non-qualified compensation)

The district is confident that all staff involved in PSERS reporting have been adequately trained which will prevent inaccurate reporting in the future. In addition, the District’s financial management system has the appropriate safeguards in place to prevent inaccurate reporting.”

Auditor’s Conclusion

We are pleased to see that the District acknowledges the gravity of this finding and has implemented procedures in place to try to prevent inaccurate reporting in the future. We are encouraged that the District has required staff participation in PSERS training and has implemented a new Financial Management System. We look forward to reviewing these safeguards during our next audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Wilson Area School District (District) released on January 12, 2012, resulted in one (1) observation. The observation pertained to internal control weaknesses in administrative policies regarding bus driver qualifications. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We performed audit procedures and interviewed District personnel regarding the prior observation. As shown below, we found that the District did implement our recommendations related to internal control weaknesses in administrative policies regarding bus driver qualifications.

Auditor General Performance Audit Report Released on January 12, 2012

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

Observation Summary: Our prior audit found that the District did not have written policies or procedures in place to inform them if drivers have been convicted of criminal offenses that would prohibit employment and ensure that they are notified if any of their current local education agency drivers have been charged with crimes since their hire dates and are deemed serious by the Auditor General guidelines or charged with child abuse since their hire dates. This should be considered for the purpose of determining an individual's suitability to be in direct contact with children.

Recommendations: Our audit observation recommended that the District should:

1. 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. Ensure that the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.
2. Develop a process to determine, on a case-by-case basis, whether 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.

Current Status:

During our current audit, we found that the District did implement our prior recommendations. On December 17, 2012, the Board of School Directors adopted a policy to ensure the District would be notified if a current bus driver is charged with or convicted of a crime. This policy addressed the process to determine if an employee who had been charged with or convicted of a crime was suitable to have direct contact with children.

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, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.