

# PERFORMANCE AUDIT

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## North Schuylkill School District Schuylkill County, Pennsylvania

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June 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. Charles Hepler, Board President  
North Schuylkill School District  
15 Academy Lane  
Ashland, Pennsylvania 17921

Dear Governor Wolf and Mr. Hepler:

We conducted a performance audit of the North Schuylkill 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 July 28, 2011 through January 29, 2015, except as otherwise indicated 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 significant noncompliance with relevant requirements, as detailed in the three audit findings within this report. A summary of the results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District and a number of different government entities, including the Public School Employees' Retirement System (PSERS).

Our audit findings and recommendations have been discussed with the District's management, and their responses are 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

June 4, 2015

cc: **NORTH SCHUYLKILL SCHOOL DISTRICT** Board of School Directors

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the District. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period July 28, 2011 through January 29, 2015, except as otherwise indicated 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 58 square miles. According to 2010 federal census data, it serves a resident population of 16,977. According to District officials, the District provided basic educational services to 1,953 pupils through the employment of 167 teachers, 98 full-time and part-time support personnel, and 17 administrators during the 2011-12 school year. The District received \$12.49 million in state funding in the 2011-12 school year.

### **Audit Conclusion and Results**

Our audit found significant noncompliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, as detailed in the three audit findings within this report.

**Finding No. 1: Failure to Have Required Bus Drivers' Qualifications and a Comprehensive Board Approved List of Bus Drivers for the 2013-14 School Year on File.** Our audit of the District's school bus drivers' qualifications for the 2013-14 school year found that not all records were on file at the time of audit. Additionally, the District failed to provide a comprehensive Board of School Directors' (Board) approved list of bus drivers (see page 7).

**Finding No. 2: Ineligible Compensation Paid and Possibly Ineligible Wages Reported for Retirement.** Our review of the District's board meeting minutes found that a District employee was paid compensation she was not eligible to receive during maternity leave. In addition, the compensation was subsequently reported to PSERS as eligible retirement wages for the 2013-14 school year, which may not have been the proper reporting of such compensation (see page 10).

**Finding No. 3: Lack of Board Action on Required Business.** Our review of the District's board meeting minutes for the period April 27, 2011 through March 19, 2014, found a lack of Board action on several items for which Board action was required (see page 14).

**Status of Prior Audit Findings and Observations.** Our prior audit of the District did not include any findings or observations.

## Audit Scope, Objectives, and Methodology

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### 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 July 28, 2011 through January 29, 2015, except for the verification of professional employee certification which was performed for the period July 1, 2013 through March 17, 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, the auditors reviewed and evaluated certification documentation for all 156 teachers and administrators employed as of March 17, 2014, for the 2013-14 school year.

- 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, the auditors reviewed records for all 39 drivers listed on the 2013-14 school year bus driver list, which included both district-employed and contractor-employed drivers.
  
- ü Did the District ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable for the most current year available?

To address this objective:

- The auditors randomly selected 20 out of 1,953 total registered students (5 resident, 5 non-resident, 5 intermediate units, and 5 area vocational-technical schools) from the vendor software listing and verified that each child was appropriately registered with the District.
  
- In addition, the auditors randomly selected 1 out of 6 school terms 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.
  
- In addition, the auditors tested 5 out of 12 high school students that had more than ten consecutive days of unexcused absences to verify that students are in fact removed from rolls or that the local education agency is actively pursuing removing students from the rolls.

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

- o To address this objective, the 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.

## Methodology

*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.

*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.

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 pupil membership, bus driver qualifications, professional employee certification, and compliance.
- Items such as board meeting minutes and policies and procedures.

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

## Findings and Observations

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### Finding No. 1

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### Failure to Have Required Bus Drivers' Qualifications and a Comprehensive Board Approved List of Bus Drivers for the 2013-14 School Year on File

*Criteria relevant to the finding:*

Pennsylvania Department of Transportation bus driver regulations require the possession of a valid driver's licenses and passing a physical examination.

Section 111 of the Public School Code (PSC) requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to submit an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have a committed child abuse.

Chapter 23 of the State Board of Education Regulations indicates the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

Our audit of the District's school bus drivers' qualifications for the 2013-14 school year found that the District did not have all of the required documents for 2 of the 39 drivers we reviewed. Additionally, the District failed to obtain the list of bus drivers from its transportation contractor, verify the drivers' qualifications and then obtain Board approval for the drivers who met the required qualifications for the 2013-14 school year.

As detailed in the criteria box, there are state laws and regulations that establish the minimum required qualifications for school bus drivers. The primary purpose of these requirements is to help ensure the safety and welfare of the students transported in school buses. We reviewed the personnel records of all 39 bus drivers employed by the District's pupil transportation contractor as of March 2014. Specifically, we determined if the District had documentation of the following five requirements:

- Possession of a valid driver's license.
- Passing a physical examination.
- Lack of convictions for certain criminal offenses.
- Federal Criminal History Record.
- Official child abuse clearance statement.

Our review found that at the time our test work was conducted, the District did not have a valid Act 34 criminal background check and a valid Act 151 child abuse clearance for one driver. In addition, the District did not have on file a valid Act 114 FBI fingerprint clearance for one other driver.

Additionally, Section 111 provides in Section 7(b) in part: . . .

Administrations shall maintain a copy of the required information and shall require each applicant to produce the original document prior to employment. Administrators shall require contractors to produce the original document for each prospective employee of such contractor prior to employment.

We also found that District personnel relied solely on the contractor to ensure that only qualified drivers were used to transport students for the 2013-14 school year. The District did not obtain a comprehensive list of bus/van drivers, including substitute drivers. Therefore, the District was not able to determine if the contractor was utilizing only qualified bus drivers on a daily basis to transport students. Unqualified drivers transporting students creates an increased safety risk to students as well as an increased financial liability risk to the District.

We found that the District did obtain Board approval of the bus driver list for the 2012-13 school year. When asked why this procedure was not followed for the 2013-14 school year, District management indicated that employee turnover contributed to the failure to comply with the requirements.

### **Recommendations**

The *North Schuylkill School District* should:

1. Establish procedures which ensures the administration obtains a list of potential drivers from its contractors, review each potential driver for required qualifications and suitability, and then require the Board to approve the list of drivers who are qualified to transport students each school year.
2. Maintain a copy of the required information for each applicant, as well as a comprehensive list of eligible bus drivers at the District for each school year.

The *North Schuylkill School District Board* should:

3. Annually review and approve the list of all bus drivers, including substitute drivers, who have the required qualifications based on administration's review.

### **Management Response**

Management stated the following:

“Management agrees with finding. There was a transition to a new transportation coordinator after the retirement of an individual with over 35 years of service. The new

transportation coordinator will have a complete list Board approved, with all documentation, annually.”

**Auditor Conclusion**

We are pleased management intends on implementing procedures to address the issues noted in the finding. Our review during the next audit will determine the effectiveness of those procedures.

**Finding No. 2**

**Ineligible Compensation Paid and Possibly Ineligible Wages Reported for Retirement**

*Criteria relevant for the finding:*

As public officials, to represent the best interests of the taxpayers and students, it is the responsibility of both the Board and District administration to adhere to sound business practice and strong financial management by honoring all employee contract language including the current Act 93 contract that covers the employee in question. Act 93 Management Plan is a compensation plan for administrators.

Additionally, 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

The Retirement Code, 24 Pa C.S. § 8102, states that eligible compensation excludes "any bonus, severance payments, any other remuneration or other emolument received by a school employee during his school service which is not based on the standard salary schedule under which he is rendering service, payments for unused sick leave or vacation leave. . . ."

Our review of the District's board meeting minutes found that a District employee was paid compensation she was not eligible to receive during a maternity leave. The compensation was subsequently reported to PSERS as eligible retirement wages, which may not have been proper for the 2013-14 school year.

The Assistant Secondary Principal was on maternity leave from June 3, 2013 to June 27, 2014. We reviewed payroll and leave records and found that from July 3, 2013 to August 28, 2013, the employee received a total compensation of \$9,859 for 40 days of leave. The 40 days of leave were awarded to the employee on July 1, 2013, while the employee was already on leave. The leave compensation was not approved by the Board, nor was it permissible according to the District's Act 93 Management Plan.

The Act 93 Management Plan, a compensation plan for administrators, states in relevant part:

*All benefits agreed to and awarded under the existing (existing for each particular year) contract agreement between the North Schuylkill School District and the North Schuylkill Education Association shall be annually granted to Act 93 employees during the life of this agreement.*

*The work year, July 1<sup>st</sup> to June 30<sup>th</sup>, shall consist of 240 work days for Level I Employees.*

In order for these leave days to be granted, the employee must be in full working status. Since the employee was on maternity leave for the entire work year, we determined that she was not entitled to the 40 days of leave time. This determination was further supported by an interoffice memorandum, dated July 9, 2013, from the former

Superintendent to the Business Manager. Specifically, the memorandum stated:

*On June 19, 2013, the Board approved a childbearing/childrearing leave request for (an Assistant Secondary Principal) effective on June 3, 2013 until June 27, 2014. Since she will be on leave for one year, as of July 1, 2013, she is not entitled to receive any Act 93, Personal, Sick and Vacation Days. Upon her return from leave, she will be eligible to receive Act 93, Personal, Sick and Vacation Days, pro-rated if applicable. Please take the appropriate action and notify her accordingly.*

It could not be determined if the payroll office was not provided with the information contained in the former Superintendent's memo or if the payment was made because there was a difference of opinion among District officials. Nonetheless, the District's business office procedures and internal controls over processes for employee leave payments should be strengthened. The District should implement adequate procedures to ensure that payroll office personnel process compensation payments in accordance with Act 93 and any other employment contract. Further, the District should seek the advice of the solicitor when there is any confusion or questions about an employee's eligibility for leave.

In addition to the questionable leave payment, we found that the District may have overstated eligible compensation for this employee when it reported retirement wages to PSERS. According to PSERS regulations, any employee compensation payment that is not based on the standard pay schedule is not considered compensation for retirement purposes and, therefore, should not be reported on the PSERS Quarterly Reports.

PSERS has been provided reports detailing the questionable retirement wages for determination of eligibility and possible adjustments to individual retirement calculations.

## **Recommendations**

The *North Schuylkill School District* should:

1. Seek the advice of the District's solicitor regarding the \$9,859 payment provided to the employee for 40 days of leave.
2. If the solicitor determines that the payment was made in error, the District should recover the \$9,859 paid to the employee for leave which she was not entitled to.
3. Adhere to the Act 93 agreement and compensation language of contracts for all employees.
4. Implement procedures for reviewing all salary and employment contracts in order to ensure that only eligible service time is reported to PSERS for retirement contributions.
5. Contingent upon PSERS final determination, report to PSERS only those wages allowable for retirement purposes, as stated in the Retirement Code and the PSERS Employer's Reference Manual.

The *Public School Employees' Retirement System* should:

6. Review the propriety of the wages for the employee who received supplemental and service time reimbursements and make any necessary adjustments.

## **Management Response**

Management stated the following:

“Management disagrees with the finding. There is inconsistencies with what was requested, past practice and what was board approved. Management believes the payment was in accordance with past practices and is eligible compensation.”

## **Auditor Conclusion**

Because current management noted “inconsistencies” with leave requests, past practices, and what was Board approved, it is imperative the District seek the advice of its

solicitor to ensure the District adheres to the Act 93 agreement and compensation language of contracts for all employees. This should eliminate inconsistencies when the Board approves leave requests, as well as processing payroll for such leave requests.



### Finding No. 3

### Lack of Board Action on Required Business

*Criteria relevant to the finding:*

Chapter 23 of the State Board of Education Regulations, 22 Pa Code § 23.4(2), provides, in part, that the board of directors of a school district is responsible for:

“The selection and approval of . . . eligible [school bus] operators who qualify under the law and regulations.”

Section 508 of the PSC, P.S. 24 § 5-508), provides, in part:

“The affirmative vote of a majority of all the members of the Board in every school district, duly recorded, showing how each member voted, shall be required in order to take action on the following subjects: . . .

Designating depositories for school funds. . . .

Entering into contracts of any kind. . . .

Fixing salaries or compensation of officers, teachers or other appointees of the board of school directors.”

Section 687(d) of the PSC, 24 P.S. § 6-687(d), provides, in part:

(d) The board of school directors shall have power to authorize the transfer of any unencumbered balance, or any portion thereof, from one class of expenditure or item, to another. . . .

Our review of the District’s board meeting minutes for the period April 27, 2011 through March 19, 2014, found the administration failed to include the following items on the Board’s agenda for approval as required by PSC:

1. A comprehensive list of bus drivers, including substitutes, to be used by the contractor for the 2013-14 school year.
2. Designation of depositories for specified funds for the 2013-14 school year.
3. Several contracts entered into by the District during the 2012-13 and 2013-14 school years.
4. Salaries and hourly wages of a number of employees during the 2012-13 and 2013-14 school years.
5. Budgetary transfers after the June 20, 2012 meeting.

The PSC, as detailed in the criteria box on the left, clearly outlines the responsibilities of the Board. Our review of the board meeting minutes showed the District’s administration failed to include the items listed above on the Board’s agendas; therefore, the Board could not take action on items that were not brought to them. The administration noted the failure to get Board approval and resultant violations of the PSC occurred because the administration unintentionally omitted the items requiring a Board vote.

When the administration fails to carry out its District responsibilities, it jeopardizes the Board’s obligation to vote on various items as required by PSC.

## **Recommendations**

The *North Schuylkill School District Administration* should:

1. Review monthly board meeting agendas to ensure all items that require Board approval are included on the agenda. These required items are detailed in Chapter 23 of the State Board of Education Regulations and PSC Sections 508 and 687.

The *North Schuylkill School District Board* should:

2. Familiarize themselves with Chapter 23 of the State Board of Education Regulations and PSC Sections 508 and 687 regarding the list of items that require Board approval and ensure those items are voted upon and the actions are documented in official board meeting minutes.

## **Management Response**

Management stated the following:

“Management agrees with finding. Certain items did occur throughout the daily transaction of business that were omitted, unintentionally. The board was aware of the items, but did not provide formal board approval as required by the school code. The Administration will be more conscientious to ensure items are presented on the board agenda for approval.”

## **Auditor Conclusion**

We are encouraged that management plans on addressing the issues noted in this finding. We will evaluate the effectiveness of any corrective action during our next audit of the District.

## **Status of Prior Audit Findings and Observations**

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**O**ur prior audit of the North Schuylkill School District did not include any findings or observations.

## Distribution List

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

The Honorable Tom W. Wolf  
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