PERFORMANCE AUDIT

Centennial School District

Bucks County, Pennsylvania

February 2016

EUGENE A. DEPASQUALE • AUDITOR GENERAL •

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

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EUGENE A. DePASQUALE
AUDITOR GENERAL

Dr. David E. Baugh, Superintendent
Centennial School District
433 Centennial Road
Warminster, Pennsylvania 18974

Mr. Charles Kleinschmidt, Board President
Centennial School District
433 Centennial Road
Warminster, Pennsylvania 18974

Dear Dr. Baugh and Mr. Kleinschmidt:

We have conducted a performance audit of the Centennial School District (District) for the period August 5, 2011 through September 15, 2015. We evaluated the District's performance in the following areas:

- Governance
- Contracting
- School Safety
- Bus Driver Requirements
- Administration Buy Out

This audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with the *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 objectives.

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

- The District Paid Over $136,000 as a Result of Terminating the Former Superintendent

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

Sincerely,

Eugene A. DePasquale
Auditor General

February 4, 2016

cc: **CENTENNIAL SCHOOL DISTRICT** Board of School Directors

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Background Information[i]

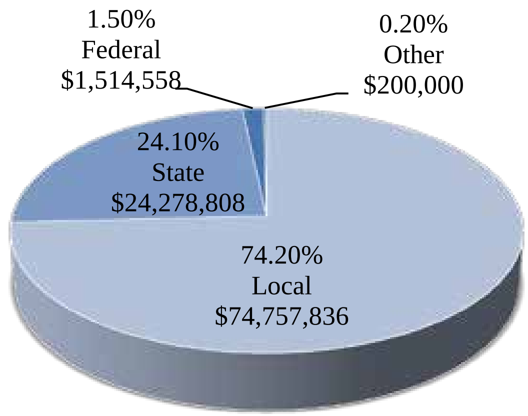
School Characteristics 2014-15 School Year[ii]	
County	Bucks
Total Square Miles	17
Resident Population[iii]	48,875
Number of School Buildings	6
Total Teachers	419
Total Full or Part-Time Support Staff	427
Total Administrators	30
Total Enrollment for Most Recent School Year	5,538
Intermediate Unit Number	22
District Vo-Tech School	Middle Bucks Institute of Technology

Mission Statement

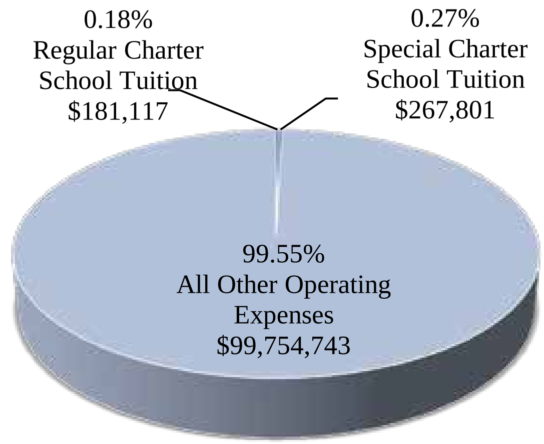
"A Diverse Learning Community Where Students Succeed Through Academics, Athletics and the Arts Inspiring Students, Building Intellect, Forging Partnerships."

Financial Information

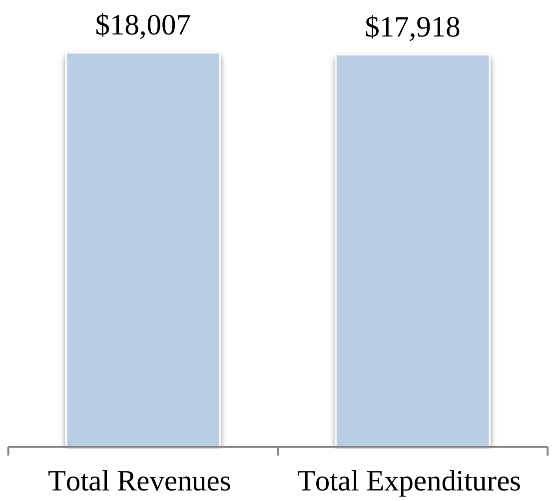
Revenue by Source for 2013-14 School Year



Select Expenditures for 2013-14 School Year

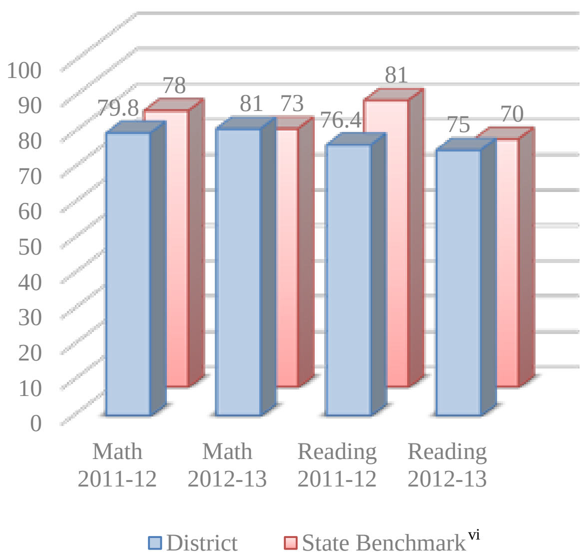


Dollars Per Student
2013-14 School Year



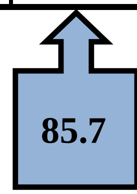
Academic Information

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 of 73% Above or Below**	**PSSA % School Proficient and Advanced in Reading**	**PSSA % Statewide Benchmark of 70% Above or Below**	**Federal Title I Designation (Reward, Priority, Focus, No Designation)[ix]**
Davis Elementary	84.4	89	16	73	3	N/A
Klinger Middle School	91	80	7	79	9	N/A
Log College Middle School	84.2	85	12	79	9	N/A
McDonald Elementary	80.8	81	8	65	5	No Designation
William Tennent High School	80.9	77	4	81	11	N/A
Willow Dale Elementary	76.4	80	7	71	1	No Designation

Finding — The District Paid Over $136,000 as a Result of Terminating the Former Superintendent

On February 24, 2011, the Board of School Directors (Board) entered into an employment agreement (Agreement) with the Former Superintendent (Superintendent). The Agreement was for a three year and four month period of February 24, 2011 through June 30, 2014. However, on May 28, 2013, the District and the Superintendent voluntarily entered into a Contract Rescission and General Release (CRGR), which rescinded the Agreement dated February 24, 2011, and terminated it effective June 30, 2013. The purpose of the CRGR was to conclude the Superintendent's employment with the District. As a result of terminating the Agreement, after only two years and three months of the Agreement, the District incurred the following costs totaling $136,625 in accordance with the CRGR:

- A severance payment of $118,575, equal to nine months of the Superintendent's 2012-13 salary.
- Paid administrative leave in the amount of $13,986 covering the period May 28, 2013 through June 30, 2013.
- Reimbursement of medical premiums in the amount of $4,064 for premiums incurred by the Superintendent from July 1, 2013 through March 31, 2014.

The May 28, 2013, board minutes noted the Superintendent would resign effective June 30, 2013, and the Assistant Superintendent had been appointed as Substitute Superintendent. There was no reason disclosed for entering into the CRGR.

However, as part of the CRGR (Exhibit A), there was a joint public statement that was provided to the general public in May 2013, which stated:

> The Board for the District and the Superintendent have mutually agreed to terminate the Superintendent's employment as the District's Superintendent of the Schools, effective June 30, 2013.

Criteria relevant to the finding:

The Superintendent's employment agreement termination provisions states in part:

"<u>Termination of Employment Agreement</u>

The Agreement is made in accordance with and subject to the terms, conditions, and limitations contained in the Public School Code, as amended. As a result, this Agreement may be terminated by either party for all reasons permitted by the law and subject to all terms, conditions, and limitations established in law with respect to the termination of this Agreement."

"<u>Termination without Cause states in part:</u>

The Superintendent acknowledges that the parties agree that the District may terminate her employment without cause and at any time provided that if the District terminates the employment pursuant to this paragraph. The Superintendent shall be entitled to receive full pay and benefits for the remainder of her appointment from the date of the Superintendent termination."

Criteria relevant to the finding (continued):

"<u>The Contract Rescission and General Release states in part</u>:

"<u>Payment of Salary by School District</u>

The School District shall pay the balance of salary owned to the Superintendent through June 30, 2013."

"<u>Severance Payment</u>

Consistent with the terms outlined in Paragraph 10 of the Superintendent's February 4, 2011, employment contract, the District shall make a lump sum payment of $118,575, which is equal to nine (9) months of the Superintendent's 2012-13 salary within (30) days of the execution of this Agreement."

"<u>Placement on Administrative Leave</u>

The Superintendent shall be placed on paid administrative leave beginning the date of this Agreement until her last date of employment, June 30, 2013."

> Under the Public School Code (PSC),[1] and the terms of the Superintendent's employment contract, the Board was required to notify the Superintendent whether it intended to retain the Superintendent for an additional term of office at least 150 days before the expiration of her current Agreement. Consistent with the legal obligation, the Board notified the Superintendent that it did not intend to renew the employment contract. After receiving such notification and reflecting upon it, the Superintendent advised the Board that she would be willing to leave her position earlier than June 30, 2014, as specified in her contract, in order to accelerate the transition to a new administrative leader for the District.
>
> The Board and Superintendent have agreed upon a rescission agreement that they both believe serves the District's best interests. The Board appreciates the Superintendent's years of service with the District as both an educator and an administrator.
>
> The Superintendent is deeply grateful for the many opportunities the District has afforded her over her 17 years of service. She wishes the District well as it continues to endeavor to provide the best possible education for the community's children.

Although there was a public statement regarding the termination of the Superintendent, the Board did not disclose its reason for entering into such termination agreement, and by not doing so, the general public was deprived of an opportunity to discuss and question its merit.

We reported a similar issue in our previous audit, as noted in the status section of this report (see page 7), when another contracted administrator did not fulfill the entire term of the contract, which cost the District $230,775. The continued practice of removing contracted administrators prior to fulfilling the entire term of their contracts continues to cost the District's taxpayers money.

[1] 24 P.S. § 10-1073(b).

"<u>Reimbursement for COBRA Coverage</u>

Once the superintendent's employer-provided health care covers coverage expires on June 30, 2013, if the Superintendent elects to continue School District group health care coverage pursuant to COBRA, the School District agrees to reimburse the Superintendent for the actual cost incurred by her for single coverage until March 31, 2014."

Recommendations

The *Centennial School District* should:

1. Review its hiring practices and policies for administrators to determine if changes need to be made to these practices or hiring policies in an attempt to hire the most qualified individuals who align with the District's mission and Board's expectations. This would help to avoid continued turnover and costly separations.

2. Negotiate first time contracts with future superintendents at the minimum term of three years as allowed by the PSC.

3. Disclose in advance to the general public the reasons for entering into agreements and the associated costs with soon-to-be retired or former employees, such as superintendents.

4. Include a stipulation in future buy-out agreements, if any, to ensure a prorated portion of the buy-out would be returned if subsequent employment is attained.

Management Response

Management stated the following:

District management agreed with the finding and acknowledged the cost to the District of early termination agreements.

Auditor Conclusion

We are encouraged that the District acknowledged our concern and costs of paying individuals to terminate contracts/agreements early. We will evaluate the corrective actions taken by the Board and administration during our next audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the District released on December 20, 2012, 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 the status section below.

Auditor General Performance Audit Report Released in December 20, 2012

Prior Observation: **The District Paid $230,775 as a Result of Placing the Assistant Superintendent on Administrative Leave**

Prior Observation Summary: Our prior audit of the District found that on January 11, 2010, the Board placed the Assistant Superintendent on "administrative leave" and exercised its "right to buy-out the contract" under the termination without cause provision after only 1 year and 11 months into its term. This action triggered the provisions in the Agreement to force the District to make the following payments to the Assistant Superintendent in the amount of $230,775. Salary for the period January 12, 2010 through June 30, 2011, was $210,656 and benefits for the same period were $20,119. Such generous terms are not in the best interest of the taxpayers.

Prior Recommendations: We recommended that the District should:

1. Ensure that future employment agreements with prospective administrators do not contain overly generous early termination provisions that may negatively impact the District and its taxpayers.

2. Provide as much information as possible to the taxpayers of the District explaining the reasons for the termination of the Assistant Superintendent and justifying the District's expenditure of public funds.

Current Status: During our current audit, we interviewed the Superintendent and Business Manager, requested a copy of the Board Reply to the Pennsylvania Department of Education (PDE), and reviewed contracts for administrators who separated from employment after the release of our previous audit. We found that the District has implemented our recommendations. Our review of three employment agreements/

contracts entered into subsequent to December 20, 2012, found the District has started to include such language as “In the event of a termination pursuant to this subsection, the District shall not be required to pay, and the employee shall not receive, salary payment or benefits payable and/or retirement benefits vesting after the effective date of termination. The effective date for the purposes of this provision in the event of termination pursuant to the above subsections, shall be the date of the majority vote for termination by the Board.”

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 local education agency (LEA). The results of these audits are shared with LEA management, the Governor, 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 August 5, 2011 through September 15, 2015. 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 controls[3] 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, 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.

[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 efficiency and effectiveness in the following areas:

- Governance
- Contracting
- School Safety
- Bus Driver Requirements
- Administration Buy Out

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

- Did the LEA's Board of School Directors (Board) and administration maintain best practices in overall organizational governance?

    - To address this objective, we surveyed the District's current Board, 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.

- 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 bids awarded for goods and services that were in effect for the 2012-13 school year. We randomly selected 3 out of 32 awarded bids for detailed testing of those contracts. 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 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 and were the termination provisions followed?

  - o To address this objective, we reviewed the contracts, settlement agreements, board meeting minutes, board policies, and payroll records for all eight administrators who separated from employment with the District during the period August 5, 2011 through June 11, 2015.

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

  - o To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, and after action reports. In addition, we conducted on-site reviews at three out of the District's six school buildings (two elementary schools and one middle school) to assess whether the District had implemented basic safety practices.

- 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?[4] Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?

  - o To address this objective, we selected 5 of the 38 bus drivers hired by the District during the time period June 9, 2011 through January 29, 2015, and reviewed documentation to ensure the District complied with bus driver's requirements. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures were sufficient to ensure compliance with bus driver hiring requirements.

[4] 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:

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

The Honorable Pedro A. Rivera
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Timothy Reese
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Mrs. Danielle Mariano
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Pennsylvania Department of Education
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Dr. David Wazeter
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Harrisburg, PA 17105

Mr. Lin Carpenter
Assistant Executive Director for Member Services
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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.

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[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 significant 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 significant 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.