

# PERFORMANCE AUDIT

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## Hazleton Area School District Luzerne County, Pennsylvania

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June 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

Dr. Craig Butler, Superintendent  
Hazleton Area School District  
1515 West 23rd Street  
Hazle Township, Pennsylvania 18202

Mr. Clarence John, Board President  
Hazleton Area School District  
1515 West 23rd Street  
Hazle Township, Pennsylvania 18202

Dear Dr. Butler and Mr. John:

We have conducted a performance audit of the Hazleton Area School District (District) for the period July 1, 2012 through June 30, 2015, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. We evaluated the District's performance in the following areas:

- Financial Stability
- Contracting
- Administrator Contract Buyout
- School Safety
- Bus Driver Requirements
- Certification

The 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.

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".

Eugene A. DePasquale  
Auditor General

June 16, 2016

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

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## Background Information<sup>i</sup>

School Characteristics 2014-15 School Year <sup>ii</sup>	
County	Luzerne
Total Square Miles	248.5
Resident Population <sup>iii</sup>	72,891
Number of School Buildings	13
Total Teachers	768
Total Full or Part-Time Support Staff	550
Total Administrators	47
Total Enrollment for Most Recent School Year	10,896
Intermediate Unit Number	18
District Vo-Tech School	District Operated

### Mission Statement

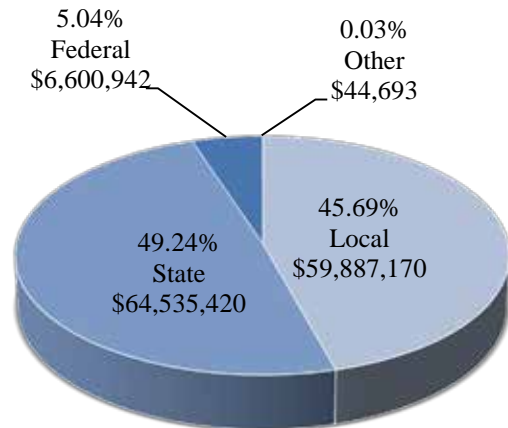
“The mission of the Hazleton Area School District is to provide a challenging and enriching education where all students are exposed to high academic standards; a rigorous curriculum, and integrated technology in an inclusive environment.”

Vision:

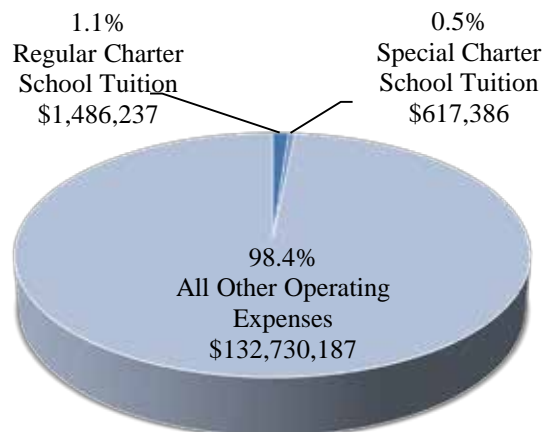
“The Hazleton Area School District prides itself in providing a pathway to a safe stimulating (learning) environment where each student is afforded the opportunity to become knowledgeable, responsible, and productive individuals, who can succeed in a diverse global community.”

## Financial Information

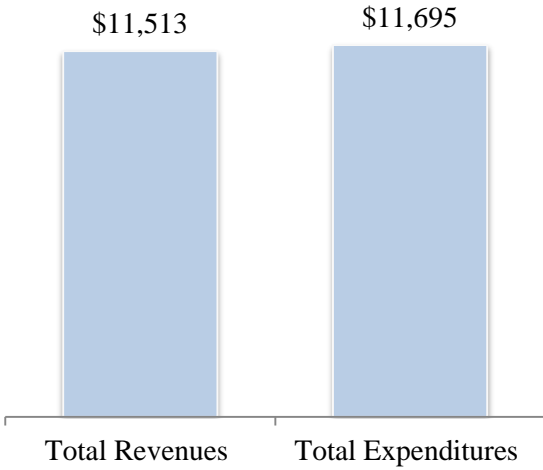
### Revenue by Source for 2014-15 School Year



### Select Expenditures for 2014-15 School Year

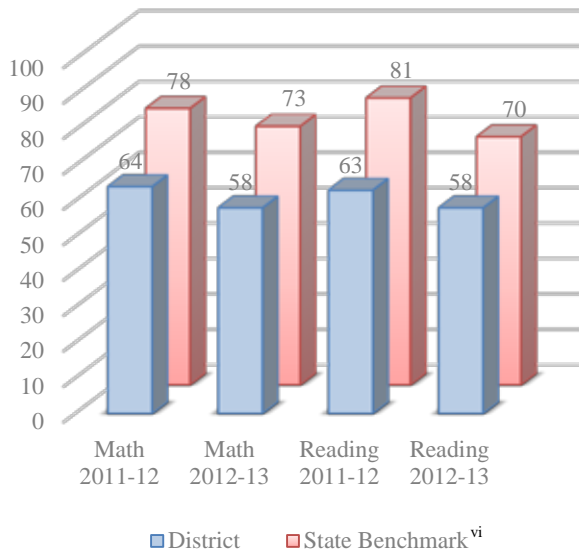


**Dollars Per Student  
2013-14 School Year**



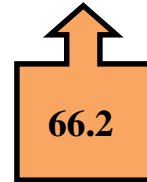
**Academic Information**

**Percentage of District Students Who Scored "Proficient" or "Advanced" on 2011-12 and 2012-13 PSSA<sup>iv v</sup>**



**District's 2012-13 SPP Score<sup>vii</sup>**

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



**Individual Building SPP and PSSA Scores<sup>viii</sup>  
2012-13 School Year**

<b>School Building</b>	<b>SPP Score</b>	<b>PSSA % School Proficient and Advanced in Math</b>	<b>PSSA % Statewide Benchmark of 73% Above or Below</b>	<b>PSSA % School Proficient and Advanced in Reading</b>	<b>PSSA % Statewide Benchmark of 70% Above or Below</b>	<b>Federal Title I Designation (Reward, Priority, Focus, No Designation)<sup>ix</sup></b>
Arthur Street El School	63.7	N/A	N/A	N/A	N/A	No Designation
Drums El/MS	80.1	81	8	75	5	N/A
Freeland El/MS	66.1	59	14	59	11	No Designation
Hazleton Area HS	58.2	46	27	65	5	N/A
Hazleton El / MS	61.7	44	29	44	26	Focus
Heights Terrace El/MS	58.7	56	17	47	23	No Designation
McAdoo-Kelayres El/MS	54.1	55	18	57	13	No Designation
Valley El/MS	91.7	84	11	80	10	N/A
West Hazleton El/MS	66.1	55	18	53	17	No Designation

## **Findings and Observations**

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**F**or the audited period, our audit of the District resulted in no findings or observations.

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

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Our prior audit of the District released on May 8, 2014, resulted in one finding and one observation. We also conducted an audit of the District titled, “Altered Superintendent Employment Contract” released on June 5, 2013, resulting in two observations (see Prior Observation Nos. 2 and 3 below). As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We reviewed the District’s written response provided to the Pennsylvania Department of Education (PDE), interviewed District personnel, and performed audit procedures as detailed in each status section below.

### **Auditor General Audit Reports Released on May 8, 2014 and June 5, 2013**

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**Prior Finding:**

**Errors in Student Data Reporting Resulted in Underpayments to the District of \$38,717**

Prior Finding Summary:

Our prior audit of the District for the 2008-09 and 2009-10 school years found a lack of internal control and membership reporting errors for children placed in private homes (foster children) and state wards, resulting in underpayments of Commonwealth-paid tuition of \$31,803 for the 2008-09 school year and \$6,914 for the 2009-10 school year, a total underpayment of \$38,717.

Prior Recommendations:

We recommended that the District should:

1. Establish internal controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions, including reconciliations of the data that is uploaded into PDE’s Pennsylvania Information Management System to District records.
2. Compare placement agency letters for foster children with District reports to ensure that student membership is properly classified.
3. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
4. Review subsequent years’ reports and, if errors are found, submit revised reports to PDE.



We also recommended that PDE should:

5. Adjust the District's allocations to resolve the underpayments of \$38,717.

Current Status:

During our current audit, we found that the District did implement our prior recommendations. The District has implemented internal controls that include ensuring placement agency letters match student membership and internally reviewing membership reports prior to submission to PDE. As of April 28, 2016, PDE had not resolved the \$38,717 underpayments. Therefore, we again recommend that PDE adjust the District's subsidy to resolve the outstanding underpayments of \$38,717.

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**Prior Observation No. 1:**

**Payments for Unused Vacation Days Were Unnecessarily Inflated**

Prior Observation Summary:

Our prior audit of the District's payroll and leave records for the period July 1, 2008 through June 30, 2011, found that District personnel inaccurately calculated the daily rates used to determine payments for unused vacation days at the time staff retired. The District used 220 days to calculate a daily rate instead of the more accurate 260 days, resulting in inaccurate payments. The District overpaid vacation payouts of \$10,012 for this time period.

Prior Recommendations:

We recommended that the District should:

1. Divide yearly salary by 260 or 261 calendar workdays to determine the daily rate used to pay unused vacation days.
2. Consult with the District's solicitor to determine if reconciliations for prior payments should be pursued.

Current Status:

During our current audit, we found that the District did implement our prior recommendations. Board action was taken and recorded in the official board meeting minutes to address dividing the yearly salary by 260 workdays (instead of 220 days) to determine the daily rate used to pay for unused vacation days.

**Prior Observation No. 2: District Entered into a Separation Agreement with its Former Superintendent Worth at least \$179,843**

Prior Observation Summary: Our prior audit of the District found that on July 28, 2011, the Board of School Directors (Board) voted to enter into a Separation Agreement (Agreement) to release the former Superintendent from performance of his duties. This Agreement ended the former Superintendent's five-year contract after only two years. The Agreement stated that the former Superintendent would be paid his annual salary on a leave of absence covering the period July 31, 2011 through August 1, 2012, which amounted to \$179,843 for salary and benefits. The former Superintendent would then retire following the paid leave of absence, effective August 2, 2012.

Prior Recommendations: We recommended that the District should:

1. Enter into employment contracts with prospective superintendents at the three-year minimum term permitted by state law, in order to limit potential financial liability by the District and its taxpayers.
2. Ensure that future employment contracts with prospective administrators contain adequate termination provisions sufficient to protect the interests of the District and its taxpayers in the event that the employment ends prematurely for any reason.
3. Provide as much information as possible to the taxpayers of the District explaining the reasons for entering into the Agreement with the former Superintendent and justifying the District's expenditure of public funds for this purpose.
4. Upon termination of any employee, follow provisions of the contract and pay only what is due to the employee prorated for the term of services provided.

Current Status: During our current audit, we found that the District did implement our prior recommendations. The District and the current Superintendent are entered into a three year contract, and it contains adequate termination provisions.

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**Prior Observation No. 3:**

**Possible Improper Reporting of Retirement Wages and Service Years**

Prior Observation Summary:

Our prior audit of the District's former Superintendent's employment contracts, Agreement, and payroll records found that the District may have improperly reported ineligible retirement wages to PSERS for the 2011-12 school year. Based on the Agreement's description, it appears that the former Superintendent's \$130,000 salary may not have been eligible for inclusion in PSERS as either a full-time or a part-time employee.

Prior Recommendations:

We recommended that the District should:

1. Contingent upon PSERS's final determination, report to PSERS only those wages allowable for retirement purposes, as stated in the PSERS Employer Reference Manual.
2. Implement procedures for reviewing all salary and contribution reports to ensure that only eligible wages are being reported to PSERS for retirement contributions.

We also recommended that PSERS should:

3. Review the propriety of the wages and service credits for the above mentioned employee and make any necessary adjustments.

Current Status:

During our current audit, we found the District did implement our prior recommendations. In addition, PSERS did adjust the former Superintendent's retirement wages.

## **Appendix: Audit Scope, Objectives, and Methodology**

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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,<sup>1</sup> is not a substitute for the local annual financial 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. 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 July 1, 2012 through June 30, 2015. In addition, the scope of each individual audit objective is detailed on the next page.

The District's management is responsible for establishing and maintaining effective internal controls<sup>2</sup> 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.

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<sup>1</sup> 72 P.S. § 403.

<sup>2</sup> 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:

- Financial Stability
- Contracting
- Administrator Contract Buyout
- School Safety
- Bus Driver Requirements
- Certification

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

- 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?
  - o 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 2010 through 2015. 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. The benchmarks are based on best business practices established by several agencies, including PASBO, the Colorado Office of the State Auditor, and the National Forum on Education Statistics.
- ü Did the District ensure that its significant contracts were current and were properly obtained, approved, executed, and monitored?
  - o 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 exceeding \$25,000 that were in effect for the 2014-15 school year. We haphazardly selected 6 out of these 164 significant contracts for detailed testing. Testing included a review of the procurement documents to determine if the contract was procured in accordance with the Public School Code 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 contracts contain adequate termination provisions?
  - To address this objective, we reviewed the contract, Administrator Compensation Plan, board meeting minutes, board policies, and payroll and leave records for one administrator who had retired from the District during the 2014-15 school year.
  
- Ü Did the District take appropriate actions to ensure it provided a safe school environment?
  - 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 3 out of the District's 13 school buildings (one from each education level) 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?<sup>3</sup> Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?
  - To address this objective, we randomly selected 5 of the 41 bus drivers hired by District bus contractors, during the period July 1, 2012 through February 25, 2016, 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.
  
- Ü Did the District take appropriate actions to ensure all teachers and administrators are properly certified?
  - To address this objective, we reviewed board meeting minutes from July 1, 2012 through December 15, 2015, and found the District hired 166 new teachers and administrators. We randomly selected 50 percent of teachers and 50 percent of administrators from 166 for testing. We reviewed the selected teachers and administrators to ensure that each had the correct level of certification for their position.

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<sup>3</sup> 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**

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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**

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**

Director  
Bureau of Budget and Fiscal Management  
Pennsylvania Department of Education  
4th Floor, 333 Market Street  
Harrisburg, PA 17126

**Dr. David Wazeter**

Research Manager  
Pennsylvania State Education Association  
400 North Third Street - Box 1724  
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](http://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](mailto:news@PaAuditor.gov).

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<sup>i</sup> Source: School district, PDE, and U.S. Census data.

<sup>ii</sup> Source: Information provided by the District administration.

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

<sup>iv</sup> 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.

<sup>v</sup> 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.

<sup>vi</sup> 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.

<sup>vii</sup> 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.

<sup>viii</sup> *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.

<sup>ix</sup> 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.