

PLUM BOROUGH SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2011

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Kevin Dowdell, Board President
Plum Borough School District
900 Elicker Road
Plum, Pennsylvania 15239

Dear Governor Rendell and Mr. Dowdell:

We conducted a performance audit of the Plum Borough School District (PBSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period July 3, 2006 through February 20, 2009, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2006, and June 30, 2005, as they were the most recent reimbursements subject to audit. Our audit was conducted pursuant to 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 PBSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit findings and recommendations have been discussed with PBSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PBSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the PBSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

August 29, 2011

cc: **PLUM BOROUGH SCHOOL DISTRICT** Board Members

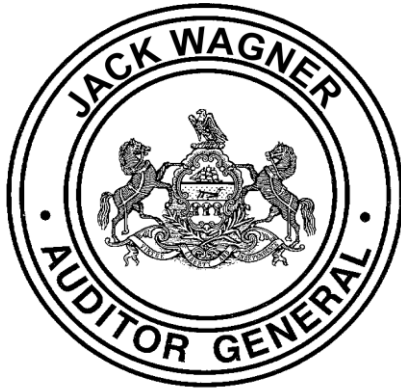
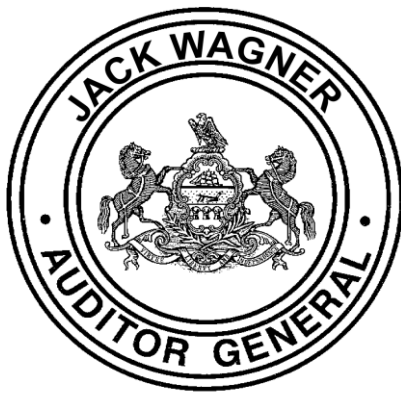


Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding No. 1 – The District Spent \$220,406 on an Agreement that Prematurely Terminated Its Superintendent’s Employment	6
Finding No. 2 – Inadequate Documentation to Support Pupil Membership Data	9
Status of Prior Audit Findings and Observations	11
Distribution List	13



Executive Summary

Audit Work

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

Our audit scope covered the period July 3, 2006 through February 20, 2009, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2005-06 and 2004-05 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

District Background

The PBSD encompasses approximately 28 square miles. According to 2000 federal census data, it serves a resident population of 26,940. According to District officials, in school year 2005-06 the PBSD provided basic educational services to 4,368 pupils through the employment of 293 teachers, 155 full-time and part-time support personnel, and 25 administrators. Lastly, the PBSD received more than \$16.9 million in state funding in school year 2005-06.

Audit Conclusion and Results

Our audit found that the PBSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings.

Finding No. 1: The District Spent \$220,406 on an Agreement that Prematurely Terminated Its Superintendent's Employment. On April 29, 2008, the Board approved a Memorandum of Understanding between the PBSD and the Superintendent, in which the PBSD accepted the Superintendent's irrevocable retirement effective June 30, 2008. The retirement occurred one year prior to the end of the Superintendent's employment contract and resulted in costs to the PBSD of \$220,406 (see page 6).

Finding No. 2: Inadequate Documentation to Support Pupil Membership Data. Our review of child accounting records for the 2005-06 and 2004-05 school years found that the PBSD did not retain documentation to support dates of entry and withdrawal that are used in calculating membership days reported to the Department of Education (DE) (see page 9).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the PBSB from an audit we conducted of the 2003-04 and 2002-03 school years, we found the PBSB had not taken appropriate corrective action in implementing our recommendation to monitor the accuracy of membership data prior to reporting such data to DE (see page 11).

The PBSB has taken appropriate corrective action in implementing our recommendations pertaining to bus drivers' qualifications (see page 12).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the 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 PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 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 3, 2006 through February 20, 2009, except for the verification of professional employee certification which was performed for the period July 1, 2006 through June 30, 2008.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 DE 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

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the PBSB's compliance with applicable 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:

- ✓ Were professional employees certified for the positions they held?

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 law, regulation, 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.

- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

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 applicable 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 findings, observations 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.

PBSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit 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/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

Additionally, we interviewed selected administrators and support personnel associated with PBSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 12, 2007, we reviewed the PBSD's response to DE dated September 24, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

The District Spent \$220,406 on an Agreement that Prematurely Terminated Its Superintendent's Employment

Criteria relevant to the finding:

Section 1073 of the Public School Code requires a school board to notify an incumbent superintendent at least 150 days prior to the expiration of the superintendent's contract that the board intends to retain the superintendent for an additional term of 3 to 5 years or that the board intends to consider other candidates for the position.

Section 1073 of the Public School Code requires school districts to enter into three-to-five-year employment contracts with their superintendents. On November 25, 2003, the board of school directors (Board) of the Plum Borough School District (PBSD) entered into an employment contract (Contract) with an individual (Superintendent) to serve as the PBSD's superintendent. The Contract had a term of five years, from July 1, 2004 to June 30, 2009. The Contract provided compensation to the Superintendent of \$121,193 in the first year, as well as a variety of benefits.

The Contract also included the following provisions:

Mutual Termination. This contract may be terminated prior to the stated term by mutual consent of the parties, in which event the School District shall have no further responsibility or liability of any nature whatsoever to the Superintendent.

Termination for Cause. The School District shall have the right to terminate this agreement and dismiss the Superintendent for any of the causes [i.e., neglect of duty, incompetency, intemperance, or immorality] set forth in Section 1080 of the Pennsylvania Public School Code of 1949, as amended.

On April 29, 2008, the Board approved a Memorandum of Understanding (Memorandum) between the PBSD and the Superintendent in which the PBSD accepted the Superintendent's "irrevocable retirement" effective June 30, 2008, one year before the end of the employment term set by the Contract. The accompanying resolution by the Board stated, in part:

WHEREAS, the Superintendent previously advised the School District that he would not accept another term of office; and

WHEREAS, the School Board has previously issued a Section 1073 Notice to the Superintendent informing him that his term would not be renewed; and

WHEREAS, because the Superintendent would thus be unavailable to complete implementation of various long-term educational and personnel programs that will be initiated prior to June 30, 2009, it has been mutually agreed that a June 30, 2008 retirement would be an earlier and mutually acceptable transition date.

The Memorandum exercised the Mutual Termination provision of the Contract, even as it also stated that the implementation of the Memorandum “shall not be construed as a termination, defacto [sic] or otherwise. . . .

The Memorandum required the PBSB to provide payments and benefits amounting to \$220,406 to the Superintendent, as follows:

- A lump-sum payment of \$138,000 on June 30, 2008, described as “in lieu of any and all sums or benefits the Superintendent would have been entitled to pursuant to the Superintendent Contract.” By that date, the Superintendent could also use any vacation, personal, or other paid days to which he was entitled, but he would not receive payment for any unused days.
- Term life insurance policy of \$10,000 for the duration of the Superintendent’s retirement. The term life insurance policy on the life of the Superintendent will cost the District \$306 based on current life expectancy tables.
- Medical, vision, and dental coverage for the Superintendent and his spouse, to continue until such time as both are eligible for Medicare. The PBSB will pay the premium, less the Superintendent’s co-payment of \$100 per month. Coverage for the Superintendent and his wife until the year 2014 is expected to cost the District \$89,300, less the co-pay amount of \$7,200, or \$82,100.

It should be noted that under the Mutual Termination provision of the Contract the PSMD was not required to make any of these payments.

Recommendations

The *Plum Borough School 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 PBSB and its taxpayers.
2. Ensure that future employment contracts are followed, to protect the interests of PBSB and its taxpayers when employment ends prematurely for any reason.

Management Response

Management stated the following:

The Superintendent previously advised the School District that he intended to retire at the end of his contract term and would not accept another term of office. The School Board had previously issued a Section 1073 notice to the Superintendent informing him that his term would not be renewed. The Superintendent would be unavailable to complete implementation of various long-term educational and personnel programs that were to be initiated prior to June 30, 2009. The Superintendent and the School District agreed that a June 30, 2008 retirement would be an acceptable transition date.

A copy of the Memorandum of Understanding between [the individual] and the District and the monthly Treasurer's report were public documents presented at the public school board meeting. A press release was issued to the media. The public was afforded an opportunity to comment on the issue at the school board meeting held on August 29, 2008 and again on May 21, 2008.

Auditor Conclusion

The finding provides disclosure of an event that had a significant impact on the taxpayers of the District. The finding stands as written.

Finding No. 2

Inadequate Documentation to Support Pupil Membership Data

Criteria relevant to the finding:

Section 518 of the Public School Code requires that records be retained for a period of not less than six years.

DE guidelines and instructions require the maintenance and retention of adequate documentation to verify the District's entitlement to state payments.

Our review of child accounting records for the 2005-06 and 2004-05 school years found that the PBSO did not retain entry and withdrawal forms that verify the membership days reported to the Department of Education (DE).

We were consequently unable to verify if membership days were correctly reported to DE.

As a result, we were unable to verify that the District received the correct amount for subsidies and reimbursements based on membership data. The subsidies and reimbursements received for the audited years were as follows:

<u>Description</u>	<u>2005-06</u>	<u>2004-05</u>	<u>Totals</u>
Basic Education Funding	\$11,266,123	\$10,703,559	\$21,969,682
Special Education Subsidy	2,102,762	2,054,533	4,157,295
Tuition for Children Placed in Private Homes	9,339	17,109	26,448
Vocational Education Subsidy	<u>126,326</u>	<u>153,161</u>	<u>279,487</u>
Totals	<u>\$13,504,550</u>	<u>\$12,928,362</u>	<u>\$26,432,912</u>

We also noted that the District does not have written procedures for the child accounting function. Written procedures are necessary for the effective management of child accounting.

Recommendations

The *Plum Borough School District* should:

1. Develop and implement procedures to ensure supporting documentation for child accounting data reported to DE is available for audit.
2. Establish written procedures for the child accounting function.
3. Maintain entry and withdrawal forms to document the accuracy of membership reports.

Management Response

Management stated the following:

The District will direct each building Principal to have their Administrative Assistants review each student record for students enrolling and withdrawing from the District on a monthly cycle to insure all information is accurately entered into the system. Each Building Principal will maintain a sign-off sheet denoting each month's reconciliation and [it] will be forwarded to the Superintendent's office and the Child Accounting Office.

Status of Prior Audit Findings and Observations

Our prior audit of the Plum Borough School District (PBSB) for the school years 2003-04 and 2002-03 resulted in one reported finding and one observation. The finding pertained to computer controls over data supporting membership reports and the observation pertained to internal control weaknesses 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 recommendations. We analyzed the PBSB Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the PBSB did not implement all recommendations related to the finding, but did implement our recommendations related to the observation.

School Years 2003-04 and 2002-03 Auditor General Performance Audit Report

Finding: **Inadequate Computer Controls Over Data Supporting Membership Reports**

Finding Summary: Our prior audit of pupil membership records for the 2003-04 school year found that the District's computer system had control weaknesses and the District did not monitor the accuracy of membership data reported to DE.

Recommendations: Our prior audit finding recommended that PBSB:

1. Determine the source of the problem with the computer program and implement appropriate corrections and develop controls to monitor the accuracy of membership data prior to reporting such data to DE.
2. Review membership reports filed for the years subsequent to the audit period and, if errors are found, submit revised reports.

Current Status: Based on the results of our current audit, we concluded that the PBSB did not take appropriate corrective action to address this finding. (See Finding No. 2, Page 9).

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

Observation

Summary:

Our prior audit of bus drivers employed by the PBSB found that PBSB did not have written policies or procedures in place to ensure it was notified if current employees were charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.

Recommendations: Our prior audit observation recommended that PBSB:

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

Current Status:

Based on the results of our current audit, we concluded that the PBSB did take appropriate corrective action to address this observation. All bus drivers are now required to sign an annual statement indicating compliance with District policies and legal requirements.

Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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Commonwealth of Pennsylvania
Harrisburg, PA 17120

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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

