

REYNOLDS SCHOOL DISTRICT
MERCER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 2011

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

Mr. John W. Lowry, Board President
Reynolds Area School District
531 Reynolds Road
Greenville, Pennsylvania 16137

Dear Governor Corbett and Mr. Lowry:

We conducted a performance audit of the Reynolds School District (RSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 9, 2007 through November 19, 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, 2008, 2007, 2006 and 2005. 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 RSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

June 2, 2011

cc: **REYNOLDS SCHOOL DISTRICT** Board Members



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Executive Summary

Audit Work

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

Our audit scope covered the period March 9, 2007 through November 19, 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 2007-08, 2006-07, 2005-06 and 2004-05.

District Background

The RSD encompasses approximately 88 square miles. According to 2000 federal census data, it serves a resident population of 10,158. According to District officials, in school year 2007-08 the RSD provided basic educational services to 1,299 pupils through the employment of 96 teachers, 64 full-time and part-time support personnel, and 13 administrators. Lastly, the RSD received more than \$11.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the RSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: The District Incurred Additional Costs Totaling \$74,834 as a Result of Terminating the Superintendent's Employment with the District. The RSD entered into an agreement with the superintendent to terminate his employment contract prior to the contract end date of July 1, 2009, resulting in additional costs being incurred by the District (see page 5).

Status of Prior Audit Findings and Observations. Our audit report for the school years ended 2003-04 and 2002-03 contained no findings or observations.



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 March 9, 2007 through November 19, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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 Department of Education 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 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.

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 RSD'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:

- ✓ 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?

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.

RSD 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 comparative financial information.

Our audit examined items such as Board meeting minutes.

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

Findings and Observations

Finding

The District Incurred Additional Costs Totaling \$74,834 as a Result of Terminating the Superintendent's Employment with the District

Criteria relevant to the finding:

Section 1073(a) of the Public School Code provides, in part:

The board of school directors of each school district . . . shall elect or approve a properly qualified district superintendent to serve a term of from three to five years from the first day of July next following his election or from a time mutually agreed upon by the duly elected district superintendent and the board of school directors.

On July 28, 2004, the board of school directors (Board) of the Reynolds School District (RSD) entered into an employment contract (Contract) with an individual (Superintendent) to serve as the RSD's superintendent. The Contract had a term of almost five years, from August 1, 2004 to June 30, 2009. The Contract provided compensation to the Superintendent of \$92,000 in the first year, as well as a variety of fringe benefits. In subsequent years, compensation would be increased by at least three percent over the previous year's base salary. Additional increases were at the sole discretion of the Board after annual performance evaluations of the Superintendent.

Employment Contract Termination Provisions

The Contract provided that the Superintendent's employment with RSD would terminate upon any of the following conditions:

- upon the death of the Superintendent;
- in the event the Superintendent becomes permanently disabled, physically or mentally, from performing the services expected of him, such disability to be medically determined;
- upon the Superintendent's removal from office, pursuant to the statutes of the Commonwealth of Pennsylvania; or
- upon the resignation and/or retirement of the Superintendent, with at least sixty (60) days prior written notice to the Board, unless the Board agrees to shorter notice.

The Contract contained no provisions for compensation due to the Superintendent in the event that the Contract was terminated prior to June 30, 2009.

Buy-out Agreement Terms

On November 7, 2008, with eight months remaining in the Contract, the Board and the Superintendent signed an Agreement to end the tenure of the Superintendent. Under the Agreement, the Superintendent agreed to resign effective November 7, 2008, and accept the temporary position of Special Personnel Administrator until December 31, 2008, at his regular rate of pay. In his temporary position, the Superintendent would only report to work or to District premises as directed by the District. The Superintendent never reported to work after the resignation effective date.

The Agreement provided no reasons for the early termination of the Contract. The Agreement stated that the Superintendent “has performed services above and beyond [the District’s] expectations in the area of labor relations for the previous three years” and that the parties “mutually desire to bring to an end [the Superintendent’s] tenure as Superintendent in an amicable manner.” The Superintendent released the District of all claims and the parties agreed not to make any disparaging or defamatory remarks regarding each other.

This agreement provided that the Superintendent would be paid \$124,611.50, such sum representing:

1. \$21,245.32 as payment for salary health benefits from November 7, 2008 through December 31, 2008;
2. \$56,931.61 as payment for salary and health benefits from January 1, 2009 through June 30, 2009;
3. \$12,108.66 for accrued vacation days (29 days at \$417.54 per day), as provided for in the District's Administrative Compensation Plan;
4. \$1,312.00 for a “service stipend”, as provided for in the Administrative Compensation Plan;
5. \$2,512.50 for unused sick leave pursuant to the Contract (33.5 days at \$75.00 per day);

6. \$1,331.25 for a deferred compensation annuity, as provided for in the Administrative Compensation Plan;
7. \$417.54 for “birthday pay” pursuant to the Administrative Compensation Plan; and
8. \$1,252.62 for three personal days at per diem (\$417.54 per day), as provided for in the Administrative Compensation Plan; and
9. \$27,500 as a bonus for “additional and supplemental negotiations services” during the District’s labor negotiations over the previous three years (\$9,166.66 per year).

We requested an explanation for the early termination of the Superintendent’s employment with the District. The District responded that the reason was the Superintendent’s health issues.

Additional Cost To The District

The payments listed above in bullets one through eight were consistent with the District’s monetary obligations to the Superintendent, under the terms of his employment Contract, and the terms of the District’s Administrative Compensation Plan through June 30, 2009. However, the \$27,500 bonus payment for “negotiation services,” described in bullet nine was absent from the Superintendent’s original employment Contract and represents an additional cost to the District.

In addition, on November 7, 2008, the Board entered into an agreement with the District’s high school principal to serve as acting superintendent. Under the terms of this agreement, the District paid the principal a stipend of \$1,000 for service through December 17, 2008. Thus, the District incurred another additional cost that it would not have paid if it had not pursued a contract buy-out.

Finally, the District then hired a new permanent superintendent whose service began on January 17, 2009, and was meant to last until June 30, 2012, but instead ended abruptly on June 30, 2009. During that period, the District paid the new superintendent \$46,334. This period

overlapped with the term of the original Superintendent's Contract, resulting in another additional cost to the District.

Thus, the buy-out of the original Superintendent's Contract cost the District a total of \$74,834 in additional expenses that it would not have incurred if it had simply let the Contract expire.

However, it is important to note that the District's contract with the replacement superintendent did contain adequate termination provisions. Consequently, the District did not incur any additional costs when it was dissolved prematurely.

When the replacement superintendent left, the District once again hired the high school principal as acting superintendent effective July 1, 2009, at a supplemental payment rate of \$50 per day. As of the completion of our audit fieldwork, another superintendent had not yet been hired. However, the District subsequently informed us that it hired another new superintendent effective March 19, 2010. His contract runs through June 30, 2014. We will review the terms of this contract during our next regular audit of the District.

Recommendations

The Reynolds 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 the District and its taxpayers.
2. Ensure that future employment contracts continue to 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. Avoid paying multiple individuals to do the same job for the same period of time.

Management Response

Management stated the following:

The board will incorporate contract language protecting the interests of the district regarding any future superintendent hiring/employment.

Status of Prior Audit Findings and Observations

Our prior audit of the Reynolds School District resulted in no findings or observations.

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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