



**WALLENPAUPACK AREA SCHOOL DISTRICT  
WAYNE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**MAY 2014**

**COMMONWEALTH OF PENNSYLVANIA**  
**EUGENE A. DEPASQUALE - AUDITOR GENERAL**  
**DEPARTMENT OF THE AUDITOR GENERAL**



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen

**EUGENE A. DePASQUALE**  
AUDITOR GENERAL

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

Mr. John Spall, Board President  
Wallenpaupack Area School District  
2552 Route 6  
Hawley, Pennsylvania 18428

Dear Governor Corbett and Mr. Spall:

We conducted a performance audit of the Wallenpaupack Area 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 September 14, 2009 through February 5, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2009 and June 30, 2010. 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 that the District complied, in all significant respects, with relevant requirements. However, we identified one (1) matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit observation 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

May 29, 2014

cc: **WALLENPAUPACK AREA 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 Wallenpaupack Area School District (District) in Wayne County. Our audit sought to answer certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period September 14, 2009 through February 5, 2013, 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 2008-09 and 2009-10 school years.

### **District Background**

The District encompasses approximately 321 square miles. According to 2010 federal census data, it serves a resident population of 25,535. According to District officials, the District provided basic educational services to 3,853 pupils through the employment of 346 teachers, 191 full-time and part-time support personnel, and nineteen (19) administrators during the 2009-10 school year. The District received \$11,588,076 in state funding in the 2009-10 school year.

### **Audit Conclusion and Results**

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, we identified one (1) matter unrelated to compliance that is reported as an observation.

#### **Observation: Payments for Unsued Vacation Days Were Unnecessarily**

**Inflated.** Our audit of the Wallenpaupack Area School District's (District) payroll records for the period from July 1, 2008 through June 30, 2012, found that District personnel used varying administrator work days to calculate daily rates to determine final pays and unused vacation days at the time of retirement (see page 6).

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

**Observations.** With regard to the status of our prior audit recommendations to the Wallenpaupack Area School District (District) from an audit released on June 19, 2012, we found the District had taken appropriate corrective action in implementing our recommendations pertaining to a potential conflict of interest (see page 10).

## 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 September 14, 2009 through February 5, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through December 17, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2008-09 and 2009-10 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:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District received transportation subsidies, was the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ 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?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

## 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, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

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

To determine the status of our audit recommendations made in a prior audit report released on June 19, 2012, we reviewed the District's response to PDE dated August 20, 2012. We then performed additional audit procedures targeting the previously reported matters.



## Findings and Observations

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### Observation →

*Criteria relevant to the observation:*

**United States Department of Labor, Wage, and Hour Division, 29 CFR Part 541:**

**§ 541.602 Salary basis.**

(a) *General rule.* An employee will be considered to be paid on a “salary basis” within the meaning of these regulations if the employee regularly receives each pay period on a weekly, or less frequent basis, a predetermined amount constituting all or part of the employee’s compensation, which amount is not subject to reduction because of variations in the quality or quantity of the work performed. Subject to the exceptions provided in paragraph (b) of this section, an exempt employee must receive the full salary for any week in which the employee performs any work without regard to the number of days or hours worked. Exempt employees need not be paid for any workweek in which they perform no work. An employee is not paid on a salary basis if deductions from the employee’s predetermined compensation are made for absences occasioned by the employer or by the operating requirements of the business. If the employee is ready, willing, and able to work, deductions may not be made for time when work is not available. *(Emphasis added)*

### Payments for Unsued Vacation Days Were Unnecessarily Inflated

Our audit of the Wallenpaupack Area School District’s (District) payroll records for the period from July 1, 2008 through June 30, 2012, found that District personnel used varying administrator work days to calculate daily rates to determine final pays and unused vacation days at the time of retirement.

Each administrator of the District is a twelve-month employee and has a board-approved salary that is divided into 26 bi-weekly pay periods. Each pay period consists of ten (10) days for a total of 260 days for which each administrator’s salary is to be paid. This can also be calculated as 365 days less approximately 105 weekend days, which equals 260 work days. Also, payroll reports note that payment is for ten (10) days per agreement, and according to District personnel, the Board of School Directors (Board) approves salary knowing the actual number of workdays.

According to District personnel, each administrator’s salary is calculated based on 260 days, less seven (7) scheduled snow days and approximately six (6) unpaid holidays, resulting in a total of approximately 247 days that salary is earned or actual days are worked. According to District personnel, unpaid holidays are those days the District buildings are closed, such as the week between Christmas and New Year, and administrators are not required to take leave for these unpaid holidays.

The days used by the District to calculate daily rate vary year by year due to the fluctuations in holidays and/or weekends in the calendar around unpaid holidays. Also, the actual days worked that the District uses to calculate final salary varies depending on the time an employee would retire or resign. If an administrator retires prior to an unpaid holiday, days worked would be based on the calendar. However, salary would still be divided by the 247 days used to calculate the daily rate and then multiplied by the days worked.

We noted that if the payment of salary were determined by 247 and paid through bi-weekly payroll, the salary would not be equal to that approved by the Board. Use of the lower number of days can result in employees either owing the District or being due money when their employment ends, depending on when the employee leaves. Using the lower number of approximately 247 days for calculating daily rates increases the daily rate used to determine final salary and payments for unused days. In addition, depending on when the employee terminates employment, it decreases the number of days the District uses to calculate final salary.

We reviewed payroll and leave records for four (4) administrators who retired between March 2008 and May 2012 and compared their payments to our own calculation using the 260 days. This comparison yielded the following differences:

<b>Sample</b>	<b>Retirement Date</b>	<b>Days per Year</b>	<b>Daily Rate</b>	<b>Days Paid</b>	<b>Underpayment/ (Overpayment)</b>
<u>Employee 1</u>					
<i>Audit</i> District	03/29/10	<b>260</b> 246	<b>\$524.00</b> \$553.82	<b>192</b> 180	\$ 920.40
<u>Employee 2</u>					
<i>Audit</i> District	08/08/08	<b>260</b> 245	<b>\$442.63</b> \$469.73	<b>29</b> 29	\$ (785.90)
<u>Employee 3</u>					
<i>Audit</i> District	08/06/10	<b>260</b> *247	<b>\$404.03</b> \$425.30	<b>27</b> 27	\$ (574.29)
<u>Employee 4</u>					
<i>Audit</i> District	08/24/12	<b>260</b> 245	<b>\$448.57</b> \$476.03	<b>39</b> 40	\$(1,546.97)
*District used 247 to calculate salary. However, they used 246 to calculate payment for unused days.					

In addition to the payments outlined above, the four (4) administrators also received payments for unused vacation days at the time of their retirement. Using the same method of calculating the daily rate as we used above, we estimate inflated payments totaling \$11,662. This includes an inflated payment to the former Assistant Superintendent of \$7,753 for 260 unused vacation days. As noted above, a lower divisor increases the daily rate used to calculate payment for unused days.

For current District employees, the inflated payments for unused leave are paid out annually. For example, the current Superintendent received \$12,898 and \$13,359 in payments for 20 unused days per year at his daily rate based on 246 and 245 days for the 2008-09 and 2009-10 school years, respectively. Using a 260 day-base calculation, the Superintendent would have received \$12,640 and \$12,159 for payments of unused days for the 2008-09 and 2009-10 school years—making his actual payments inflated by \$739 and \$719, respectively. As noted above, effective July 1, 2011, the current Superintendent was to be paid for up to 50 unused vacation days at his daily rate. Based on 50 days per year, potential overpayments could be in excess of \$1,800 per year.

Also, fifteen (15) administrators, including the current Superintendent and three (3) of the four (4) retired administrators, received payments for unused vacation days for the 2008-09 and 2009-10 school years at a per diem determined by using days worked for the year varying from 245 and 247 days. Using fewer than the 260 days used for payroll caused inflated payments of \$4,156 and \$4,245 for the respective school years.

### **Recommendations**

The *Wallenpaupack Area School District* should:

1. Divide yearly salary by 260 or 261 calendar days to determine the daily rate used to pay unused days and final salary.
2. Consult with its solicitor to determine if corrections to prior payments should be pursued.

### **Management Response**

Management stated the following:

“The Wallenpaupack Area School District has been calculating per diem pay for twelve month salaried administrators based on the process outlined in the audit report. Past practice has the Board Secretary calculating administrators’ per diem rates based on 260 days, less the allotted snow days built into the school calendar, less days that school is closed over holiday breaks (unpaid holidays). This process has been in existence for over forty years . . . .

The District will have the Solicitor and the Human Resources Consultant review the US Department of Labor, Wage and Hour Division regulations as provided by the audit. The Board will review the information and make a determination as to the number of contract days, which will become the divisor utilized to determine the per diem rates. Determination of this should be made no later than June 30, 2013, so that any changes can be implemented for the 2013-14 fiscal year. Consultation will take place with the Solicitor as it pertains to prior payments received.”

**Auditor Conclusion**

We are encouraged that the District has committed to re-evaluate its policy regarding leave payout calculations. We will follow up on our recommendations during our next cyclical audit of the District.

## Status of Prior Audit Findings and Observations

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Our prior audit of the Wallenpaupack Area School District (District) released on June 19, 2012, resulted in one (1) reported observation pertaining to a potential conflict of interest. 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 District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior observation. As shown below, we found that the District did implement recommendations related to a potential conflict of interest.

### Auditor General Performance Audit Report Released on June 19, 2012

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**Observation:**

**Potential Conflict of Interest**

Observation Summary:

Our prior audit of District records for the calendar years ended December 31, 2007 and 2008 found that three (3) Board of School Directors (Board) members also served on the board of one (1) of the District's designated depositories that was assigned for general fund deposits. One (1) of the District's board members is also the president of the designated depository.

In 2003, the District entered into investment agreements with proceeds paid in to the District's designated depository. The three (3) board members abstained from approving the bank they are associated with as the District's designated depository. However, they did vote on the investment agreements, which generate funds that are deposited into that bank. Board members approving District transactions that generate funds for the designated depository in which they are associated give the appearance of a conflict of interest.

Recommendations:

Our audit observation recommended that the District should:

Seek the advice of its solicitor concerning the Board's responsibility when conducting transactions that result in a benefit to interrelated businesses.

We also recommended that the State Ethics Commission should:

Investigate these potential conflicts and determine if further action is necessary.

Current Status:

During our current audit, we found that the District did implement our recommendations.

In December 2008, the District terminated its swap agreements, the proceeds of which were deposited into the District's designated depository, eliminating the potential conflict of interest.

Furthermore, our current audit of the District's records for the calendar years ended December 31, 2009, 2010, and 2011, found no potential conflicts of interest.

On June 25, 2012, the Pennsylvania State Ethics Commission replied to the Auditor General's report with a determination that there was insufficient information to enable them to make a determination as to whether there has been a transgression of the Ethics Act. They further noted that no further action would ensue.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following stakeholders:

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

The Honorable Carolyn Dumaresq  
Acting Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

Ms. Lori Graham  
Acting 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.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).