



**SUSQUEHANNA TOWNSHIP SCHOOL DISTRICT
DAUPHIN COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JUNE 2014

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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. John F. Dietrich, Board President
Susquehanna Township School District
2579 Interstate Drive
Harrisburg, Pennsylvania 17110

Dear Governor Corbett and Mr. Dietrich:

We conducted a performance audit of the Susquehanna Township School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit initially covered the period April 29, 2009 through May 2, 2013. However, fieldwork was reopened because of the Department's receipt of information that could have impacted the overall sufficiency and appropriateness of our audit evidence, and therefore, the accuracy of our conclusions.¹ The audit period for these extended procedures was October 15, 2013 through May 28, 2014, 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, 2010, 2011, and 2012. 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 significant noncompliance with relevant requirements, as detailed in the four (4) audit findings within this report. A summary of the results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District and a number of different government entities, including the Pennsylvania Department of Education and the Public School Employees' Retirement System.

Our audit findings, 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.

¹ *Government Auditing Standard 6.56 states that "Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions." In addition, standard 6.71 (b) states that "Evidence is not sufficient or not appropriate when (1) using the evidence carries an unacceptably high risk that it could lead the auditor to reach an incorrect or improper conclusion..."*

Employment Contract Review - Superintendent

On May 1, 2012, we initiated a special audit of the details surrounding the resignation of the District's former Superintendent, effective January 5, 2010. This performance audit covered the period July 1, 2008 through May 2, 2013, and 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. This performance audit was separate and distinct from the District's cyclical performance audit, which was conducted simultaneously and the results of which are described in following pages of the audit report. We conduct cyclical performance audits approximately every two (2) years.

Our special audit of the former Superintendent's separation from the District found that the District complied, in all significant respects, with relevant requirements related to our specific audit objectives.

Employment Contract Review – Assistant Superintendent of Business Services

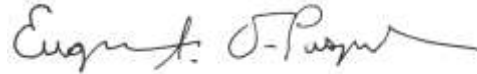
In early March 2010, the then-Superintendent of the District was approached by District staff regarding a credit card bill totaling \$11,775. Most of these charges had been made by the District's former Assistant Superintendent of Business Services, who had resigned from his position effective March 1, 2010.

While reviewing the credit card charges, the former Superintendent identified certain questionable expenses that did not appear to have been business related. The former Superintendent sent a letter dated April 13, 2010, requesting return of items belonging to the District and reimbursement of the identified questionable expenditures. These questionable expenditures were reimbursed by the former Assistant Superintendent of Business Services via a check dated April 21, 2010, in the amount of \$468.14.

On April 26, 2010, the Board approved obtaining a forensic audit of the District's credit cards covering the period of June 19, 2007 through April 19, 2010. The auditor's forensic report was issued August 17, 2010. The forensic report identified issues relating to the credit card expenditures for the former Assistant Superintendent of Business Services. In addition, the forensic report determined that the former Assistant Superintendent of Business Services had received an overpayment for unused personal and unused vacation days totaling \$1,873.59.

After the forensic report was issued, the District provided a copy of the report to the District Attorney's Office through the District's solicitor for review and determination of whether charges should be filed. A cashier's check dated December 23, 2010, in the amount of \$1,873.59 was received by the District for the reimbursement for the overpayment of unused personal and vacation days. Per a January 28, 2011 newspaper article, the Dauphin County District Attorney decided that he would not file charges against the former Assistant Superintendent of Business Services.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

EUGENE A. DEPASQUALE
Auditor General

June 26, 2014

cc: **SUSQUEHANNA TOWNSHIP SCHOOL DISTRICT** Board of School Directors

Executive Summary

Audit Work

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

Our audit scope covered the period April 29, 2009 through May 2, 2013 and October 15, 2013 through May 28, 2014, 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, 2009-10, 2010-11, and 2011-12 school years.

District Background

The District encompasses approximately seventeen (17) square miles. According to 2010 federal census data, it serves a resident population of 23,945. According to District officials, the District provided basic educational services to 2,947 pupils through the employment of 208 teachers, 141 full-time and part-time support personnel, and nineteen (19) administrators during the 2011-12 school year. The District received \$7,367,070 in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found significant noncompliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, as detailed in the four (4) audit findings within this report.

Finding No. 1: The Lack of Cooperation Among the District's School Board Members and Between the School Board and the Administration Has Resulted In Ineffective District Governance. Our audit found that the Susquehanna Township School District's (District) Board of School Directors (Board) and now former Superintendent did not effectively govern the District. Examples of this ineffective governance included:

- Failure of the Board and the now former Superintendent to lead as a united team, each from their respective roles, with strong collaboration and mutual trust.
- Failure to consistently follow and update board policies.
- Failure to clearly define and maintain the roles of the administration and the Board in staff hiring.
- Inadequate policy on establishing pilot programs.

The Board and the now former Superintendent's ineffective governance contributed to high turnover in key administrative positions and a substantial increase in the District's legal costs, which had reached more than \$200,000 as of May 2014. Furthermore, the poor governance ultimately made it more difficult for the District to focus on the welfare of its students and improving academic

performance, its primary mission
(see page 7).

Finding No. 2: Certification Deficiencies.

Our audit of the Susquehanna Township School District's (District) professional employees' certification for the period April 29, 2009 through March 31, 2013, found three (3) deficiencies. Two (2) of the individuals had lapsed certificates, and the third individual did not hold a valid certificate for the District (see page 23).

Finding No. 3: Possible Inaccurate Reporting of Retirement Wages.

Our review of the Susquehanna Township School District's (District) contracts for administrative, professional personnel, and support personnel found that the District may have inaccurately reported wages eligible for retirement to the Public School Employees' Retirement System for the 2009-10, 2010-11, 2011-12, and 2012-13 school years (see page 25).

Finding No. 4: The District Failed to Properly Contract for Services and to Actively Monitor Service Providers.

Our audit of the Susquehanna Township School District (District) found multiple examples of failure to properly contract for services, as well as poor oversight over those individuals and companies with whom the District contracted (see page 30).

Status of Prior Audit Findings and Observations. There were no findings or observations in our prior audit report.

Audit Scope, Objectives, and Methodology

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 April 29, 2009 through May 2, 2013 and October 15, 2013 through May 28, 2014, except for the verification of professional employee certification, which was performed for the period April 29, 2009 through March 31, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2008-09, 2009-10, 2011-12, and 2011-12 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?

- ✓ 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, were 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?
- ✓ 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?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Did the District accurately report its membership numbers to PDE, and were its average daily membership and tuition billings accurate?
- ✓ 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?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ 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 there any other areas of concern reported by independent auditors, citizens, or other interested parties?

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,
 - The District's hiring process,
 - Educational programs and initiatives,
 - Driver education,
 - Attorney invoices and solicitor requests,

- Special education consultant services,
 - Information provided to the Board of School Directors (Board) through the Board Docs software,
 - School safety reporting,
 - Student pupil counts,
 - Reimbursement of Board members and staff members,
 - Children attending the District on tuition waiver,
 - Testing of pupils for the gifted program, and
 - A review of payroll.
- Items such as board meeting minutes and policies and procedures.

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

Findings and Observations

Finding No. 1

The Lack of Cooperation Among the District's School Board Members and Between the School Board and the Administration Has Resulted In Ineffective District Governance

Our audit found that the Susquehanna Township School District's (District) Board of School Directors (Board) and the now former Superintendent did not effectively govern the District. Examples of this ineffective governance included:

- Failure of the Board and the now former Superintendent to lead as a united and professional team, each fulfilling their respective roles, with strong collaboration and mutual trust.
- Failure to consistently follow and update board policies.
- Failure to clearly define and maintain the roles of the administration and the Board in staff hiring.
- Inadequate policy on establishing pilot programs.

The Board and the now former Superintendent's ineffective governance contributed to high turnover in key administrative positions and a substantial increase in the District's legal costs, which had reached more than \$200,000 as of May 2014. Furthermore, the poor governance ultimately made it more difficult for the District to focus on the welfare of its students and improving their academic performance, its primary mission.

As part of our review of the District's governance practices, we conducted interviews with: 1) eight (8) of nine (9)¹ District Board members during November and December 2013, 2) the now former Superintendent on March 17, 2014, and 3) the now former Business Manager on February 19, 2014. In addition, we reviewed numerous related documents.

¹ The ninth board member was seriously ill at the time of our interviews, so we were not able to meet with her.

As a result, we identified a number of examples demonstrating that the Board and the now former Superintendent were not effectively governing the District. They are as follows:

Failure of the Board and the Now Former Superintendent to Lead as a United and Professional Team, Each Fulfilling Their Respective Roles, with Strong Collaboration and Mutual Trust

In 2011, the Center for Public Education, the research arm of the National Association of School Boards, conducted a study that identified eight (8) characteristics exhibited by effective school boards. This study also found a correlation between high-achieving school districts and these eight (8) characteristics, indicating that the activities of school boards do have an impact on student achievement.² One (1) of these eight (8) characteristics was that effective school boards lead as a united team with the superintendent and that they do so with strong collaboration and mutual trust. By the same token, this study found that ineffective school boards “disregard the agenda process and the chain of command,” and “have little communication between the board and the superintendent.”³

Our review of the District’s governance practices found a lack of collaboration and team work between the Board and the now former Superintendent, as well as among Board members. For example, over a six-month period, beginning on November 25, 2013, there were at least four (4) instances of litigation between the Board as a whole, certain Board members in their own capacities, and the now former Superintendent. Such a high number of lawsuits clearly demonstrates that the Board, individual Board members, and the now former Superintendent were not working in an environment of collaboration or mutual trust. In fact, only a serious breakdown in the level of trust between the Board as a whole, as well as certain individual Board members, could have led them to believe that the legal process was the only way to resolve their differences.

The initial lawsuit involved a disagreement over atypical provisions in the now former Superintendent’s contract,

² Center for Public Education. *Eight Characteristics of Effective School Boards: Full Report*. 2011. <http://www.centerforpubliceducation.org>.page 1. Downloaded May 10, 2014.

³ Ibid. “A Dozen Danger Signs,” pages 3-4.

which was approved by the Board and had an effective date of May 7, 2013. Some of these provisions appeared to excessively limit the actions of the Board, while others seemed to address specifically the interactions between the Board and now former Superintendent. These provisions included the following:

Provisions Limiting the Actions of the Board

- “The Board or its committees may only meet without the District Superintendent to discuss her performance and compensation.”⁴
- “The School District shall make no agreement with any other employee, group, or individual that would interfere with the District Superintendent’s carrying out managerial, administrative, or supervisory responsibilities and duties as defined in this job description of the District Superintendent.”⁵
- “Alleged violations of the Board Member’s Code of Conduct may be raised in writing by the Superintendent. The allegations shall remain confidential until reviewed.”⁶

Provisions Addressing the Interactions of the Board and the Now Former Superintendent

- “Board Members shall treat the Superintendent in a civil, professional and courteous manner at all times. These principles apply to conduct during and outside of Board meetings.”⁷
- “Board Members shall speak in a civil and respectful manner in all communications to or about the Superintendent.”⁸
- “Board Members shall not engage in any conduct that diminishes the dignity or decorum of the Susquehanna Township School District or the Superintendent.”⁹

⁴ Susquehanna Township School District Superintendent Contract, April 22, 2013, Article IV (NATURE AND TERMS), Section 4.02 (ADMINISTRATION OF SCHOOLS)(c)-(e).

⁵ Ibid., Section (e).

⁶ Ibid., Section (a).

⁷ Susquehanna Township School District Superintendent Contract, April 22, 2013, ARTICLE V – BOARD MEMBERS’ CONDUCT AND TREATMENT OF SUPERINTENDENT (a)-(g)

⁸ Ibid., Section (b).

⁹ Ibid., Section (c).

- “Board Members shall abstain from making frivolous or baseless allegations regarding Superintendent.”¹⁰
- “Board Members shall not attempt to interfere with or usurp the administrative role of the Superintendent.”¹¹

None of the provisions listed above are specifically addressed in the Public School Code, and none of them appeared in a selection of five (5) other superintendent contracts we reviewed during the audit. Therefore, it appears that they are out of the norm for inclusion in a superintendent’s contract. Furthermore, as the District’s governing body, the Board limited its ability to act effectively by approving a contract that included provisions that unnecessarily restricted its actions. Holding committee meetings, entering into agreements, and investigating violations of its own Code of Conduct are within the Board’s rights and authority, which should not be impinged by an employee contract.

The provisions addressing the interactions between the Board and the now former Superintendent are rather atypical. Typically, the ground rules for the interactions of these two (2) parties are worked out through policy or agreed upon procedures, not as part of the terms of an employment contract. The inclusion of such language in an employment contract, as well as provisions limiting the Board’s actions, suggests that the tension that existed or was perceived to exist between the now former Superintendent and the Board had created a poor working relationship between them. Had they established and maintained collaborative leadership roles, the now former Superintendent would not have sought to include such provisions in the contract. As part of cooperative team, she would have sought a more positive and informal mechanism for addressing her issues, rather than seeking legal protection in her contract.

¹⁰ Ibid., Section (d).

¹¹ Ibid., Section (g).

We also identified other instances that illustrate a lack of collaboration between the Board and the now former Superintendent, and even the current administration, including:

- Rather than working with the now former Superintendent to update an outdated policy on reporting student abuse, the Board directed her to distribute it to all the District’s administrators. This decision caused confusion among the administrators who knew it was under revision due to legislative changes. Furthermore, it hampered the Board and the administration’s communication with the staff by causing uncertainty about what action they should take.
- Recently, the Board set new procedures for paying expenditures, rather than relying on the administration to do so. By contrast, a board that works collaboratively with its administration sets the policy for paying expenditures and then directs the administration to establish the necessary procedures to implement it. The fact that the Board is setting procedures suggests that it could be too involved in the District’s day-to-day activities. According to the Center for Public Education’s study, school boards that micro-manage the day-to-day activities of their districts are less effective.¹²

Our audit work also identified instances in which the Board itself was not leading as a united team. For example, the now former Superintendent ultimately sued the District and the Board for \$6 million, claiming that the Board prevented her from doing her job, a circumstance legally termed “constructive discharge.” The Board then approved to “[a]ccept the resignation of [the now former Superintendent] that is implicit with the term ‘constructive discharge,’ effective April 17, 2014. The vote for approval included five (5) ayes and three (3) abstentions. According to the minutes of the Board meeting, the abstentions were 1) “due to having no information on this, it was brought up tonight during executive session,” 2) “due to not being properly informed to execute fiduciary duties on very serious matters that affect the District, the Board, and

¹² Ibid.

Criteria relevant to the finding:

According to the Pennsylvania School Boards Association, indicators of effective school governance include “[r]egularly reviewing, and as necessary, revising and adopting board policy.”

Benchmarks:

- i) How does the board provide information and training to its members about the board’s responsibility regarding policy?
- ii) What process does the board use to ensure regular review and revision of existing policies and adoption of new policies? Is it working effectively?
- iii) What sources provide pertinent background information, legal and expert advice, and proposed policy language for the board’s consideration?
- iv) How does the board ensure that each board member receives relevant policy information in a timely manner that allows him/her to make informed decisions at public meetings?
- v) What mechanism does the board use to respond to specific situations, incidences, etc. that affect policy?”

Pennsylvania School Boards Association, *Standards for Effective School Governance*, 2006, page 4.

taxpayers; only being advised in special executive session in the midst of tonight’s meeting; and being concerned about not receiving copies of all communication from legal counsel,” and 3) “due to not having information.” A decision of this magnitude should not have been presented to the Board without ensuring that all Board members had sufficient time to review the issue.

Similarly, in another instance, the Board stated it would issue a Request for Proposal (RFP) for a new District solicitor. The RFP was never issued. However, the Board selected an interim solicitor at the suggestion of two (2) Board members. According to the board meeting minutes, one (1) Board member abstained from voting and stated he “knew nothing about this law firm [interim solicitor] and that it was obvious that some members had conversation and discussion outside a board meeting.” The Board President replied that he and another Board member had met with the potential interim solicitor and “were impressed that he had the ability to come in and pick up running with key issues.” Once again, the Board does not seem to be working as a cohesive group.

The Pennsylvania School Boards Association (PSBA), *Standards for Effective School Governance* state that one (1) of the indicators of effective governance is whether the board is “operating as a collective board in making decisions.”¹³ While that does not mean that Board members cannot have differences of opinion, it should at least require everyone to have enough information to form an opinion.

According to the National School Boards Association (NSBA), the relationship between a school board and its superintendent can impact the academic performance of a school district. The NSBA stated:

“School district leadership needs to pay close attention to the culture it exhibits and exemplifies, because this culture permeates the classrooms, directly affecting teaching and learning. School boards set policies and superintendents put procedures into place that influence the district’s climate. This impact flows not only from the content of the policies and procedures, but also from

¹³ Pennsylvania School Boards Association. *Standards for Effective School Governance*. 2006, page 4.

the leadership behaviors and demeanors of the board and leadership staff as they carry out their responsibilities.”¹⁴

NSBA says further that “[t]he way they work with each other and the way they treat staff in the process sets a leadership tone that is a powerful influence on the behaviors and attitudes of staff and students.”¹⁵

The Board and the now former Superintendent failed to fulfill one (1) of their most important governance roles: “to establish a culture of relationships built on trust and mutual respect among staff members -- and between staff and the board.”¹⁶

Failure to Consistently Follow and Update Board Policies

PSBA’s *Standards for Effective School Governance* state that school boards govern through policy. Therefore, the board’s role of developing policies is one of its most important. Policies govern all aspects of district operations, including the actions of the board and the administration. Policies ensure that a district’s mission and vision are carried out. Policies should be current, clear, and concise to ensure that proper procedures can be developed and implemented by the administration in order to fulfill policy guidelines. Our audit found several instances in which the District’s Board failed to follow its own policies and found that many policies had not been updated timely.

1. **Policy #006 – Meetings:** This policy requires that the superintendent, in cooperation with the Board President, prepare the agenda to come before the Board at each regular meeting. However, the Board’s current process for setting the agenda involves the random selection of one (1) Board member to attend the meeting to set the agenda with the superintendent and the Board President.

In addition, Policy #006 states that the regular board meetings are to be held on the 4th Monday of each month. However, the Board changed the meetings to

¹⁴ National School Boards Association. *The Key Work of School Boards*. 2009, page 58.

¹⁵ Ibid.

¹⁶ Ibid.

the 3rd Monday of each month without updating the policy. Thus, the Board approved an action which violated its own approved policies.

Furthermore, the regular board meeting agenda is frequently modified by any member of the Board up to the start of, and during the conduct of, the meetings.

Number of Agenda Amendments Per Regular Meeting in 2014	
Date of Meeting	Number of Approved Amendments
January 27, 2014	4
February 7, 2014	2
February 17, 2014	0
February 24, 2014	0
March 24, 2014	2
March 31, 2014	0
April 21, 2014	2

According to the board meeting minutes, in regard to amending the agenda, one (1) Board member “asked the solicitor for his opinion as to whether the amendments were appropriate to add to the agenda and asked why they were not added prior to the meeting.” The solicitor “said he felt they [amendments] were appropriate to add, but agreed that more notice would be better.” It would be advisable for the Board to take the advice of its solicitor and better plan the agenda.

While we understand that agenda amendments are sometimes necessary, excessively and constantly amending the agenda is not an efficient use of Board members’, administration’s, or taxpayers’ time, nor does it allow all Board members to adequately prepare prior to voting on an issue. In addition, the Center for Public Education’s *Eight Characteristics of Effective School Boards* found that those boards that do not follow an agenda process tend to be less effective than those that do.¹⁷

Policy #312 - Evaluation of the Superintendent: This policy was adopted on October 28, 2013. It states that regular, periodic evaluations of the superintendent’s

¹⁷ Center for Public Education. *Eight Characteristics of Effective School Boards: Full Report*. 2011, <http://www.centerforpubliceducation.org>. page 1. Downloaded May 10, 2014, “A Dozen Danger Signs,” pages 3-4.

performance are a Board responsibility. The policy further states that in carrying out this responsibility, the Board recognizes that the superintendent is entitled to such a review in an objective and straightforward manner, so that leadership of the District may be as effective as possible. In addition, the *Contract for Employment of the District Superintendent* entered into by the now former Superintendent and the Board on May 7, 2013, stated that the now former Superintendent and the elected officers of the Board “shall meet annually for an evaluation of the Superintendent’s performance. Such initial meeting shall occur in June 2013 and annually in June thereafter.”

Our review found that no written evaluation was ever provided to the now former Superintendent. An annual evaluation of the superintendent should be performed regardless of whether it is a provision of the superintendent’s contract, in order to clarify the superintendent’s responsibilities and the role he or she plays in governance.

2. **Policy #301 - Creating a Position:** This policy requires the superintendent’s approval to create a new position. The Board violated this policy on April 4, 2014, by instructing the Assistant Superintendent to post a job opening for a Director of Special Education. The Assistant Superintendent declined to post the position noting that she did not wish to violate the policy.

The District has enlisted policy update services from the PSBA since at least November 2010. As of May 2, 2014, the Board still has not completed the policy update process. Old and new policies have been in place at the same time during this updating process, which has caused confusion on what policies are actually valid. The Board had not updated any of the policies that govern financial responsibilities as of May 2, 2014. The untimely process of updating the *Board Policy Manual* results in inefficiency and uncertainty when old and new policies co-exist. In addition, the administration noted new policies may replace only a portion of an old policy, thus causing possible contradictions.

Criteria relevant to the finding.

According to the Pennsylvania School Boards Association, school boards should:

- Advocate for a thorough and efficient system of public education.
- Model responsible governance and leadership.
- Govern through policy.
- Ensure that effective planning occurs.
- Monitor results.

Pennsylvania School Boards Association.

<http://www.psba.org/issues-advocacy/issues-research/effective-school-governance/PSBA-standards-with-code-of-conduct.asp>. (Downloaded October 8, 2012)

According to the Pennsylvania School Boards Association, school administrations (superintendents) should:

- Oversee day-to-day operations.
- Implement the policy decisions adopted by their board.
- Make policy recommendations.
- Attend all board meetings, except those fixing his or her salary.
- Work with community leaders to obtain their support.
- Hire qualified staff.
- Interpret the needs of the school system.
- Act as the professional advisor to the board.

Pennsylvania School Boards Association "Understanding the Basics."

<https://www.psba.org/new-members/resources/understanding-basics.asp>. (Downloaded October 8, 2012)

Failure to Clearly Define and Maintain the Roles of the Administration and the Board in Staff Hiring

In all school districts, the board and the superintendent share the governance responsibilities. Part of good governance involves ensuring that the roles of the board and the administration, which includes the superintendent, are clearly defined.

As indicated in the box to the left, boards are meant to set policies and goals for the district, and the administration is to put procedures in place to ensure the district meets the board's goals and to manage the day-to-day operations of the district. One example of how this relationship is supposed to function is in the area of staff hiring. Boards are to set hiring policy, but the administration should actually perform this task. In addition, according to the NSBA guidebook for school boards:

“Leaders who have faith in their own ability to select, train, and evaluate high-quality employees respect those employees with the following norm: Decisions are made as close as possible to the point of implementation. This means that the person doing the job can decide, within the policies and standards of the organization, the best way to do it.”¹⁸

The District started out following these best practices, but failed to maintain them. In September 2010, the District hired an Assistant Superintendent. One of her job duties was to develop a well-documented, standardized, consistent, and non-biased hiring process that involves the use of a rubric to score each candidate. This assignment was important because documentation showed that hiring policies in place prior to September 2010 were not consistently enforced. In addition, the Board had found it necessary to call for a third party special investigation into the hiring process after concerns were raised about a new hire. The investigation of the issue in question did not identify problems with the hiring process. The new process developed by the Assistant Superintendent was adopted in January 2011.

¹⁸ National Association of School Boards. *The Key Work of School Boards*. 2009, page 58.

Criteria relevant to the finding:

“In the last 20 years, increasingly rigorous graduation requirements and performance standards have turned the spotlight on accountability and those who lead. One result is that school boards are being called upon to take responsibility for creating the conditions under which excellent teaching and learning can take place, and to be accountable for doing so. This means reporting to state authorities and to the community about how well students are doing and what actions are being taken to address perceived deficiencies.”

National School Boards Association. *Key Work of School Boards*, page 6. 2000.

However, beginning in April 2014, the Board took control of the hiring process. Furthermore, even though the administration requested written procedures from the Board regarding the new hiring process, none were provided. Information obtained during the audit indicated that not all Board members favored changing the hiring process. Nevertheless, the Board has recently selected a new District solicitor and new Business Manager with minimal or no involvement of the District’s administration. As noted earlier, the hiring of qualified staff should be the job of the school district’s administration. However, if the Board is going to take a role in the hiring process, it is essential that both the administration and Board work together and understand their roles in the process.

Inadequate Policy on Establishing Pilot Programs

Our review of the District’s policy on pilot programs found that it was ineffective because the process did not focus on accountability. According to the NSBA, as indicated in the box to the left, it is no longer enough for school boards to ensure that management of the district is efficient and effective. Effective school boards are now expected to oversee the results of the academic programs their districts implement and to be able to hold the administration accountable if these initiatives do not work. In order to achieve this level of accountability, boards need to ensure that programs include a means of measuring their impact.

Board Policy #4022 was approved June 8, 1987. The policy addresses new initiatives and programs that the administration wishes to implement, also referred to as pilot programs. However, the District’s policy does not put forth an approval process for the pilot programs, establish budget parameters, or institute an evaluation process and goals for assessing the success of the programs.

Eight Characteristics of an Effective School Board

1. Effective school boards commit to a vision of high expectations for student achievement and quality instruction and define clear goals towards that vision.
2. Effective school boards have strong shared beliefs and values about what is possible for students and their ability to learn, and of the system and its ability to teach all children at high levels.
3. Effective school boards are accountability driven, spending less time on operational issues and more time focused on policies to improve student achievement.
4. Effective school boards have a collaborative relationship with staff and the community and establish a strong communications structure to inform and engage both internal and external stakeholders in setting and achieving district goals.
5. Effective boards are data savvy; they embrace and monitor data, even when the information is negative, and use it to drive continuous improvement.
6. Effective school boards align and sustain resources, such as professional development, to meet district goals.
7. Effective school boards lead as a united team with the superintendent, each from their respective roles, with strong collaboration and mutual trust.
8. Effective school boards take part in team development and training, sometimes with their superintendents, to build shared knowledge, values and commitments for their improvement efforts.

For example, our review confirmed that the Board approved the District's School of Arts, School of Engineering, School of Medicine and Health Sciences, and the Everyday Math program. However, the administration could not provide evidence that they gave information to the Board demonstrating that these pilot programs met their goals and were successful. The Board has since implemented new procedures for pilot programs but has not updated Policy #4022 or adopted a new policy. The Board should do so and then work with the administration to ensure it is implemented.

There is no single incident that seems to have caused the ineffective governance of the District. Rather, it is clear that the District's poor governance is the result of an accumulation of events, leading to a lack of cooperation and trust between the Board and the now former Superintendent. Furthermore, it is plain that the Board and the now former Superintendent continually failed to follow good governance practices (see box to the left), which in turn created an atmosphere that allows adults with differences to impact the educational environment of the District's students. The lack of collaboration between the Board and the administration has resulted in a variety of consequences, including:

- Contractually limiting the activities of the Board.
- Blurring the lines between the role of the administration and the role of the Board.
- Reducing transparency by creating a shifting public meeting schedule and agenda.
- Decreasing accountability by preventing the Board and the administration from working together to develop strong policies and procedures.
- Increasing turnover in key administrative positions.
- Substantially increasing the District's legal costs, which reached more than \$200,000 as of May 2014.
- Preventing the District from focusing on its main mission, improving academic performance.

During the course of this audit, the District experienced a high rate of employee turnover in key positions. The now former Assistant Superintendent and now former Business Manager both accepted positions at other school districts, and there is a pending legal issue between the now former Superintendent and the Board. It is likely that the poor

climate created by the lack of cooperation between the Board and the now former Superintendent contributed to the District employees' desire to find new opportunities in a less contentious environment. This turnover of key positions will likely make it more difficult for the administration to maintain consistency and continuity in its operations.

The litigious relationship between the Board and the now former Superintendent has dramatically increased the District's legal costs, which have exceeded the budgeted amounts for the past three (3) years. This increase in monies for potential litigation redirected monies away from students' education. For the 2013-14 school year, legal costs were nearly four (4) times the budgeted figure, with over one (1) month left to go in that school year.

District's Legal Costs		
Year End June 30	Budgeted Expenditures	Actual Expenditures
2011	\$65,000	\$ 39,202
2012	40,000	81,889
2013	65,000	89,834
2014	60,000	239,389*
		<i>*(as of 5/20/14)</i>

The more than \$200,000 that the District has spent on legal fees as of May 2014 could certainly have been used more effectively toward the education of the District's students. For example, that amount is more than the District spent on summer school (\$124,759) in the 2012-13 school year and nearly as much as it spent on psychological services that same year (\$267,905).¹⁹

Finally, the lack of cooperation between the Board and its now former Superintendent created a litigious environment that prevented the Board and the administration from focusing on the well being of its students and whether the District was educating its students effectively, its primary mission.

¹⁹ Pennsylvania Department of Education Annual Financial Data, 2012-13 school year (most current available).
 Downloaded June 2, 2014.
http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/other_financial_information/509049

The District's students need the Board and the administration to concentrate on academic improvement, since the District's high school scored 65.8 out of 100²⁰ on the Pennsylvania Department of Education's School Performance Profile. Clearly, the District needs to make instructional improvements.

As demonstrated in the criteria throughout this finding, these academic improvements can only be achieved through good governance practices and the development of a collaborative and united relationship between the Board and any future superintendents and administrators.

Recommendations

To Address the Failure of the Board and the Now Former Superintendent to Lead as a United and Professional Team, Each Fulfilling Their Respective Roles, with Strong Collaboration and Mutual Trust.

- The District's Board and administration should adopt an internal process for settling disagreements going forward.
- The Board and the superintendant should always keep the students as their first priority in making their decisions.
- The Board should avoid entering into employment contracts that include provisions limiting its ability to govern and take necessary actions when and as needed.
- The Board should work with the current and future superintendent to more clearly define their respective roles and establish a solid working relationship between all parties.
- The Board should adopt a process for measuring and evaluating the effectiveness of board meetings.
- The Board should adopt a process for measuring and evaluating the public's perception of the Board's behavior and demeanor, and for evaluating how those perceptions help or hinder confidence in the Board.
- The Board should create an organizational structure that allows the superintendent to function as the

²⁰ Pennsylvania Department of Education. School Performance Profile. "Susquehanna Township School District High School." Downloaded May 15, 2014. <http://paschoolperformance.org>

chief executive officer and instructional leader of the District.

- The Board should develop a process or policy for ensuring that all Board members actively participate in Board discussions and decisions.
- The Board should adopt a policy or process for ensuring that each Board member receives relevant policy information in a timely manner that allows him/her to make informed decisions at public meetings.
- The Board should hold monthly “committee as a whole” or “workshop” meetings in an attempt to unify the Board on important issues.
- The Board should ensure that the leadership style and vision of future superintendent’s matches their vision for the District.
- Working collaboratively with the District’s superintendent, the Board should spend less time on operational issues and focus more time on policies to improve student achievement.

To Address the Failure to Consistently Follow and Update Board Policies.

- The Board should obtain training for its members about its policy making responsibilities.
- The Board should set policy and provide the administration with the authority necessary to develop procedures to enact that policy. Board members should avoid being involved in the day-to-day operations (micro-managing) of the District.
- The Board should establish a mechanism for responding to specific situations, incidences, etc. that affect policy.
- The Board should adopt a process for ensuring regular review and revision of existing policies and the adoption of new policies. The Board should periodically evaluate this process to assess whether it is working effectively.
- The Board should adhere to its meeting and agenda policies and processes, updating them as necessary.
- The Board should set a deadline for completing its policy update process. Moving forward, it should

review the policies annually to ensure that they remain relevant, making changes as necessary.

- The Board should work with the administration when developing or changing policies to ensure the administration can carry out the policy in the manner expected by the Board.
- The Board should evaluate the superintendent annually, according to mutually agreed upon procedures, whether they are in the superintendent's contract or not.

To Address the Failure to Clearly Define and Maintain the Roles of The Administration and the Board In Staff Hiring.

- The Board should allow hiring decisions to be made as close as possible to the point of implementation.
- The Board and administration should work together when changing the hiring process, and all changes should be clearly documented.
- The Board should seek legal advice from the District's solicitor before taking actions to change the hiring process.

To Address the Inadequate Policy on Establishing Pilot Programs.

- The Board should update its policy that governs pilot programs to address budgets, implementation, monitoring, and evaluating of the program.

Management Response

Management stated the following:

“Management agrees with the facts presented in this finding. Management waives the opportunity to reply at this time as most of the recommendations made in the finding are made to the District's Board.”

Finding No. 2

Certification Deficiencies

Criteria relevant to the finding:

Section 1202 of the Public School Code (PSC), 24 P.S. § 12-1202, provides, in part:

“No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.”

Section 2518 of the PSC, 24 P.S. § 25-2518, provides, in part:

“Any school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Pennsylvania Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district’s market value/income aid ratio.”

Our audit of the Susquehanna Township School District’s (District) professional employees’ certification for the period April 29, 2009 through March 31, 2013, found the following deficiencies:

- Two (2) individuals served with lapsed certificates. This included one (1) middle school social studies teacher and one (1) high school biology teacher.
- One (1) individual held an emergency certificate for Speech and Language Impaired for another district but did not hold a valid certificate for Speech and Language Impaired for the District.

District administration stated that the individual currently keeping track of the certificates was not aware that provisional and emergency certificates needed to be tracked to ensure that they do not lapse before applying for and receiving current, applicable certificates. Upon learning about the deficiencies, District personnel immediately put a tracking process into place.

Information pertaining to the deficiencies was submitted to the Pennsylvania Department of Education’s Bureau of School Leadership and Teacher Quality (BSLTQ) for its review. On June 12, 2013, BSLTQ confirmed the deficiencies. The District is consequently subject to a subsidy forfeiture of \$9,422 for the 2011-12 school year and \$9,722 for the 2012-13 school year.

It is the responsibility of District management to have in place internal policies and procedures to ensure that employees are both properly certified and up-to-date with their certification. A lack of appropriate internal controls can lead to uncertified persons teaching classes and to a possible loss of state subsidy.

Recommendations

The *Susquehanna Township School District* should:

1. Put procedures in place to ensure all professional employees are properly certified for their assignments and that the certifications are current.
2. Ensure only properly certified individuals holding current and valid certificates are allowed to teach District students.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to recover the appropriate subsidy forfeitures.

Management Response

Management stated the following:

“Management agrees with this finding. District personnel have determined that the certification lapses were not identified by district staff due to turnover in the Human Resources Office. While maintaining proper teacher certification is the responsibility of the individual teacher, the district review system for examining all non-permanent teaching certificates was not communicated to the new Human Resources employee. Proper procedures have been reviewed and reminder letters will be sent to all non-permanently certified each year so they are aware of their certification requirements and the expectation from the district that they keep their certifications current.”

Auditor Conclusion

We are encouraged that the District agrees with our finding. We will follow up on the status of our recommendations during our next cyclical audit of the District.

Finding No. 3

Possible Inaccurate Reporting of Retirement Wages

Criteria relevant to the finding:

The Public School Employees' Retirement System Employer's Reference Manual (ERM) addresses incentive payments as follows:

"Incentive payments – Incentive payments refer to payments made by an employer, typically in a one-time amount. Based on a Commonwealth Court decision, incentive payments are retirement-covered compensation. The following criteria must be met:

- The payment must be tied to work performance standards agreed upon in advance.
- There is an objective means to calculate the payment.
- The employer is contractually obligated to make the payment if the performance standards are met and are not discretionary or subjective."

Among its examples of unqualified payments the ERM includes:

"Any payments (remuneration or a profit derived from one's office) received by a school employee for school service that is not based on the standard pay schedule for which they are rendering service."

Our review of Susquehanna Township School District's (District) contracts for professional personnel and support personnel found that the District may have inaccurately reported wages eligible for retirement to the Public School Employees' Retirement System (PSERS) for the 2009-10, 2010-11, 2011-12, and 2012-13 school years. Furthermore, our review of administrative contracts found the District may have incorrectly reported payments made to the now former Superintendent in lieu of medical benefits from January 1, 2014 until April 25, 2014, as wages eligible for retirement to PSERS.

Based on the Collective Bargaining Agreement between the District and Susquehanna Township Education Association (STEA) in effect from July 1, 2010 to June 30, 2013, individuals under the STEA Agreement were entitled to non-cumulative service longevity payments. These payments were made to individuals at the top step of the salary schedule when the Act 1 index was not greater than 3.25 percent. The payments were based on their number of years of service at the District and ranged from \$300 to \$500.

Based on the Collective Bargaining Agreement between the District and Susquehanna Township Education Support Professional Association (STESPA) from July 1, 2009 to June 30, 2013, individuals under the STESPA Agreement were entitled to non-cumulative service longevity payments. These longevity increment payments were 3.5 percent of the employee's annual salary as of July 1 and were added to the salary of the eligible employee for that year. The payments were made to individuals completing fifteen (15) years or more of service with the District. However, the former Business Manager confirmed that the 3.5 percent added to salary is not used when determining the hourly rate for overtime. Therefore, our conclusion is that longevity is added to the employee's salary for payroll purposes and not permanently added to salary for future salary computations.

Our review of payroll records found the District's payroll department processed these longevity payments as if the payments *were* eligible for PSERS wages. However, in an

email we received from PSERS personnel in response to our inquiry, dated March 19, 2013, noted that longevity payments do not meet the requirements to be considered incentive payments, as there is no performance standard expressed. PSERS has taken the view that, if a longevity payment is added to the base salary, upon which future raises are based, then PSERS would include it as retirement-covered compensation. If, however, the longevity payment is not added to base salary for future years, it will not be considered retirement-covered compensation.

Therefore, the District may have over reported eligible PSERS wages for individuals under the STEA and STESPA agreements.

The now former Superintendent's contract, in addressing compensation and benefits, states in part:

“For each year the Superintendent remains employed by the District beginning January 1, 2013 and thereby forgoes the post-retirement medical benefits to which she is entitled, the Superintendent shall receive an addition to her salary equivalent to the reasonable value of those medical benefits. The parties agree that the reasonable value of those medical benefits for purposes of this provision shall be fifteen thousand dollars (\$15,000) for the life term of this Agreement. Further, the parties are of the understanding that the (\$15,000) shall count towards PSERS' calculation of income upon retirement.”

The now former Business Manager originally did not report monthly payments in lieu of medical benefits as eligible retirement wages (from January 2013 through May 2013). In an attempt to obtain a determination of the correct reporting process, the District contacted PSERS. On May 14, 2013, a regional administrator at the PSERS Employer Service Center stated that reimbursement or payment for medical benefits is not retirement-covered compensation and must not be included in the base wages reported to PSERS, referencing the definition of compensation in Section 8102 of the Retirement Code (24 Pa C.S. § 8102). However, in June 2013, the now former Business Manager received advice from the

District's solicitor that the payments were PSERS-eligible wages. The solicitor advised the District to withhold retirement contributions and report the payments to PSERS. Therefore, the now former Business Manager directed the payroll coordinator to adjust previous payments, which were not reported to PSERS, and ensure future payments were reported to PSERS as retirement wages.

Our review confirmed that from January 1, 2013 until April 25, 2014, the now former Superintendent received payments of \$20,000 in lieu of medical benefits that were reported to PSERS as eligible retirement wages.

We have provided information regarding the payments in lieu of benefits to PSERS for the determination if such payments were improperly reported to PSERS.

Recommendations

The *Susquehanna Township School District* should:

1. Review the payments made to PSERS from July 1, 2010 for STEA employees and from July 1, 2009 for STESPA employees. Contingent upon PSERS's determination, ensure that proper adjustments are made to all individuals for whom ineligible retirement wages were reported.
2. Implement annual procedures for reviewing all salary and contribution reports, prior to submission to PSERS, in order to ensure that only eligible wages are being reported to PSERS for retirement purposes in accordance with the PSERS Employer Reference Manual.
3. Contingent upon the PSERS's final determination, provide the documentation that PSERS needs to adjust any incorrectly reported retirement wages.

The *Public School Employees' Retirement System* should:

4. Determine if the service increment payments should have been reported to PSERS as eligible retirement wages. If it is determined that the service longevity payments should not have been reported to PSERS as eligible retirement wages, then PSERS should request

documentation for all individuals who received such payments under the STEA and STESPA Agreements.

5. Based on its final determination, PSERS should adjust all payments incorrectly reported by the District for STEA employees since July 1, 2010 and for STESPA employees since July 1, 2009.
6. Review the payments of \$20,000 made in lieu of medical benefits to the now former Superintendent from January 1, 2013 through April 25, 2014. If the payments were incorrectly reported to PSERS by the District as eligible retirement wages, PSERS should make the appropriate adjustments.

Management Response

Management stated the following:

“Management agrees with this finding in part. As stated in the finding the district did contact PSERS to obtain an opinion on the eligibility of payment in lieu of medical benefits as eligible retirement wages. However, the decision was made to follow the district solicitor’s advice rather than the advice provided by PSERS. In the future the district will follow the advice provided by PSERS.

Management disagrees with this finding in part, concerning wages for STEA and STESPA employees. The source that the auditor general has cited as reason for this finding is that payments {were one-time stipends which were not added to base salary, thus would not be considered PSERS compensation}. If this narrow interpretation was accurate then stipends paid for extra-curricular activities, which are normally one-time payments that are not added to base salary would also not be PSERS eligible, however they are. Per the agreement, the one-time lump sum payment made to qualifying members of the Susquehanna Township Education Association are paid only if the Act 1 index is less than 3.25 percent, the alternate salary schedule identified in the contract included additional monies above the lump sum payment if the index is above 3.25 percent. Thus, by the terms of the agreement, this money was always intended to be salary, the parties only agreed to different ways of paying this salary based on the index for each year of the agreement.

Per the agreement with the Susquehanna Township Education Support Professional Association (STESPA), employees completing 15 years of service are eligible for an additional 3.5 percent in salary. The total salary amount is divided equally over 21 or 26 pay periods, and not paid as a lump sum. Salary/hourly wages for employees covered under the STESPA agreement are determined by an agreed upon salary matrix. Their yearly increases are not calculated based on the pre-determined percentages increase, as is the case with most support staff contracts.

Management believes that the payments identified for employees in STEA and STESPA do qualify as PSERS eligible wages and thus wages have been correctly reported to PSERS for the time period noted.”

Auditor Conclusion

Based on our review of 2012-13 payroll records and interviews with the now former Business Manager, both the STEA and STESPA employees had longevity payments reported to PSERS as eligible retirement wages. However, neither had these payments added to base salary on which future raises were based.

As such, based on the guidance provided to us by PSERS, the finding and recommendations will stand as written.

Finding No. 4

The District Failed to Properly Contract for Services and to Actively Monitor Service Providers

Criteria relevant to the finding:

Section 508 of the Public School Code, 24 P.S. § 5-508, provides, in part:

“The affirmative vote of a majority of all the members of the board of school directors in every school district, duly recorded, showing how each member voted, shall be required in order to take action on the following subjects:-

Entering into contracts of any kind, including contracts for the purchase of fuel or any supplies, where the amount involved exceeds one hundred dollars (\$100).

Fixing salaries or compensation of officers, teachers, or other appointees of the board of school directors.”

According to the *National Contract Management Association*, “Using performance measures on service contracts is generally accepted as the best way to determine if the contractor is providing the requested service under the contract.” (Olson, Suzette M. “The Best Ways to Define and Implement Performance Metrics.” *Contract Management* (National Contract Management Association), October 2008, page 54.)

Our audit of the Susquehanna Township School District (District) found multiple examples of the District’s failure to properly contract for services, as well as poor oversight over those individuals and companies with whom the District had contracted. As referenced in the adjacent criteria box, the performance monitoring of contracts is key to ensuring the District received its expected services. In addition, contracts protect the District in instances where a vendor has failed to deliver the anticipated goods or results.

Proper contract monitoring includes the execution of the contract itself (or letter of engagement, if applicable), inclusion of performance expectations, and periodic monitoring. Specifically, our review found deficiencies in the contract monitoring process in the following instances:

1. **The American Reading Company (ARC):** In July 2010, the Pennsylvania State Board of Education adopted Common Core Standards of education that required local education agencies to realign their curriculum (K-12) to meet the new standards. In light of the new standards, the District administration realigned the District’s reading curriculum and chose ARC to: (a) provide professional development services, (b) purchase leveled trade books, and (c) purchase teacher resource materials aligned to Common Core Standards. The District’s administration made a presentation to the Board of School Directors (Board) on October 25, 2010, regarding the reading initiative and its intent to obtain the services from ARC. On November 22, 2010, a representative from ARC made a presentation to the Board. Then on February 28, 2011, one (1) of the District’s assistant superintendents gave a presentation to the Board, noting that ARC reading initiative was aimed at raising student achievement and increasing the professional skills of the District’s teachers.

The District purchased professional development services and reading material from ARC for the school years 2010-11 through 2013-14, at costs totaling over \$1.7 million, as follows:

Year End June 30	ARC Expenses
2011	\$ 565,219
2012	556,390
2013	406,686
2014	<u>212,400</u>
Total:	<u>\$1,740,695</u>

These expenditures were approved by the Board at its regularly scheduled board meetings, but without the District executing a formal contract with ARC.

ARC did provide Program Proposal Summaries that identified the individual costs of the professional development services it offered, as well as itemized costs for program materials and software licenses. The District would then decide which services/materials to purchase. We noted that proposals were usually done annually, since the majority of costs were for professional development (literacy training) and these services were scheduled by date for each District building at the beginning of the year. ARC provided detailed reports to the District after each professional development session identifying the people who attended the session, the information that was presented, and the overall result of the training. The administration informed us that the 2013-14 school year was the last year in which it would purchase professional development services from ARC, because such training will be done with District personnel in future years.

While the summary information provided by ARC helped the District to track the program's costs and services, it did not include performance measures that could be used to determine if the program was an effective use of public money. Programs of this magnitude should have interim performance measures to allow regular evaluations of the results. In addition, the significance of the total expenditures on the ARC program should have led the District's administration to enter into a formal contract with ARC.

In fact, this action violated the Public School Code (PSC), which requires that when a school district enters into a contract “of any kind” that “exceeds one hundred dollars (\$100),” the school board must approve the contract by an affirmative vote of a majority of all its members. We believe that the intent of the PSC is to ensure that *any* school district contract, whether written and formally executed or not, receives such an affirmative vote by the board. Therefore, the District’s administration failed in its duty to ensure that the ARC initiative was properly presented to the Board for formal approval.

Likewise, the District’s Board should have requested information regarding the total anticipated cost of the program. Without a formal contract with ARC, the Board could not be provided with a total anticipated cost of the literacy initiative, which was first implemented during the 2010-11 school year. This information would have been helpful to the Board in determining if they wanted to continue with the program and in determining whether the services the District was getting were worth the money. Furthermore, without a signed contract, if at any time the District felt that it was not receiving the services it was promised, it would have had little legal recourse to try to obtain restitution. The District’s now former Business Manager did provide annual budgets to the Board indicating the source of funds for the ARC initiative. However, we found no evidence that the Board ever evaluated the effectiveness of the initiative.

2. **Special Education Consultant:** The District chose not to hire a replacement for the position of Director of Special Education/Pupil Services after it became vacant in January 2012. Instead the District hired a special education consultant in February 2012. The consultant acts as the de facto director, fulfilling the particular needs of the District’s special education pupils, such as assessing outside placements, transition programming, and developing Individualized Education Programs. The consultant is a part-time employee and is paid at a rate of \$500 per day. The daily rate was determined by the administration, which did not pursue executing a formal contract for services or obtaining Board approval of the daily rate.

Once again, this action violated the PSC, which requires that a contract “of any kind” and the “[f]ixing [of] salaries or compensation of officers, teachers, or other appointees of the board of school directors” requires an affirmative vote of a majority of all its members. We believe that the intent of the PSC is to ensure that *any* school district contract and the fixing of salaries of *any* appointees of the district require such an affirmative vote by the Board. Therefore, the District’s administration should have ensured that the hiring of the consultant was presented properly to the Board for formal approval.

Finally, as stated earlier, a contract should also have been put in place, in order to formally monitor the consultant’s performance and protect the District from any liability related to a dispute. In addition, the Board should have had an opportunity to approve the consultant’s contract, assess whether her employment was in keeping with the District’s goals, and ensure that the administration was evaluating whether her services were an effective use of public monies.

- 3. Legal Services:** Legal representation was required and obtained for the now former Superintendent and Assistant Superintendent due to litigation. Letters of Engagement for the legal services for the two (2) separate law offices that provided services to these employees were not on file at the District. Furthermore, payments were issued to the law firms, even though there was nothing in the District’s file to identify the hourly rates for services provided to administrators on behalf of the District. It is essential that engagement letters are obtained to ensure proper rates are charged for the services received. Moreover, without proper and approved documentation, it is impossible for the District’s administration to track whether it is being properly billed and whether the appropriate services are received.

In addition, since March 2011, the District employed a law firm to provide counsel for special education litigation. While we confirmed that the District had a letter of engagement for these services, Board approval was never obtained. Without this approval, the Board cannot ensure that the District’s administration is

evaluating whether securing these services is an effective use of public monies.

4. **Act 93 Agreement:** The District does not have an Act 93 Agreement in place that delineates the compensation plan for administrators. Instead the District uses Board policy #6020, dated June 8, 1987, which defines the compensation plan for administrators. Given the fact that the policy is clearly outdated, having never been updated since 1987, establishing an Act 93 Agreement requiring approval every three (3) to five (5) years (depending on the terms of the agreement) would provide the Board a better means to review current administration compensation agreements. In addition, this is a common best practice used in most districts throughout the Commonwealth and helps to protect the Board in the event of an employment dispute.

Without approved and executed contracts, the Board and the administration cannot effectively monitor expenses and ensure that the District is receiving the services it requested and is paying for, and that the services are timely and of a high-quality. Without the use of a board-approved contract, the administration has the opportunity to incur and pay for services without the knowledge of the Board. In addition, contracts hold both parties accountable, provide transparency about district operations, identify specific costs, and protect the legal interests of the District in the event of a disagreement.

Recommendations

The *Susquehanna Township School District* should:

1. Require that a contract or written agreement be approved by an affirmative vote of the Board and executed prior to engaging in any business with outside vendors, professionals, or consultants, based on a financial threshold determined by the Board.
2. Implement procedures to ensure that compensation for all consultants who provide services on a regular basis are approved by the Board.
3. Obtain Board approval for all legal counsel services and ensure that all legal invoices received by the District are

closely reviewed as being consistent with the actual services received.

4. Ensure that engagement letters for legal services are obtained, approved by the Board, and kept on file at the District so the services and rates for the services can be verified.
5. Review Board Policy #6022 which addresses administration compensation and consider entering into Act 93 agreements that require review and approval on a more frequent basis.

Management Response

“Management agrees with this finding concerning contracts for ARC, Special Education Consultant and Legal Services. While the board was aware of the servicing [sic] being provided by each of these entities and the auditor general has audited all transactions made between the district and the entities noted and found no misappropriation of funds, management should have presented this board with contracts for formal approval.”

Auditor Conclusion

We are encouraged that the District agrees with our finding. Having board-approved contracts for these types of services protects all parties involved and provides an agreed upon monitoring and performance standards mechanism.

We will follow up on the status of our recommendations during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

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

Distribution List

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

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