

PERFORMANCE AUDIT

Delaware Valley School District Pike County, Pennsylvania

September 2014



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Ms. Pam Lutfy, Board President
Delaware Valley School District
236 Route 6 and 209
Milford, Pennsylvania 18337

Dear Governor Corbett and Ms. Lutfy:

We conducted a performance audit of the Delaware Valley 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 March 19, 2012 through January 24, 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, 2011 and June 30, 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 that the District complied, in all significant respects, with relevant requirements, except as detailed in one (1) finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding 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

September 11, 2014

cc: **DELAWARE VALLEY SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Delaware Valley School District (District) in Pike 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 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 March 19, 2012 through January 24, 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 2010-11 and 2011-12 school years.

District Background

The District encompasses approximately 191 square miles. According to 2010 federal census data, it serves a resident population of 57,369. According to District officials, the District provided basic educational services to 5,072 pupils through the employment of 377 teachers, 236 full-time and part-time support personnel, and 23 administrators during the 2011-12 school year. The District received \$23.7 million in state funding in the 2011-12 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, except for one (1) compliance related matter reported as a finding.

Finding: Improper Reporting of Retirement Wages. Our audit of the Delaware Valley School District's employment contracts and payroll records found employees received attendance incentives that were improperly reported as eligible retirement wages to the Public School Employees' Retirement System. These incentives totaled \$46,300 for the 2011-12 school year (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Delaware Valley School District (District) from an audit released on March 13, 2013, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to the improper reporting of retirement wages. However, the District received the determination from the Public School Employees' Retirement System that the attendance incentives were not eligible retirement wages after incentive payments were made to the employees for the 2011-12 school year, resulting in a repeat finding included in this report. The District no longer offers the attendance incentive following the 2011-12 school year. Therefore, the District made the necessary corrective action (see page 8).

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 March 19, 2012 through January 24, 2014, except for the verification of professional employee certification, which was performed for the period July 1, 2013 through November 21, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 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. retirement), did it follow applicable 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?
- ✓ 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?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

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

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.

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 March 13, 2013, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

The Public School Employees' Retirement System (PSERS) allows only qualified salary and wages to be included for retirement purposes.

PSERS Employers Reference Manual, Chapter 8, states in part:

Retirement Code defines "compensation" generally to mean any remuneration received as a school employee excluding the following:

- 1. reimbursement for expenses, incidental to employment;*
- 2. bonus;*
- 3. severance payment;*
- 4. payments not based on the standard salary schedule,*
- 5. payments for unused vacation and sick leave;*
- 6. compensation for attending seminars and conventions; and*
- 7. any other payment that the Board determines is for the purpose of enhancing final average salary.*

Improper Reporting of Retirement Wages

Our audit of the Delaware Valley School District's (District) employment contracts and payroll records found that employees received attendance incentives that were improperly reported as eligible retirement wages to the Public School Employees' Retirement System (PSERS). These incentives totaled \$46,300 for the 2011-12 school year.

The Collective Bargaining Agreement entered into in 2011 through 2015, states:

An attendance incentive will be paid to members who use none/few of their sick and/or personal days. The incentive applies to sick days, personal days and "extended bereavement" days. It does not include professional days, regular bereavement days, religious holidays (limit 2), jury duty or the donation of a personal day to the membership sick bank. This incentive only applies to employees who work a complete year."

<i>0 days used</i>	<i>\$700</i>
<i>0.5 to 1 day used</i>	<i>\$500</i>
<i>1.5 to 2 days used</i>	<i>\$300</i>
<i>2.5 to 3 days used</i>	<i>\$150</i>

According to the criteria included in the PSERS regulations (see criteria text box to left), attendance incentives are not eligible PSERS wages because they are considered payments in lieu of unused leave or incentives. The attendance incentives were paid through payroll in separate checks.

Errors in reporting wages for the employees receiving payments for attendance incentives caused the District and employees to make overpayments to PSERS based on the ineligible wages for the 2011-12 school year.

The errors were the result of District personnel misunderstanding PSERS regulations. However, as of September 1, 2012, the attendance incentive was eliminated from the District's Collective Bargaining Agreement. No

Criteria relevant to the finding (continued):

The Reference Manual further states:

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.*
- *If the above criteria are met, report the incentive payment.*

In addition, the Public School Code, 24 Pa.C.S. § 8102, defines compensation, in part as follows:

Pickup contributions plus any remuneration received as a school employee excluding reimbursements for expenses incidental to employment and excluding any bonus, severance payments, any other remuneration or other emolument received by a school employee during his school service which is not based on the standard salary schedule under which he is rendering service, payments for unused sick leave or vacation leave, bonuses or other compensation for attending school seminars and conventions . . .

payments for attendance incentives were made following the 2011-12 school year.

As noted in the *Status of Prior Audit Findings* section of this report (page 8), PSERS did determine that attendance incentives paid in prior years were not eligible PSERS wages and made the necessary adjustments.

Although the District's Board of School Directors has the authority to craft the terms of a contract, contractual terms affecting compensation reported to PSERS may not supersede the PSERS' benefit structure.

Recommendations

The *Delaware Valley School District* should:

1. Report to PSERS only those wages allowable for retirement purposes, as stated in *PSERS Employer Reference Manual*.
2. Implement procedures for reviewing all salary and contribution reports, to ensure that only eligible wages are being reported to PSERS for retirement contributions.

The *Public School Employees' Retirement System* should:

3. Make the necessary adjustments to the members' accounts for attendance incentives paid for the 2011-12 school year.

The *Delaware Valley School District's Board of School Directors* should:

4. Enhance their awareness of PSERS compensation guidelines and ensure that contractual terms affecting compensation reported to PSERS do not supersede PSERS benefit structure.

Management Response

Management stated the following:

“Management agrees; however, it must be noted that the determination by the Public School Employees’ Retirement System [PSERS]-[Reference *Beardsly v. SERS* 691 A.2d 1016] that the “Attendance Incentive” cannot be treated as an “incentive” and eligible as retirement wages was not received by the district until March 16, 2013 – well after July 2012 when the payments were made to the employees. There is no corrective action necessary as the payments will not occur again as the “Attendance Incentive” no longer exists in any contracts after the 2011-12 school year. Also, it is our understanding that PSERS will make the necessary adjustments for 2011-12 and also to prior audit years.”

Auditor Conclusion

As noted above, PSERS acted on our prior audit report by making the necessary adjustments to members’ accounts for the prior audit years. In addition, as we recommend in the current finding above, PSERS should make the necessary adjustments to the members’ accounts for attendance incentives paid for the 2011-12 school year. We will follow up on our recommendations during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Delaware Valley School District (District) released on March 13, 2013, resulted in one (1) finding pertaining to possible improper reporting of retirement wages. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We performed audit procedures and interviewed District personnel regarding the prior finding. As shown below, we found that the District did implement our recommendations related to possible improper reporting of retirement wages.

Auditor General Performance Audit Report Released on March 13, 2013

Finding: **Possible Improper Reporting of Retirement Wages**

Finding Summary: Our prior audit of the District's employment contracts and payroll records found employees received attendance incentives that were improperly reported as eligible retirement wages to the Public School Employees' Retirement System (PSERS). These incentives totaled \$70,900, \$53,650, and \$57,100 for the 2008-09, 2009-10, and 2010-11 school years, respectively.

Recommendations: Our audit finding recommended that the District should:

1. Report to PSERS only those wages allowable for retirement purposes, as stated in PSERS Employer Reference Manual.
2. Implement procedures for reviewing all salary and contribution reports, to ensure that only eligible wages are being reported to PSERS for retirement contributions.
3. Adjust subsequent years' PSERS wages for the employees who received payments for attendance incentives.

We also recommended that PSERS should:

4. Review the propriety of the wages for the employees who received attendance incentives and make any necessary adjustments.

Current Status: During our current audit, we found that the District did implement our prior recommendations. However, the determination by PSERS that the attendance incentives were not eligible retirement wages was received by the District well after incentive payments were made to the employees for the 2011-12 school year, resulting in a repeat finding included in this report. The District no longer offers the

attendance incentive following the 2011-12 school year. Therefore, the District made the necessary corrective action.

On August 7, 2014, PSERS notified us that they made the adjustments to members' accounts who received attendance incentives for the 2007-08, 2008-09, and 2009-10 school years after they determined those payments were ineligible for PSERS wages.

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:

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
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This report is a matter of public record and is available online at 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.