

LIMITED PROCEDURES ENGAGEMENT

Derry Township School District
Dauphin County, Pennsylvania

April 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Joseph McFarland, Superintendent
Derry Township School District
30A East Granada Avenue
Hershey, Pennsylvania 17033

Mr. Brian Shiflett, Board President
Derry Township School District
30A East Granada Avenue
Hershey, Pennsylvania 17033

Dear Mr. McFarland and Mr. Shiflett:

We conducted a Limited Procedures Engagement (LPE) of the Derry Township School District (District) to determine its compliance with certain relevant state laws, regulations, policies, and administrative procedures (relevant requirements). The LPE covers the period July 1, 2012 through June 30, 2015, except for any areas of compliance that may have required an alternative to this period. The engagement was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania and The Fiscal Code, 72 P.S. § 403, but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

As we conducted our LPE procedures, we sought to determine answers to the following questions, which serve as our LPE objectives:

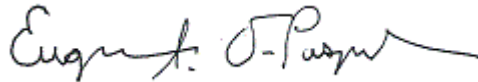
- Did the District have documented board policies and administrative procedures related to the following?
 - Internal controls
 - Budgeting practices
 - The Right-to-Know Law
 - The Sunshine Act
- Were the policies and procedures adequate and appropriate, and have they been properly implemented?
- Did the District comply with the relevant requirements in the Right-to-Know Law and the Sunshine Act?
- Did the District take appropriate corrective action to address the findings made in our prior audit, and were the actions taken into effect?

Mr. Joseph McFarland
Mr. Brian Shiflett
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Our engagement found that the District properly implemented policies and procedures for the areas mentioned above and complied, in all significant respects, with relevant requirements.

We appreciate the District's cooperation during the conduct of the engagement.

Sincerely,

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

Eugene A. DePasquale
Auditor General

April 14, 2016

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

Status of Prior Findings and Observations

Prior Finding No. 1

Possible Inaccurate Reporting of Retirement Wages

Prior Finding Condition

Our prior audit of the District's payroll records, the Act 93 Compensation and Benefits Programs for administrators (Act 93), and the Collective Bargaining Agreements (CBA) between the District and the Hershey Education Association found that the District may have inaccurately reported wages eligible for retirement to the Public School Employees' Retirement System (PSERS) for the 2008-09, 2009-10, 2010-11, and 2011-12 school years.

Prior Recommendations

We recommended that the District should:

1. Contingent upon PSERS's determination, ensure that the proper adjustments are made for all individuals whose eligible retirement wages were not correctly reported.
2. Implement 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's Employer Reference Manual.
3. Contingent upon PSERS's determination, provide to PSERS any documentation that PSERS needs to adjust incorrectly reported retirement wages for periods prior to July 1, 2008, during the audit period July 1, 2008 through June 30, 2012, and after July 1, 2012.
4. Review payroll procedures for National Board Certification (NBC) payments for weaknesses and implement corrective procedures to ensure duplicate payments are not made and that they are paid in the amounts required by contract.
5. Recover the \$6,000 in overpayments from the two individuals who were paid twice for the NBC stipend during the 2010-11 and 2011-12 school years, and resolve the \$500 underpayment of the employee's NBC stipend for the 2011-12 school year. If payment errors occurred subsequent to the 2011-12 school year, the overpayments should also be recovered.

We also recommended that PSERS should:

6. Review the merit, NBC, and service increment payments made to Act 93 and CBA employees from July 1, 2008 through June 30, 2012, to determine if the payments were properly reported to PSERS for retirement purposes.
7. If service increment payments should not have been reported to PSERS as eligible retirement wages, request documentation for all individuals that receive such payments under the CBA. (The individuals and amounts were not obtained during the audit due to the magnitude of adjustments which would need to be made).
8. Based on its final determination, PSERS should adjust all payments incorrectly reported by the District for Act 93 and CBA employees from July 1, 2008 through June 30, 2012. Furthermore, PSERS must advise the District on how to resolve any payments incorrectly reported to PSERS for all employees prior to July 1, 2008, and after July 1, 2012.

Current Status

Our current audit found that the District and PSERS had implemented our recommendations.

Prior Finding No. 2

Possible Inaccurate Reporting of Retirement Wages Based on Provisions of a Retroactively Approved Contract

Prior Finding Condition

Our prior audit found that the District's Business Manager was employed without an employment contract (Contract) and was compensated under the Act 93 agreement from September 11, 2001 through June 25, 2012, when the Board of School Directors approved the Business Manager's first contract and made it retroactive to July 1, 2011.

Our review found that an adjustment was made on June 29, 2012, and as a result, payments were made to the Business Manager for a merit increase, national certification stipend, and a service increment for the period July 1, 2011 through June 25, 2012. In addition, a payment for seven unused vacation days was converted to regular salary wages to become part of the Contract's base salary of \$108,750. These payments were reported to PSERS as eligible wages.

Prior Recommendations

We recommended that the District should:

1. Contingent upon PSERS's final determination, ensure the District only reports to PSERS those wages allowable for retirement purposes, as provided for in the PSERS's Employer Reference Manual.
2. Implement annual procedures for reviewing all salary and contribution reports in order to ensure that only eligible wages are being reported to PSERS for retirement purposes.
3. Contact PSERS for a determination when there is any uncertainty regarding the eligibility of payments for retirement purposes at the time that the payments are anticipated or approved.

We also recommended that PSERS should:

4. Review the Business Manager's contract and salary payments made from July 1, 2011 to current and determine what actions, if any, are necessary with regard to wages for retirement purposes.
5. Based on its final determination, make any necessary adjustments for payments made by the District from July 1, 2011 to current.

Current Status

Our review determined that the recommendations were implemented.

Distribution List

This letter was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Pedro A. Rivera
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Timothy Reese
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Mrs. Danielle Mariano
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400 North Third Street - Box 1724
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Mr. Lin Carpenter
Assistant Executive Director for Member Services
School Board and Management Services
Pennsylvania School Boards Association
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Mechanicsburg, PA 17055

This letter is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the letter can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.