



**CAREER TECHNOLOGY CENTER OF
LACKAWANNA COUNTY**

LACKAWANNA COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

JANUARY 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. William Burke
Joint Operating Committee Chairperson
Career Technology Center of Lackawanna
County
3201 Rockwell Avenue
Scranton, Pennsylvania 18508

Dear Governor Corbett and Mr. Burke:

We conducted a performance audit of the Career Technology Center of Lackawanna County (Center) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period September 15, 2011 through June 27, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2012 and June 30, 2011. 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 Center complied, in all significant respects, with relevant requirements. However, we identified one (1) matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit observation and recommendations have been discussed with the Center's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the Center's operations and facilitate compliance with legal and administrative requirements. We appreciate the Center'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

January 17, 2014

cc: **CAREER TECHNOLOGY CENTER OF LACKAWANNA COUNTY** Joint Operating
Committee Members

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Executive Summary

Audit Work

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

Our audit scope covered the period September 15, 2011 through June 27, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2011-12 and 2010-11 school years.

Center Background

According to Center officials, in school year 2011-12, the Center provided educational services to 566 secondary pupils and 71 post-secondary pupils through the employment of 34 teachers, 43 full-time and part-time support personnel and four (4) administrators. A joint operating committee (JOC), which is comprised of nine (9) members from the following school districts, directs the operation, administration, and management of the school:

Carbondale Area
Dunmore
Forest City Regional
Lakeland
Mid Valley

North Pocono
Riverside
Scranton City
Valley View

The JOC members are appointed by the individual school boards at the December meeting, each to serve a one-year term. Lastly, the Center received \$892,068 in state funding in the 2011-12 school year.

Audit Conclusion and Results

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

Observation: Administrator Contract Provisions Resulted in a Questionable Use of Taxpayer Funds. Our review of the Career Technology Center of Lackawanna County's former Chief Financial Officer and current Administrative Director contracts revealed that the Joint Operating Committee approved contracts that allowed for excessive severance payments (see page 5).

Status of Prior Audit Findings and Observations. There were no findings or observations included 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 September 15, 2011 through June 27, 2013, except for the verification of professional employee certification which was performed for the period July 1, 2012 through March 21, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2011-12 and 2010-11 school years.

While all LEAs 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 Center'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?
- ✓ Did the Center have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?

- ✓ In areas where the Center receives state subsidies and reimbursements based on payroll (e.g. retirement), did it follow applicable laws and procedures?
- ✓ Were there any declining fund balances that may pose a risk to the Center's fiscal viability?
- ✓ Did the Center pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the Center take appropriate steps to ensure school safety?
- ✓ Did the Center have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the Center's Joint Operating Committee Members free from apparent conflicts of interests?
- ✓ 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 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 Center's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Center 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 Center's internal controls, including any information technology controls, as they relate to the Center'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 Joint Operating Committee meeting minutes and policies and procedures.

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

Findings and Observations

Observation

Administrator Contract Provisions Resulted in a Questionable Use of Taxpayer Funds

Criteria relevant to the observation:

Retirement incentives are typically offered to reduce the cost of higher paid salaries and not as a bonus to employees planning to retire at their normal date.

Contract enhancements used to increase payments for unused sick and vacation days are not in the best interest of the students, member-districts, and taxpayers.

Our review of the Career Technology Center of Lackawanna County's (Center) former Chief Financial Officer (CFO) and current Administrative Director (Director) contracts revealed that the Joint Operating Committee (JOC) approved contracts that allowed for excessive severance payments.

On May 15, 2008, the JOC entered into a contract with the former CFO for a term of seven (7) years, from May 15, 2008 to June 30, 2015. Prior to this contract, the CFO did not have a contract but received benefits in accordance with the Act 93 contract. The former CFO retired effective June 29, 2012.

On November 1, 2007, the JOC entered into a contract with the current Director for a term of seven (7) years, from July 1, 2007 through June 30, 2013.

Retirement Incentive

Both contracts provided that, upon retirement, the CFO and the Director shall receive retirement incentives equal to 90 percent of their final salary, payable over four (4) equal installments on January 1st of each subsequent year after retirement. At the time of retirement, the CFO's salary was \$87,118, and he will receive incentive payments equal to 90 percent of that amount, or \$78,406.20. The first payment of \$19,601.55 was paid on January 25, 2013.

As of our last day of fieldwork on June 27, 2013, the JOC had not approved a new contract for the current Director. If his contract is extended until retirement, the Director would be eligible for a retirement incentive equal to 90 percent of his final salary. The Director's salary was \$117,283 at the time of our audit.

Payment for Unused Days

The CFO's contract indicated the JOC shall:

- Pay the CFO for his unused vacation days at his daily rate of pay. Although unused vacation days are not carried over from year to year, they can be converted to sick leave, and subsequently paid out per the provisions of the Act 93 contract.
- Pay the CFO for all of his accumulated sick leave at a rate of \$125 per day.

The Act 93 contract, in effect at the time the former CFO retired, indicated:

Upon death or retirement, employees shall receive a lump sum payment based upon the number of unused accumulated sick leave. This entitlement shall be computed as follows:

- *Fifteen dollars per day above the established contractual rate in effect for professional employees at the time of retirement or one-third of the employee's per diem rate, whichever is greater.*
 - *The maximum number of unused sick days to be claimed is 180 days.*

Therefore, the former CFO's contract included an enhancement from the provision previously followed in the Act 93 contract. The former CFO was paid \$43,000 for 344 unused sick days at \$125 per day. If he was paid under the provisions of the Act 93 contract, he would have only received payment for 180 days at \$111.69—one-third of his daily rate—for a total payment of \$20,104. The JOC's approval of the enhanced contract for the former CFO resulted in an additional payment of \$22,896 for unused sick and vacation days.

The former CFO was also paid \$8,376.75 for 25 unused vacation days that he earned in the 2011-12 school year at a daily rate of \$335.07.

The Director's contract effective through June 30, 2013, states:

- The Director will be paid for all unused vacation days at a per diem rate of salary upon retirement.
- The Director will be paid for all unused sick days at a per diem rate of salary upon retirement.

These are enhancements from his prior contract, effective July 1, 2003 through June 30, 2009, offered, upon retirement, payment for up to 30 days of unused vacation at his per diem rate, and payment equal to one-third of his per diem rate—in accordance with the Act 93 contract—for all unused sick days. These enhancements will result in excessive payments at the time the Director retires, paid for by the member-districts and taxpayers.

The taxpayers have the right to expect that their hard earned money will be spent on the education of the Center's students and not on excess benefits to individuals. Furthermore, the information in these agreements should be more transparent to the public so that the taxpayers can consider such information when determining whether the JOC has made decisions in the best interest of the Center, the taxpayers, and the students.

Recommendations

The *Career Technology Center of Lackawanna County* should:

1. Consider the taxpayers' expectation that their money will be used for the education of the Center's children when negotiating employee agreements.
2. Ensure all of the Center's employment agreements are as transparent as possible, so that the member-districts and taxpayers can evaluate their appropriateness.
3. Only offer retirement incentives to reduce the cost of higher paid salaries and not as a bonus to employees planning to retire at their normal date.

Management Response

Management stated the following:

“Management strongly disagrees with this observation due to the fact as to when the contract provisions were negotiated.

These provisions were negotiated more than six years ago when it was considered the norm with all administration in the Commonwealth of Pennsylvania. I am not aware of any observation by school audits reflecting this same observation from that time period.

Although due to many recent events, I agree that boards as well as administrators are now aware of the newly negotiated contract provisions and new laws of which will be followed by Board Members and Administrators.”

Auditor Conclusion

As stated above, taxpayers have the right to expect that their hard earned money will be spent on the education of the Center’s students and not on excess benefits to individuals. Contract enhancements used to increase payments for unused sick and vacation days are not in the best interest of the students, member-districts, and taxpayers.

Status of Prior Audit Findings and Observations

Our prior audit of the Career Technology Center of Lackawanna County resulted in no findings or observations.

Distribution List

This report was initially distributed to the Center's Superintendent of Record, the Joint Operating Committee, our website www.auditorgen.state.pa.us, and the following stakeholders:

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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.