



DELAWARE VALLEY SCHOOL DISTRICT
PIKE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MARCH 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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

EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. William Greenlaw, Board President
Delaware Valley School District
236 Routes 6 and 209
Milford, Pennsylvania 18337

Dear Governor Corbett and Mr. Greenlaw:

We conducted a performance audit of the Delaware Valley School District (DVSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period January 21, 2010, through March 19, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010, and June 30, 2009. Our audit was conducted pursuant to 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 DVSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

March 13, 2013

cc: **DELAWARE VALLEY SCHOOL DISTRICT** Board Members



Table of Contents

| | Page |
|---|------|
| Executive Summary | 1 |
| Audit Scope, Objectives, and Methodology | 3 |
| Findings and Observations | 6 |
| Finding – Possible Improper Reporting of Retirement Wages | 6 |
| Status of Prior Audit Findings and Observations | 9 |
| Distribution List | 11 |



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Delaware Valley School District (DVSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period January 21, 2010 through March 19, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10 and 2008-09.

District Background

The DVSD encompasses approximately 191 square miles. According to 2010 federal census data, it serves a resident population of 57,369. According to District officials, in school year 2009-10 the DVSD provided basic educational services to 5,396 pupils through the employment of 411 teachers, 247 full-time and part-time support personnel, and 19 administrators. Lastly, the DVSD received more than \$23.3 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the DVSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: Possible Improper Reporting of Retirement Wages

Our audit of the DVSD'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 for the 2010-11, 2009-10 and 2008-09 school years. These incentives totaled \$57,100, \$53,650 and \$70,900, for the 2010-11, 2009-10 and 2008-09 school years, respectively (see page 6).

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 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 PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 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 January 21, 2010, through March 19, 2012, except for the verification of retirement wages which was performed for the period July 1, 2008, through June 30, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 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 DVSD's compliance with applicable state laws, 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:

- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. retirement), did it follow applicable laws and procedures?

- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's board members free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

DVSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level

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 applicable laws, contracts, grant requirements and administrative procedures.

understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

Any significant deficiencies found during the audit 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/reimbursement, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications and financial stability.
- Items such as board meeting minutes, pupil membership records, and reimbursement applications.

Additionally, we interviewed selected administrators and support personnel associated with DVSD operations.

Findings and Observations

Finding

Criteria relevant to the finding:

PSERS allows only qualified salary and wages to be included for retirement purposes. According to Pennsylvania School Employees' Retirement Board Regulations, Section 211.2, reported compensation should: . . . exclude payments for unused sick leave, unused vacation leave . . . or any other payments or similar emoluments which may be negotiated in a collective bargaining agreement for the express purpose of enhancing the compensation factor for retirement benefits.

Public School Employees' Retirement System (PSERS) Reference Manual for Reporting Units, Section III, states in part:

Bonuses, severance payments, or any payments received that are not based on the standard pay schedule are not compensation for retirement purposes and should not be reported on the Quarterly Reports.

Possible Improper Reporting of Retirement Wages

Our audit of the Delaware Valley School District's (DVSD) 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 \$57,100, \$53,650 and \$70,900, for the 2010-11, 2009-10 and 2008-09 school years, respectively.

The Collective Bargaining Agreement entered into on April 6, 2006 effective through June 30, 2011, stated:

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.

| | |
|--------------------|-------|
| 0 days used | \$700 |
| 0.5 to 1 days used | \$500 |
| 1.5 to 2 days used | \$300 |
| 2.5 to 3 days used | \$150 |

According to the criteria included in the PSERS regulations, attendance incentives are not eligible PSERS wages since they are considered payments in lieu of unused leave or incentives. The attendance incentives were paid by check.

Employee contribution errors in reporting wages for the employees receiving payments in lieu of the attendance incentive caused overpayments to PSERS for the 2010-11, 2009-10 and 2008-09 school years by \$4,259, \$3,984 and \$5,272, respectively. Furthermore, the DVSD overpaid PSERS \$4,939, \$2,564 and \$3,382 for the 2010-11, 2009-10 and 2008-09 school years, respectively, for employer contributions.

The errors were the result of DVSD personnel misunderstanding PSERS regulations.

Although the board has the authority to craft the terms of a contract, the school board may not supersede the PSERS' benefit structure.

Recommendations

The *Delaware Valley School District* should:

1. Contingent upon PSERS final determination, 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 employees who received payments for attendance incentives.

PSERS should:

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

Management Response

Management stated the following:

Management disagrees with the finding because management and representatives of PSERS believe that all four criteria have been met making the attendance incentive payments eligible as retirement-covered compensation.

The following are the four criteria:

- The payment must be tied to work performance.
- 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.
- The payment is a significant part of the employee's income.

The intent of offering the attendance incentive was to educationally benefit the students by encouraging the regular teacher to be teaching in the classroom in lieu of a substitute. It is our understanding that the auditor is in agreement that the first three criteria have been satisfied that the incentive is tied to work performance, there is an objective means to calculate the payment and it is contractually obligated. However, the auditor does not agree that for example 1.6 percent of a teacher salary is “significant”. We believe the payment is a significant part of the employees’ income. The majority of the attendance incentive payments went to teachers at the incentive rate of \$700 which on an average teacher salary of \$44,668 when the incentive was instituted in the contract represented approximately 1.6 percent of their salary. Even now ten years later the payment still represents over 1 percent of an average teacher salary. We believe this represents a significant part of an employee’s income even more so now in an era of pay freezes, etc. Please note if a substitute is required to be in the classroom and compensated, the payment to the substitute is eligible as retirement-covered compensation. Further, the incentive payments have been paid since the 2002-03 school year and have never been challenged by the Auditor General or PSERS.

Auditor Conclusion

The purpose of attendance incentives paid to teachers and administrators is not in question by the auditors. The auditors have not made a judgment on whether the attendance incentives are tied to work performance or a significant source of income. Furthermore, any attendance incentive paid in the past did not come to the attention of the auditors; therefore, were not reviewed for appropriateness.

As stated above, PSERS should review the propriety of the wages for the employees who received attendance incentives and make any necessary adjustments.

Status of Prior Audit Findings and Observations

Our prior audit of the Delaware Valley School District resulted in no findings or observations.



Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditor.gen.state.pa.us, and the following:

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

The Honorable Ronald J. Tomalis
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

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

Ms. Nichole Duffy
Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Tom Templeton
Assistant Executive Director
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

Ms. Connie Billet
Assistant Internal Auditor
Public School Employees'
Retirement System
5 North Fifth Street
Harrisburg, PA 17101

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

