

NORTHWEST AREA SCHOOL DISTRICT  
LUZERNE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2013





**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER  
AUDITOR GENERAL**

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

Mr. Randy Tomasacci, Board President  
Northwest Area School District  
243 Thorne Hill Road  
Shickshinny, Pennsylvania 18655

Dear Governor Corbett and Mr. Tomasacci:

We conducted a performance audit of the Northwest Area School District (NASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period December 17, 2009 through May 15 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 NASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, we identified two matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

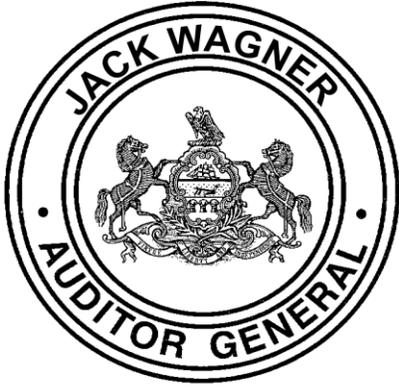
Our audit observations and recommendations have been discussed with NASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve NASD's operations and facilitate compliance with legal and administrative requirements. We appreciate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

Sincerely,

January 14, 2013

**JACK WAGNER**  
Auditor General

cc: **NORTHWEST AREA SCHOOL DISTRICT** Board Members

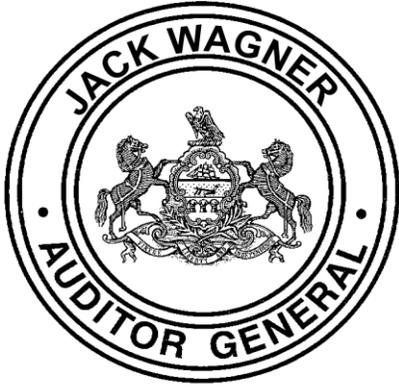


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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Northwest Area School District (NASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the NASD in response to our prior audit recommendations.

Our audit scope covered the period December 17, 2009 through May 15, 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 NASD encompasses approximately 117 square miles. According to 2010 federal census data, it serves a resident population of 9,164. According to District officials, in school year 2009-10 the NASD provided basic educational services to 1,314 pupils through the employment of 108 teachers, 95 full-time and part-time support personnel, and 8 administrators. Lastly, the NASD received more than \$10.5 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the NASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, as noted below, we identified two matters unrelated to compliance that are reported as observations.

#### **Observation No. 1: Questionable Early Retirement Healthcare Coverage.**

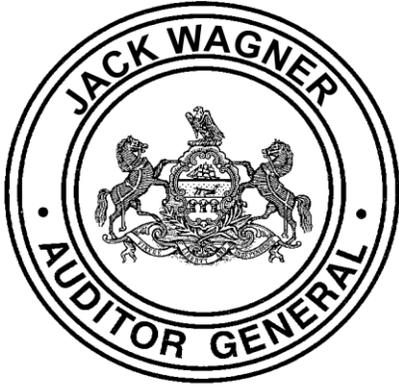
The NASD's employment agreement with administration and professional employees offers health insurance benefits until age 65 after ten years of service with the NASD if the employee chooses to retire (see page 6).

#### **Observation No. 2: The Board Approved a Health Benefit Waiver for the Former Superintendent which is in Violation of the Administrative Contract.**

The NASD board allowed a health benefit waiver payment for the former superintendent that was in violation of the contract. The NASD board did not address this matter during a regular board meeting (see page 9).

#### **Status of Prior Audit Findings and Observations.**

With regard to the status of our prior audit recommendations to the NASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the NASD had taken appropriate corrective action in implementing our recommendations pertaining to nonpublic pupil reporting (see page 12) and bus drivers (see page 13). However, the NASD had not taken appropriate corrective action in implementing our recommendations pertaining to their student accounting application (see page 13).



## Audit Scope, Objectives, and Methodology

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### 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 December 17, 2009 through May 15, 2012, except for the verification of professional employee certification which was performed for the period of July 1, 2011 through January 18, 2012.

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 NASD'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:

- ✓ Were professional employees certified for the positions they held?
- ✓ 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. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District receives transportation subsidies, is the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that its current bus drivers are properly qualified, and does it 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

*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.

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

NASD 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 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 pupil transportation, professional employee certification 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 NASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 1, 2010, we performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation No. 1

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*Criteria relevant to the observation:*

Good business practice would dictate that the District should negotiate contracts which are in the best interests of the taxpayers.

### Questionable Early Retirement Healthcare Coverage

On September 1, 2005, the Northwest Area School District (District) board of school directors (Board) entered into an agreement (agreement) with the Northwest Area Education Association. The agreement had a term of six years, from September 1, 2005 through August 31, 2011. The agreement stated that an employee with ten years of service would be eligible for an early retirement benefit. This would include receiving health insurance benefits provided in the contract until the employee attains the age of 65 or becomes eligible for Medicare.

The agreement contains the following conditions:

- The retiring employee shall continue to receive the health insurance benefits provided in the contract until the employee attains the age of 65 or becomes eligible for Medicare, whichever is sooner, providing the insurance carrier permits retired employees to be included in the group policy. For non-single employees, family coverage will be provided for the retiring employee who has student dependent children to age 23. When there are no longer any dependent children under 23, the coverage will be changed to married (two persons). Such coverage terminates with the death of retired employees.
- Employees wishing to take advantage of the Early Retirement Incentive Program must notify the Superintendent in writing of their intention by March 1<sup>st</sup> preceding the school year of retirement; e.g., that if a person gave notice of his/her intent to retire effective June 1, 1995, that said employee must provide the board notice of his/her intent to retire by March 1, 1995, in order to qualify for any of the benefits he/she is entitled to requiring a March 1<sup>st</sup> notice. The District may limit the number of employees receiving the Early Retirement Incentive in any one year to 5 percent of the total number of bargaining unit members employed in that year. Applicants with the greatest amount of seniority within the District will be

granted the retirement incentive within the 5 percent limitation. Any fraction resulting from the 5 percent computation will be rounded to the nearest whole number; i.e., 4.4 will be considered as four, while 4.5 will be considered as five.

During our review, we found the District has one retired teacher who exercised this option five years ago at the age of 40. The District is required to pay his health care benefits until age 65 or death whichever occurs first.

During the 2011-12 school year, the District is currently paying \$21,235 per year for his family health insurance. The retired teacher is now 45 years old and this amount for the next 20 years would come at a cost of \$424,700 to the District until he reaches age 65.

Providing such a benefit after only ten years of service is a questionable use of taxpayer funds.

The potential costs of the retirement benefit for the one retiree who exercised the option should lead the District to reevaluate the retirement benefit.

Furthermore, the information in this agreement should be more transparent to the public so that the taxpayers can consider such information when determining whether the Board has made decisions in the best interest of the District, the taxpayers, and the students.

## **Recommendations**

The *Northwest Area School District* should:

1. Since the contract has expired, while negotiating the current employee agreement the board should consider the taxpayers' expectation that their money will be used for the education of the District's children.
2. Review all of the District's employment agreements and be as transparent as possible, so that the District's taxpayers can evaluate their appropriateness.
3. Reevaluate the retirement benefit.

**Management Response**

Management stated the following:

The Association and School Board are currently in the process of negotiating a new contract. The District solicitor and the school board have been informed of this observation and will consider this when negotiating any new contracts.

**Observation No. 2** →

**The Board Approved a Health Benefit Waiver for the Former Superintendent which is in Violation of the Administrative Contract**

*Criteria relevant to the observation:*

The District Superintendent's Contract states:

Fringe Benefits:

Health Insurance

Coverage as qualified – 25% of monthly premium share paid through payroll deduction, unless otherwise authorized by the Board of Education.

Shall receive the same Health Care benefits, as well as other benefits, (e.g. life insurance, retirements), provided to those covered in the Collective Bargaining Agreement in effect for the Professional Staff during the tenure of this contract.

The agreement between the Northwest Area School District and the Northwest Area Education Association states:

(1) All eligible full-time employees of the Northwest Area School District may reduce or waive coverage for hospitalization, medical-surgical, major medical, dental and vision insurance coverages. . . .

(2) All eligible full-time employees of the Northwest Area School District waiving health insurance benefits will be reimbursed fifty percent (50%) of the premium cost of the affected coverage for the first three years of this contract. In the fourth and fifth years of the contract, the reimbursed percentage shall be reduced to (25%) of the premium cost. Effective the sixth year of this contract, the benefit waiver reimbursement shall be eliminated.

On July 1, 2007, the Northwest Area School District (District) board of school directors (Board) entered into an agreement (agreement) with the former Superintendent. The agreement had a term of four years, from July 1, 2007 through June 30, 2011. The agreement stated the former Superintendent was eligible for the health benefit waiver of 25 percent of the monthly premium share as qualified in Northwest Area Education Association contract (teacher contract).

Her agreement refers to the teacher's contract which contains the following conditions:

- All eligible full-time employees of the District may reduce or waive coverage for hospitalization, medical-surgical, major medical, dental and vision coverages. These employees will be reimbursed 25 percent of the premium cost of the affected coverage.
- The benefit waiver period begins October 1<sup>st</sup> of each school year and terminates September 30<sup>th</sup>.
- Payment to the employee for the waiver of health benefits will be made on the last payday in March and on the last payday in September.
- The request to waive health benefits will be ongoing unless discontinued by the employee. Such discontinuance must be done at the end of each benefit period (September 30<sup>th</sup>).
- In the event the payment for waiving of the aforementioned insurance coverage causes the insurance coverage for other employees to become taxable under the doctrine of constructive receipt, this Benefit Waiver Policy shall become null and void and all eligible employees shall have reinstated the insurance benefits they waived.

In a memo dated January 27, 2011, the former Superintendent requested consideration of a 25 percent health benefit waiver payment even though this benefit expired in August 31, 2010. She asked the board to make this payment as a good faith measure of her success as the Superintendent of Schools. The board did not address this matter during a regular board meeting, but instead agreed to this request in an executive session.

The dollar amount was calculated on 25 percent of the cost of the husband/wife benefit package which amounted to \$13,439.76. She requested the amount of \$3,359.94 be paid to her on February 4, 2011.

During our review we found that the board's approval of the additional health benefit waiver violated the conditions of the Northwest Area Education Association contract. The health benefit waiver expired in the sixth year (2010) of this contract and was paid in the next year (2011).

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 board has made decisions in the best interest of the District, the taxpayers, and the students.

## **Recommendations**

The *Northwest Area School District* should:

1. When considering any additional payments, not contained in the contract, made to an administrator who would leave the District, the approval should be granted at a regular board meeting and documented in the minutes.
2. When agreeing to an employee's request for a good faith payment, consider the taxpayer's expectation that their money will be used for the education of the District's children.
3. Review all of the District's employment agreements and be as transparent as possible, so that the District's taxpayers can evaluate their appropriateness.

**Management Response**

Management stated the following:

It should be noted there is no longer a health benefit waiver in administrative contract or professional Collective Bargaining Agreement. The Board is also aware that any modifications made to a contract will be voted on and approved at a public meeting.

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Northwest Area School District (NASD) for the school years 2007-08 and 2006-07 one matter reported as a finding and two observations. The finding pertained to continued errors in reporting the number of nonpublic pupils transported resulting in reimbursement overpayments. The first observation pertained to internal control weaknesses in administrative policies regarding bus drivers' qualifications and the second observation pertained to unmonitored vendor system access and logical control access weaknesses. As part of our current audit, we determined the status of corrective action taken by the NASD to implement our prior recommendations. We performed audit procedures and questioned NASD personnel regarding the prior finding and observations. As shown below, we found that the NASD did implement recommendations related to incorrectly reporting the number of nonpublic pupils transported and bus drivers reporting being convicted of crimes since their dates of hire. However, they did not implement recommendations related to vendor system access and logical access control weaknesses.

### **School Years 2007-08 and 2006-07 Auditor General Performance Audit Report**

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**Finding:** **Continued Errors in Reporting the Number of Nonpublic Pupils Transported Resulted in Reimbursement Overpayments**

Finding Summary: Our prior audit of the NASD's transportation reports submitted to the Pennsylvania Department of Education (PDE) for the 2007-08 and 2006-07 school years found NASD personnel continued to incorrectly report nonpublic students resulting in a net overpayment of \$35,805.

Recommendations: Our audit finding recommended that the NASD:

1. Maintain separate nonpublic and public nonhazardous pupil lists.
2. Implement standardized reporting procedures for rosters and pupil listings.
3. Institute a system of review that would help ensure that reports sent to PDE are correct.
4. Review subsequent years reports and if errors are found, submit revised reports to PDE.
5. PDE should adjust the NASD's allocations to recover the overpayments of \$35,805.

Current Status: During our current audit procedures we found that the NASD did implement the recommendations. NASD has implemented new procedures by maintaining separate lists for public and non public students and these lists are reviewed prior to submission to PDE. NASD reviewed subsequent years and no concerns were noted. However, PDE has not made the adjustment for the \$35,805 overpayment.

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**Observation No. 1: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications**

Observation Summary:

Our prior audit noted during our review of the personnel records of bus drivers employed by the NASD and/or the NASD's transportation contractor that procedures were not in place to identify when current employees are charged with crimes or child abuse that may have occurred after the commencement of employment.

Recommendations:

Our audit observation recommended that the NASD:

1. Develop a process to determine, on a case-by-case basis whether prospective and current employees of the District or the District's transportation contractors have been charged with or convicted of crimes that even though not barred by state law affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.

Current Status: During our current audit procedures we found that the NASD did implement the recommendations. They now require all employees of the NASD to answer all questions on Act 24 of 2011 prior to and during their employment with the NASD.

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**Observation No. 2: Unmonitored Vendor System Access and Logical Control Access Weaknesses**

Observation Summary:

Our prior audit found that NASD personnel have limited controls over remote access to their membership data. In particular, the NASD has limited control over vendor access to student accounting applications.

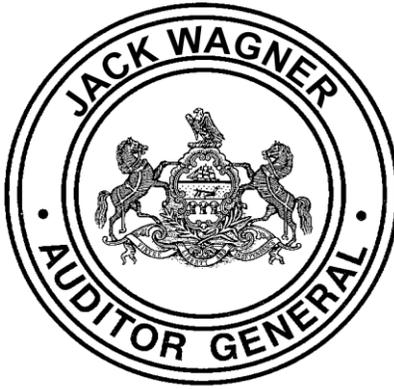
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Recommendations: Our audit observation recommended that the NASD:

1. Develop an agreement with the vendor to provide student accounting applications and related information technology (IT) services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.
2. Keep a copy of the fully executed maintenance agreement on file, signed by both parties.
3. Ensure that the contract with the vendor contains a non-disclosure agreement for the District's proprietary information.
4. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements) and all employees should be required to sign this policy.
5. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the district should require the vendor to sign the District's Acceptable Use Policy.
6. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days), to use passwords that include alpha, numeric and special characters, lock out users after three unsuccessful access attempts and maintain a password history to prevent use of a repetitive password (i.e., approximately last ten passwords).
7. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
8. To mitigate IT control weaknesses, the district should have written documentation for compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

Current Status: During our current audit procedures we found that the NASD did not implement the recommendations. The District did make several attempts to contact the vendor for documentation that would address these weaknesses, but were unable to obtain this information. These recommendations should be addressed with the new vendor starting in the 2012-13 school year. We will follow-up on our recommendations in the next audit.

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## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

The Honorable Tom Corbett  
Governor  
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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](http://www.auditorgen.state.pa.us).

