

PERFORMANCE AUDIT

Northwest Area School District Luzerne County, Pennsylvania

June 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. James McGovern, Superintendent
Northwest Area School District
243 Thorne Hill Road
Shickshinny, Pennsylvania 18655

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

Dear Mr. McGovern and Mr. Boberick:

We have conducted a performance audit of the Northwest Area School District (District) for the period July 1, 2013 through June 30, 2017, except as otherwise indicated in the audit scope, objective, and methodology section of the report. We evaluated the District's performance in the following areas as further described in the appendix of this report:

- Administrative Contract Buyout
- Data Integrity
- Bus Driver Requirements

We also evaluated the application of best practices in the area of school safety. Due to the sensitive nature of this issue and the need for the results of this review to be confidential, we did not include the results in this report. However, we communicated the results of our review of school safety to District officials, Pennsylvania Department of Education, and other appropriate officials as deemed necessary.

The audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code (72 P.S. §§ 402 and 403), and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit found that the District performed adequately in the areas in the bulleted list above, except as noted in the following finding:

- The District Reported Unqualified Earnings to PSERS for a Former Administrator

Mr. James McGovern
Mr. Gary Boberick
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We appreciate the District's cooperation during the course of the audit.

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

June 12, 2018

cc: **NORTHWEST AREA SCHOOL DISTRICT** Board of School Directors

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Background Information

School Characteristics 2016-17 School Year ^A	
County	Luzerne
Total Square Miles	117
Number of School Buildings	3
Total Teachers	78
Total Full or Part-Time Support Staff	60
Total Administrators	10
Total Enrollment for Most Recent School Year	1,016
Intermediate Unit Number	18
District Vo-Tech School	West Side Career and Technology Center

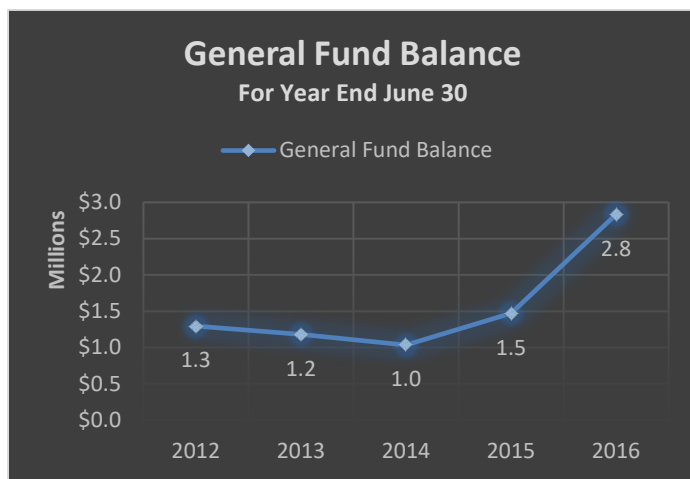
A - Source: Information provided by the District administration and is unaudited.

Mission Statement^A

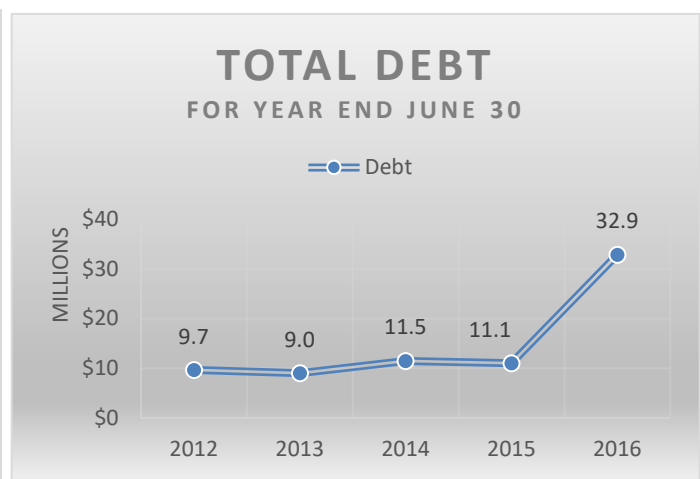
In collaboration with family and community partners, Northwest Area School District provides a continuum of services that support ALL students to realize their fullest potential through academically rigorous and relevant programs of study.

Financial Information

The following pages contain financial information about the Northwest Area School District (District) obtained from annual financial data reported to the Pennsylvania Department of Education (PDE) and available on PDE's public website. This information was not audited and is presented for **informational purposes only**.

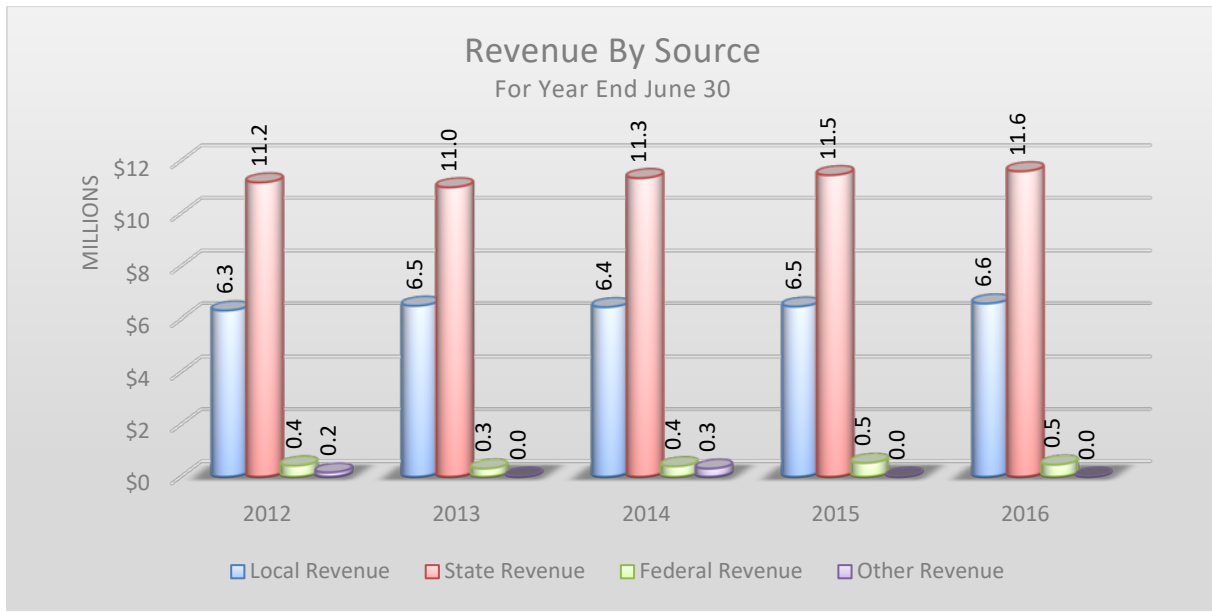
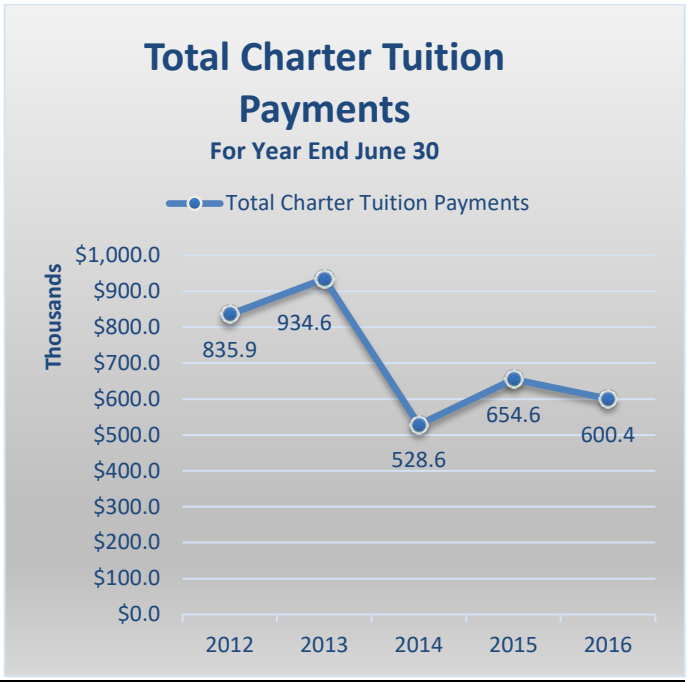
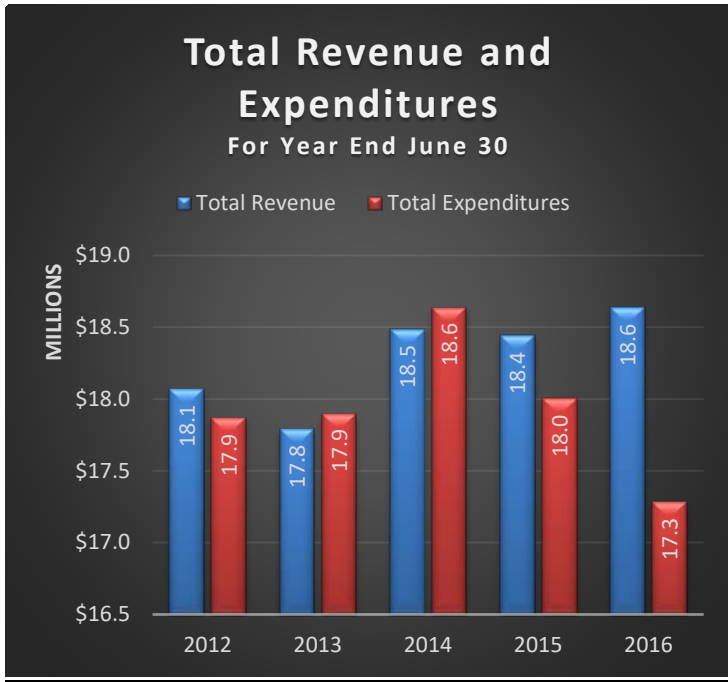


Note: General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



Note: Total Debt is comprised of Short-Term Borrowing, General Obligation Bonds, Authority Building Obligations, Other Long-Term Debt, Other Post-Employment Benefits, Compensated Absences and Net Pension Liability.

Financial Information Continued



Academic Information

The graphs on the following pages present School Performance Profile (SPP) scores, Pennsylvania System of School Assessment (PSSA) scores, Keystone Exam results, and 4-Year Cohort Graduation Rates for the District obtained from PDE's data files for the 2014-15 and 2015-16 school years.¹ These scores are provided in the District's audit report for **informational purposes only**, and they were not audited by our Department. Please note that if one of the District's schools did not receive a score in a particular category and year presented below, the school will not be listed in the corresponding chart.² Finally, benchmarks noted in the following graphs represent the statewide average of all public school buildings in the Commonwealth that received a score in the category and year noted.³

What is a SPP score?

A SPP score serves as a benchmark for schools to reflect on successes, achievements, and yearly growth. PDE issues a SPP score using a 0-100 scale for all school buildings in the Commonwealth annually, which is calculated based on standardized testing (i.e., PSSA and Keystone exam scores), student improvement, advance course offerings, and attendance and graduation rates. Generally speaking, a SPP score of 70 or above is considered to be a passing rate.

PDE started issuing a SPP score for all public school buildings beginning with the 2012-13 school year. For the 2014-15 school year, PDE only issued SPP scores for high schools taking the Keystone Exams as scores for elementary and middle schools were put on hold due to changes with PSSA testing.⁴ PDE resumed issuing a SPP score for all schools for the 2015-16 school year.

What is the PSSA?

The PSSA is an annual, standardized test given across the Commonwealth to students in grades 3 through 8 in core subject areas, including English and Math. The PSSAs help Pennsylvania meet federal and state requirements and inform instructional practices, as well as provide educators, stakeholders, and policymakers with important information about the state's students and schools.

¹ PDE is the sole source of academic data presented in this report. All academic data was obtained from PDE's publically available website.

² PDE's data does not provide any further information regarding the reason a score was not published for a specific school. However, readers can refer to PDE's website for general information regarding the issuance of academic scores.

³ Statewide averages were calculated by our Department based on individual school building scores for all public schools in the Commonwealth, including district schools, charters schools, and cyber charter schools.

⁴ According to PDE, SPP scores for elementary and middle schools were put on hold for the 2014-15 school year due to the state's major overhaul of the PSSA exams to align with state Common Core standards and an unprecedented drop in public schools' PSSA scores that year. Since PSSA scores are an important factor in the SPP calculation, the state decided not to use PSSA scores to calculate a SPP score for elementary and middle schools for the 2014-15 school year. Only high schools using the Keystone Exam as the standardized testing component received a SPP score.

The 2014-15 school year marked the first year that PSSA testing was aligned to the more rigorous PA Core Standards.⁵ The state uses a grading system with scoring ranges that place an individual student's performance into one of four performance levels: Below Basic, Basic, Proficient, and Advanced. The state's goal is for students to score Proficient or Advanced on the exam in each subject area.

What is the Keystone Exam?

The Keystone Exam measures student proficiency at the end of specific courses, such as Algebra I, Literature, and Biology. The Keystone Exam was intended to be a graduation requirement starting with the class of 2017, but that requirement has been put on hold until at least 2020. In the meantime, the exam is still given as a standardized assessment and results are included in the calculation of SPP scores. The Keystone Exam is scored using the same four performance levels as the PSSAs, and the goal is to score Proficient or Advanced for each course requiring the test.

What is a 4-Year Cohort Graduation Rate?

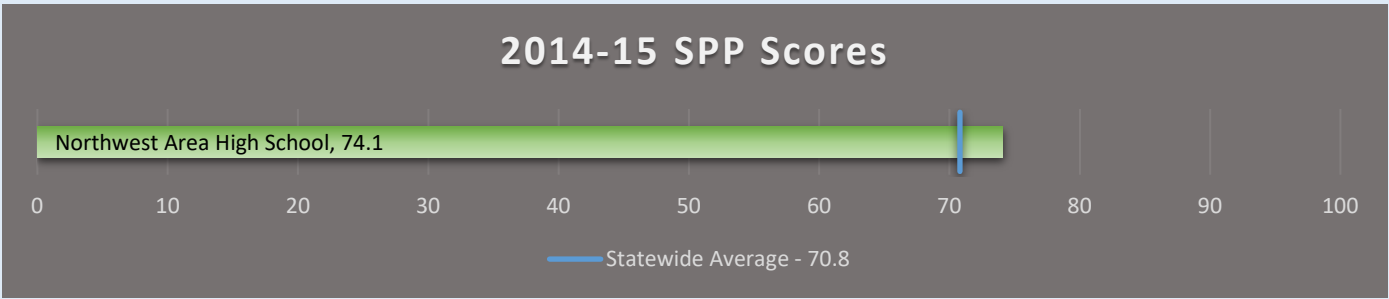
PDE collects enrollment and graduate data for all Pennsylvania public schools, which is used to calculate graduation rates. Cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student first entered high school. The rate is determined for a cohort of students who have all entered high school for the first time during the same school year. Data specific to the 4-year cohort graduation rate is presented in the graph.⁶

⁵ PDE has determined that PSSA scores issued beginning with the 2014-15 school year and after are not comparable to prior years due to restructuring of the exam.

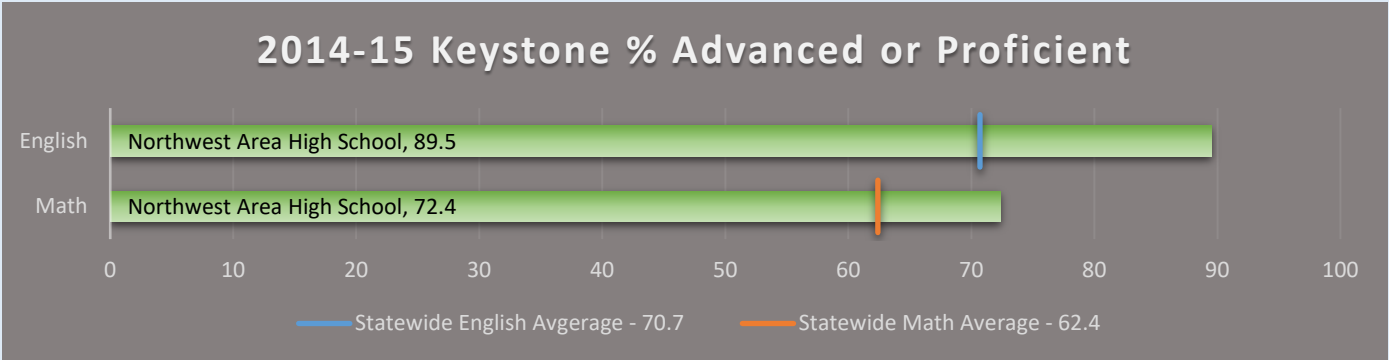
⁶ PDE also calculates 5-year and 6-year cohort graduation rates. Please visit PDE's website for additional information: <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.

2014-15 Academic Data
School Scores Compared to Statewide Averages

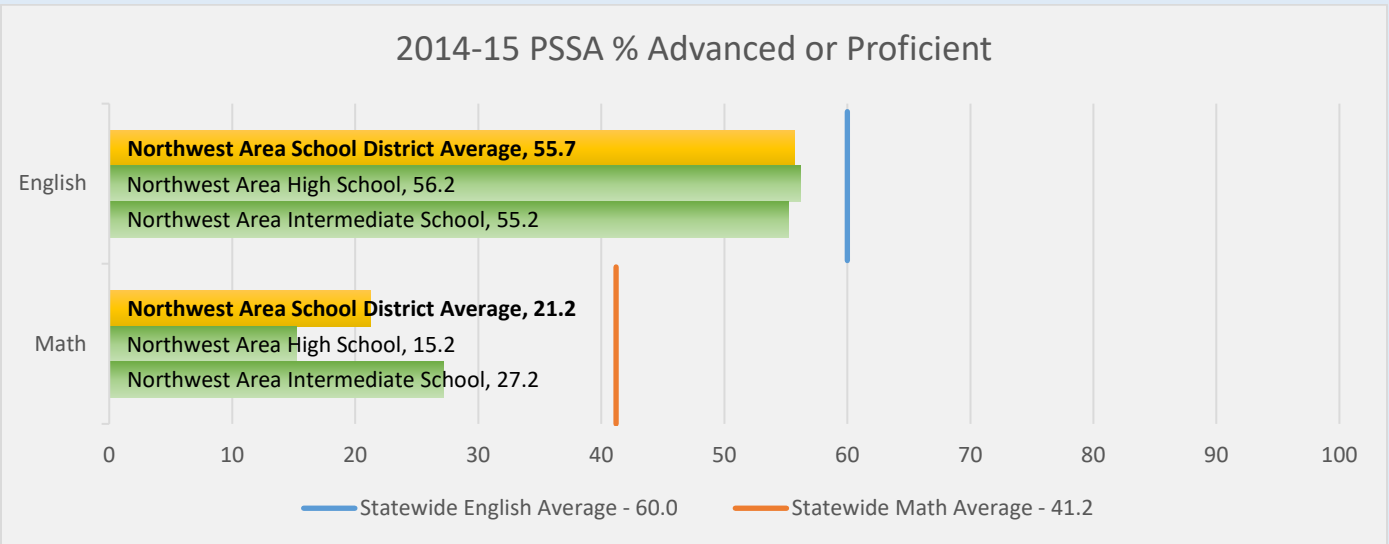
2014-15 SPP Scores



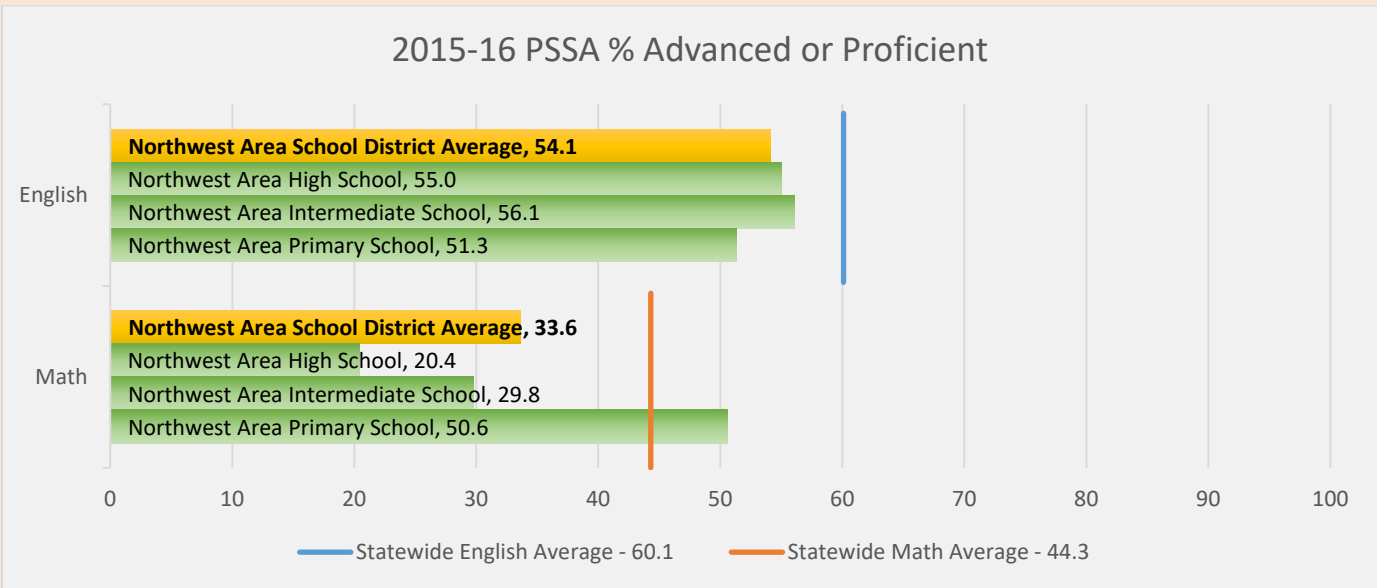
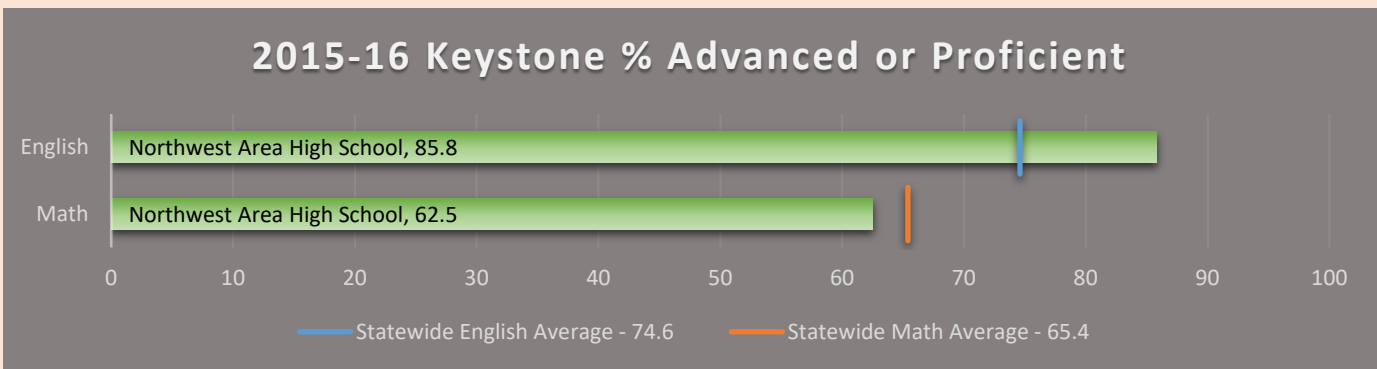
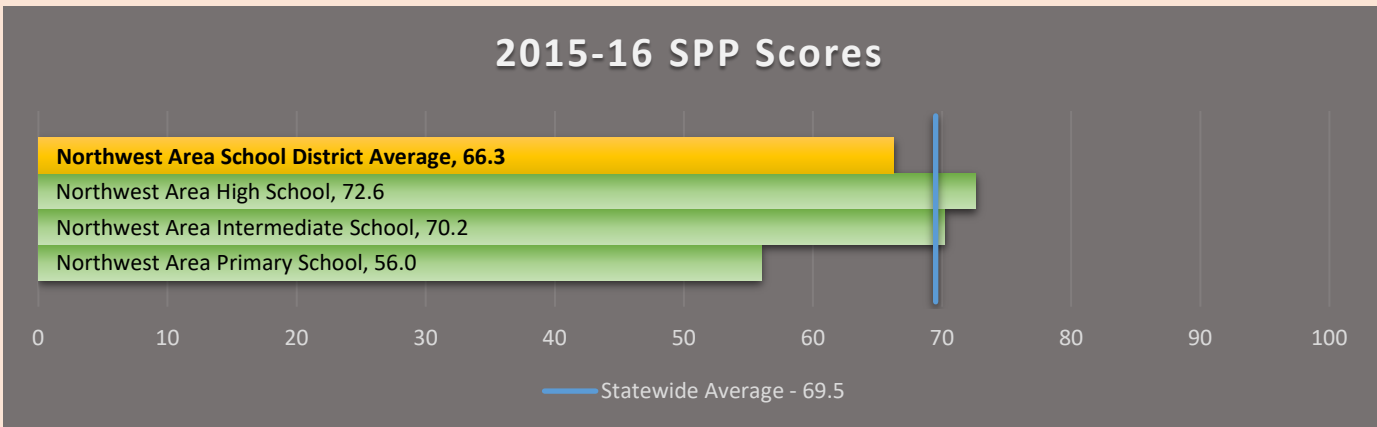
2014-15 Keystone % Advanced or Proficient



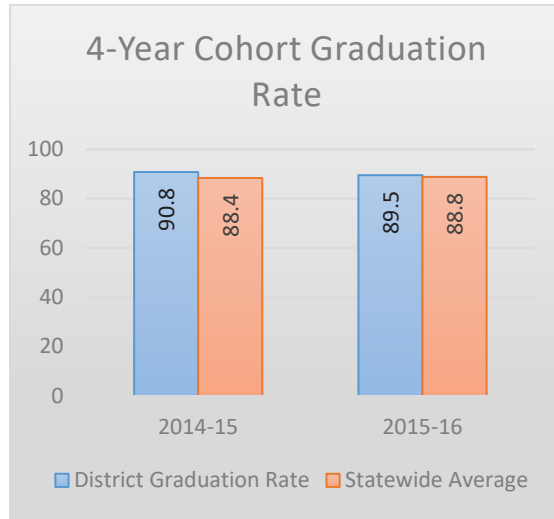
2014-15 PSSA % Advanced or Proficient



2015-16 Academic Data
School Scores Compared to Statewide Averages



4-Year Cohort Graduation Rate



Finding

Finding

The District Reported Unqualified Earnings to PSERS for a Former Administrator

Criteria relevant to the finding:

According to the PSERS Employers' Retirement Manual (ERM), PSERS allows only *qualified earnings* to be reported for the determination of retirement benefits. Qualified earnings include regular salary/wages, overtime, and wages paid for extracurricular activities. In addition, it states the following:

“The Retirement Code defines ‘compensation’ generally to mean any remuneration received as a school employee excluding the following. . . [p]ayment for unused vacation and sick leave.” (See the ERM, rev. 4/15/2016, Chapter 8, page 4.)

In reports submitted to the Public School Employees' Retirement System (PSERS) for fiscal year 2017-18, the Northwest Area School District (District) reported *unqualified earnings* paid to a former administrator, totaling \$4,000. Since PSERS retirement benefits are calculated using a formula that factors in an employee's final average salary, the reported unqualified earnings improperly inflated the former administrator's retirement benefits.⁷

According to the PSERS Employers' Reference Manual (ERM), only *qualified earnings* should be reported to PSERS. Defined broadly, qualified earnings include salary and wages paid to an employee for work performed. The ERM provides specific examples of qualified and unqualified earnings. On August 2, 2017, the Board of School Directors (Board) approved a *Voluntary Severance and Mutual Release Agreement* (severance agreement) with the former administrator. In accordance with the severance agreement, the former administrator was reimbursed a lump sum payment of \$4,000 for unused vacation days. The ERM clearly excludes payments for unused vacation and sick leave.⁸

Additionally, the District's \$4,000 payment to the former administrator, via a check dated August 11, 2017, was paid net of regular tax deductions and a \$300 employee contribution deduction that was paid to PSERS. The PSERS employee contribution deduction indicates that this payment was improperly accounted for as qualified earnings rather than unqualified earnings.

Although the Board had the authority to craft the terms of the severance agreement allowing for a lump sum cash payment for unused vacation days, the District was not

⁷ According to PSERS, the final average salary factors into the retirement benefit calculation.

<http://www.psers.pa.gov/Active-Members/Pages/StatementOfAccount.aspx>. Accessed on May 1, 2018.

⁸ Public School Employees' Retirement System. *Employers' Reference Manual – Chapter 8. Reporting – Retirement-Covered Compensation*. April 15, 2016. The specific exclusion of payments for unused vacation is stated on page 4.

permitted to supersede the PSERS benefit structure. The District should not have deducted the \$300 employee PSERS contribution from the unqualified earnings. Additionally, it should not have reported the \$4,000 unqualified earnings to PSERS. We also contacted PSERS and confirmed that it clearly prohibits the inclusion of payments for unused vacation leave as earnings reported for retirement purposes.

The District considered the \$4,000 payment in lieu of unused vacation time a special circumstance. Officials did not realize that: 1) the payment fell under the category of unqualified earnings, 2) the payment should not have been reported to PSERS, and 3) a PSERS contribution should not have been deducted from it. A detailed report for use in recalculating eligible retirement wages has been provided to the District, PSERS, and the Pennsylvania Department of Education.

Recommendations

The *Northwest Area School District* should:

1. Require District personnel responsible for reporting compensation data to PSERS to closely review and become familiar with the PSERS ERM, in particular the specific definitions and examples of qualified and unqualified earnings. This will improve the accuracy of its reporting. It should also ensure that there is a routine and timely review and approval of compensation reported to PSERS.

The *Public School Employees' Retirement System* should:

2. Review the 2017-18 compensation reported for the former administrator cited in this finding and render an opinion on the propriety of the wages reported by the District.
3. If any portion of the compensation payments are determined to be ineligible for retirement, make the necessary correction(s) to the pension benefits and contributions.

Management Response

The District agreed with the finding and waived its opportunity to reply at this time.

Auditor Conclusion

We are hopeful that the District addresses the issues noted in our finding. We believe implementation of our recommendation will help the District accurately report only qualified earnings to PSERS.

Status of Prior Audit Findings and Observations

Our prior audit of the Northwest Area School District resulted in no findings or observations.

Appendix: Audit Scope, Objectives, and Methodology

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, Pennsylvania Department of Education (PDE), and other concerned entities.

Our audit, conducted under authority of Sections 402 and 403 of The Fiscal Code,⁹ is not a substitute for the local annual financial 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. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

Scope

Overall, our audit covered the period July 1, 2013 through June 30, 2017. In addition, the scope of each individual audit objective is detailed on the next page.

The Northwest Area School District's (District) management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements).¹⁰ In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, which 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.

⁹ 72 P.S. §§ 402 and 403.

¹⁰ 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; and compliance with certain relevant state laws, regulations, contracts, and administrative procedures.

Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, annual financial reports, annual budgets, new or amended policies and procedures, and the independent audit report of the District's basic financial statements for the fiscal years July 1, 2013 through June 30, 2017. We also determined if the District had key personnel or software vendor changes since the prior audit.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies, and best business practices. Our audit focused on the District's efficiency and effectiveness in the following areas:

- Administrative Contract Buyout
- Data Integrity
- Bus Driver Requirements
- School Safety

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

- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buyout, what were the reasons for the termination/settlement, and did the employment contracts comply with the Public School Code¹¹ and the Public School Employees' Retirement System guidelines?
 - To address this objective, we reviewed the contracts, settlement agreement, board meeting minutes, board policies, and payroll records for the two administrators who separated employment from the District during the period July 1, 2013 through August 11, 2017. The results of our review of this objective can be found in the finding in this report.
- ✓ Did the District accurately report nonresident students to PDE? Did the District receive the correct reimbursement for these nonresident students?¹²
 - To address this objective, we reviewed all 14 nonresident students reported by the District to PDE for the 2013-14 and 2014-15 school years.¹³ We obtained documentation to verify that the custodial parent or guardian was not a resident of the District and that the custodial parent received a stipend for caring for the student. The student listings were compared to the total days reported on the Membership Summary and Instructional Time and Membership Report to ensure

¹¹ 24 P.S. § 10-1073(e)(v).

¹² See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

¹³ The District reported nine nonresident students for the 2013-14 school year. The District reported five nonresident students for the 2014-15 school year.

that the District received correct reimbursement for these students. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances as outlined in applicable laws?¹⁴ Also, did the District have written policies and procedures governing the hiring of new bus drivers that would, when followed, provide reasonable assurance of compliance with applicable laws?
 - To address this objective, we randomly selected 10 of the 48 bus drivers employed by the District bus contractors, as of March 29, 2018, and reviewed documentation to ensure the District complied with the requirements for bus drivers.¹⁵ We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures ensure compliance with bus driver hiring requirements. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District take actions to ensure it provided a safe school environment?¹⁶
 - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, fire drill drills, and after action reports. In addition, we conducted on-site reviews at all three of the District's school buildings to assess whether the District had implemented basic safety practices.¹⁷ Due to the sensitive nature of school safety, the results for our review of this objective area are not described in our audit report. The results of our review of school safety are shared with District officials, PDE, and other appropriate agencies.

¹⁴ 24 P.S. § 1-111, 23 Pa.C.S. § 6344(a.1), 24 P.S. § 2070.1a *et seq.*, 75 Pa.C.S. §§ 1508.1 and 1509, and 22 *Pa. Code Chapter 8*.

¹⁵ While representation selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly the results of this procedure are not, and should not be, projected to the population.

¹⁶ 24 P.S. § 13-1301-A *et seq.*

¹⁷ Basic safety practices evaluated were building security, bullying prevention, visitor procedures, risk and vulnerability assessments, and preparedness.

Distribution List

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

The Honorable Tom W. Wolf

Governor
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Harrisburg, PA 17120

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Mr. Nathan Mains

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