

PLEASANT VALLEY SCHOOL DISTRICT  
MONROE 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. Thomas Murphy, Sr., Board President  
Pleasant Valley School District  
One School Lane, Route 115  
Broadheadsville, Pennsylvania 18322

Dear Governor Corbett and Mr. Murphy:

We conducted a performance audit of the Pleasant Valley School District (PVSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period December 1, 2009 through March 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 PVSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

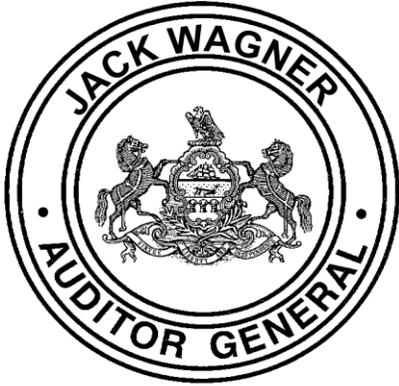
Sincerely,

/s/

JACK WAGNER  
Auditor General

January 14, 2013

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

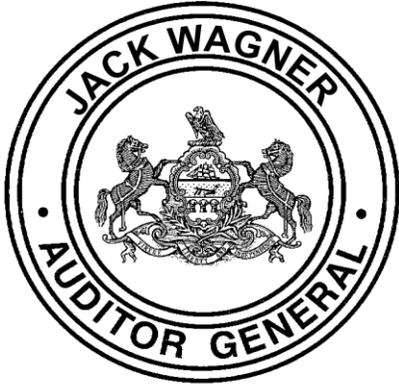


## **Table of Contents**

---

---

	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	3
Findings and Observations .....	6
Finding No. 1 – Errors in Reported Nonresident Membership Resulted in a Reimbursement Underpayment of \$55,567 .....	6
Finding No. 2 – Certification Deficiency .....	9
Observation – Questionable Sabbatical Exchange Escrow Account .....	10
Status of Prior Audit Findings and Observations .....	16
Distribution List .....	17



## **Executive Summary**

---

---

### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Pleasant Valley School District (PVSD). 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 PVSD in response to our prior audit recommendations.

Our audit scope covered the period December 1, 2009 through March 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 PVSD encompasses approximately 120 square miles. According to 2010 federal census data, it serves a resident population of 31,789. According to District officials, in school year 2009-10 the PVSD provided basic educational services to 5,987 pupils through the employment of 468 teachers, 718 full-time and part-time support personnel, and 32 administrators. Lastly, the PVSD received more than \$37.0 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the PVSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, as noted below, we identified two compliance-related matters reported as findings and one matter unrelated to compliance that is reported as an observation.

**Finding No. 1: Errors in Reported Nonresident Membership Resulted in a Reimbursement Underpayment of \$55,567.** Our audit of pupil membership reports submitted to the Pennsylvania Department of Education found reporting errors in nonresident membership for children placed in private homes and institutions during the 2009-10 school year. These errors resulted in a reimbursement underpayment of \$55,567 (see page 6).

**Finding No. 2: Certification Deficiency.** Our audit found that one individual was teaching with a Level I lapsed certificate from July 1, 2010 to the present (see page 9).

**Observation: Questionable Sabbatical Exchange Escrow Account.** On March 12, 2009, PVSD board of school directors entered into separate employment agreements (agreements) with all of the PVSD's administrative and Act 93 employees. The agreements state that an administrator or Act 93 employee may be eligible for a sabbatical exchange escrow account (see page 10).

**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 December 1, 2009 through March 15, 2012, except for certification which was performed for the period July 1, 2011 through December 15, 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 PVSD'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 findings, observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observation and conclusions based on our audit objectives.

PVSD 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, bus driver qualifications and professional employee certification.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

## Findings and Observations

---

### **Finding No. 1** →

*Criteria and Public School Code relevant to the finding:*

According to PDE's 2009-10 PIMS User Manual, all Pennsylvania LEAs must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; LEP Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the Federal Information Systems Control Manual (FISCAM), a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

### **Errors in Reported Nonresident Membership Resulted in a Reimbursement Underpayment of \$55,567**

Beginning with the 2009-10 school year, the Pennsylvania Department of Education (PDE) now bases all local education agencies' state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems. PIMS replaces PDE's previous reporting system, the Child Accounting Database (CAD), which PDE ran concurrently until it brought PIMS completely online. PDE no longer accepts child accounting data through the CAD system.

Our audit of Pleasant Valley School District's (PVSD) pupil membership reports submitted to PDE for the 2009-10 and 2008-09 school years found reporting errors in nonresident membership. PVSD personnel correctly reported membership for children placed in private homes and institutions during the 2008-09 school year, but incorrectly reported these same students in the 2009-10 school year. These errors resulted in a reimbursement underpayment of \$55,567.

We found PVSD personnel underreported membership days for half-time kindergarten by 333 days, membership days for elementary students by 1,555 days and secondary students by 3,237 days.

The errors in the 2009-10 school year occurred when PVSD personnel incorrectly reported districts of residence and wards of state for all but one student who attended the District for three days. We found PVSD personnel made corrections to some of the data in July 2011 and received an additional subsidy payment of \$198,014 in August 2011. PDE was unable to provide us with updated reports reflecting these changes which resulted in the additional subsidy payment. Due to the lack of updated reports, we audited to the original reports which resulted in the District receiving a subsidy payment of \$144.

Section 2503(c) provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court when such resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

PDE has been provided a report detailing the errors for use in recalculating the District's reimbursement.

## Recommendations

The *Pleasant Valley School District* should:

1. Establish internal controls that include reconciliations of the data that is uploaded into PIMS.
2. Strengthen controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions.
3. Implement controls to verify actual membership days to computer generated reports.
4. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
5. Review subsequent year reports and if errors are found, submit revised reports to PDE.
6. Adjust pupil membership data in a timely manner, prior to the audit.

The *Pennsylvania Department of Education* should:

7. Adjust the PVSD's allocations to resolve the underpayment in the amount of \$55,567 for the 2009-10 school year.

**Management Response**

Management stated the following:

The errors in reporting of 1305/1306 nonresident membership was the result of a combination of factors that occurred during the 2009-2010 year. During this year, the business manager, a long-time employee retired. This individual was performing the child accounting reporting function. This function was reassigned to an individual that had no previous experience with child accounting. PDE implemented PIMS for reporting child accounting (which had been previously reported using CAD), and the school district implemented a new student information system that was compatible with PIMS.

Since the 2009-2010 year, the person reporting child accounting has been further trained for reporting child accounting by attending various workshops and meeting on the subject, and has become more knowledgeable of the student information system. Procedures have been further refined and improved.

This audit has enlightened the school district as to where our weaknesses remain. We are working to strengthen our procedures and increase targeted training to avoid future recurrence. This will include consideration of increased staff time devoted to the child accounting function.

**Finding No. 2**

**Certification Deficiency**

*Criteria relevant to the finding:*

Section 1202 provides, in part:

No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.

Section 2518 mandates any:

school district, that . . . has in its employ any person in a position that is subject to the certification requirements of the Department of Education, but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio.

Our audit of the Pleasant Valley School District's (PVSD) professional employees' certifications and assignments was performed to determine compliance with the Public School Code, and the Pennsylvania Department of Education's (PDE) Certification Staffing Policies and Guidelines. We found one individual was teaching with a lapsed Level I certificate from September 1, 2010 to February 1, 2012.

Information regarding the individual in question was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ) for its review. On March 28, 2012, BSLTQ confirmed the certification deficiency. We determined that the PVSD will be subject to a subsidy forfeiture of \$2,096 for the 2010-11 school year. However, we could not compute the subsidy forfeiture for the 2011-12 school year since the aid ratio data was not yet available from PDE.

**Recommendations**

The *Pleasant Valley School District* should:

Ensure that employees' certificates do not lapse.

The *Pennsylvania Department of Education* should:

Adjust the PVSD's allocation to recover any subsidy forfeiture deemed necessary.

**Management Response**

Management stated the following:

This was an oversight. There was a note on file that administration met and notified the individual about the certificate application process and timelines. Procedures have been implemented to prevent further occurrences.

**Observation** →

*Criteria relevant to the observation:*

Section 1166(a) provides, in part:

[A]ny person employed in the public school system of this Commonwealth who has completed ten (10) years of satisfactory service as a professional employee or member of the supervisory, instructional or administrative staff . . . shall be entitled to a leave of absence for professional development or a sabbatical leave for restoration of health or, at the discretion of the board of school directors, for other purposes.

**Questionable Sabbatical Exchange Escrow Account**

On March 12, 2009, The Pleasant Valley School District (PVSD) board of school directors entered into separate employment agreements (agreements) with all of the District's administrative and Act 93 employees. The agreements have a term of five years from July 1, 2009 through June 30, 2014. The agreements state that an administrator or Act 93 employee who is eligible for a paid sabbatical, but has never exercised that option, may choose to have the money that the PVSD would have spent on his/her sabbatical leave placed in an escrow account. The PVSD will then use this money to pay for the employee's health and/or long term care insurance upon his or her retirement.

The agreements contain the following conditions:

- The escrow account shall be used only for the purchase of health and/or long term care insurance as designated by the administrator or Act 93 employee.
- The District will make direct payments to the designated health insurance carrier.
- Administrators and Act 93 employees may choose to continue in the District group plan.
- Interest earned on the escrow accounts will be the property of the District.
- Unexpended sabbatical exchange escrow funds, in the event of a retired administrator's death, shall remain the property of the District.
- An administrator or Act 93 employee who wishes to exercise the sabbatical exchange option must declare, in writing, to the District's business manager that his/her retirement will occur. The District's business manager must receive this declaration at least one year prior to the administrator or Act 93 employee's selected retirement date. The administrator or Act 93 employee must also request in writing that the District's business manager establish an escrow account.

- Health and/or long-term care insurance premiums will be paid to a health insurance carrier as designated by the administrator or Act 93 employee.
- An administrator's or Act 93 employee's accumulated sick days are also converted into a dollar amount and placed in the escrow account. In the event of his/her death, this amount is paid to the estate.

The dollar amount that will be placed in the escrow account is calculated by determining the difference between the total cost of an administrative sabbatical, which includes 50 percent of the current administrator's or Act 93 employee's salary, and 100 percent of the benefits paid plus the cost of the replacement administrator or Act 93 employee less 10 percent and continuous employment service in the district.

During our review, we found that three administrators qualified for this benefit. The three administrators retired on the following dates: July 31, 2009, August 2, 2011 and October 28, 2011. The former business manager's calculated escrow amount was \$74,914, the former principal's was \$70,742 and the former assistant principal's was \$53,574. The total amount in escrow for these three administrators was \$199,230.

In addition, we found that the District did not follow its own policy of converting the participating administrator's or Act 93 employee's sick leave into a dollar amount and placing that money in the escrow account. Instead this money was paid out separately. When brought to the attention of the administration, a memorandum was implemented to state that at the time of the retired administrator's death, the money in the account reverts back to the District.

A sabbatical leave is itself a benefit. Therefore, if an administrator or Act 93 employee chooses not to exercise this leave option, then he or she should not be compensated for it. The taxpayers have the right to expect that their hard earned money will be spent on the education of the students. 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.

The Department views the sabbatical exchange escrow account to be a questionable use of taxpayer dollars. Sabbaticals are allowable per Public School Code. However, there is no provision in the Public School Code which calls for employees to be compensated if they choose not to take a sabbatical.

## **Recommendations**

The *Pleasant Valley School District* should:

1. When negotiating employee agreements consider the taxpayers' expectation that their money will be used for the education of the District's children.
2. All of the District's employment agreements should be as transparent as possible, so that the District's taxpayers can evaluate their appropriateness.

## **Management Response**

Management stated the following:

The Pleasant Valley School District is both surprised and disappointed at this observation. We acknowledge that the Sabbatical Exchange Escrow exists; however, to the extent that the observation implies that there is something improper about such an account, the School District disagrees with the observation. The Sabbatical Exchange Option has been part of the Administrative Compensation Plan since the 1992-93 school years. This option has been fairly discussed and adopted by the Pleasant Valley Board of Education. Prior to the present audit, the School District has been through approximately nine (9) audits performed by the Pennsylvania Auditor General's Office – all without comment regarding this policy.

The Sabbatical Exchange Option has been used to attract experienced and seasoned administrators. Such veteran administrators may not have been eligible for the School District's insurance benefits for retired employees due to the fact that some of them would not be able to accrue the necessary twenty (20) or twenty-five (25) years of service to the School District. Therefore, those prospective quality candidates might never have considered employment with the Pleasant Valley School District had the Sabbatical Exchange Option not been available.

Importantly, the Sabbatical Exchange Option does not cause any additional expenditure of money. The School District either pays for a sabbatical leave for those who are eligible or pays the equivalent amount of money for health and/or long-term care insurance premiums for those who qualify for the sabbatical, but waive their right to such a leave. Additionally, interest is retained by the School District and, if the administrator should die, any unused funds revert back to the School District. In fact, this has occurred with two (2) administrators over the history of this benefit. Administrators that would utilize a sabbatical, a benefit that is in fact mandated by the PA School Code, would be paid 50% of their salary and 100% of their benefits over the course of one year, in addition to the payment of a substitute administrator. The existence of this benefit enables the amount to be spent over the course of many years, thus stretching School District funds further.

Administrators are an integral part of the delivery of the educational programs to its students. The delivery of effective educational programs not only benefits the students, but also the taxpayers. This Sabbatical Exchange Option enables the School District to utilize administrators that are performing at their maximum. It helps ensure consistency of operation in the School District by keeping administrators in their jobs, something from which students and staff truly benefit. There is no interruption in services due to administrator absence.

This agreement, along with all Board-adopted items, is public information. As such, it has been shared freely upon request since the 1992-93 school years. The School District is unclear as to why there is any question with regard to the transparency of this agreement. In fact, over time this document was readily shared with members of the public upon their request.

As to inaccuracies in the Observation Document, it is imperative that the following be noted:

- The School District does not pay the employee upon retirement the sabbatical exchange amount. To assert such is wholly inaccurate. Instead, this amount is retained as part of School District funds. A liability is created, and payments for health insurance and/or

long-term care insurance are made over time as requested by the administrator.

- Of the three administrators that retired beginning July 31, 2009 through October 28, 2011, as referenced in the Observation Document, no funds have been paid out to date. However, the liability in escrow for these administrators is being maintained.
- The assertion that the school district did not follow its own policy of converting participating administrator's or Act 93 employee's sick leave into a dollar amount and placing that money into the escrow account is inaccurate. The unpaid sick day amounts were paid out into an enhanced TSA account as per the provisions of the administrator's or Act 93 agreement. This payment of unused sick time mirrors the severance/termination benefit as it appears in the Collective Bargaining Agreement between the Pleasant Valley School District and the Pleasant Valley Education Association. It is agreed that the sabbatical exchange option is in conflict with Section III. 2. of Act 93 and Commissioned Officer agreements, which provide that payment for unused sick days shall be deposited into the School District's Enhanced Tax Sheltered Annuity (TSA) Program. The Pleasant Valley Board of Education and the Act 93 Administrators and Commissioned Officers/Business Manager/Assistant to the Business Manager have adopted a Memorandum of Understanding (MOU), dated March 8, 2012, which removes the sick day option from the Sabbatical Exchange Option and thus alleviates the conflict within the agreement.
- There was no MOU implemented to state that at the time of the retired administrator's death, the money in the sick day exchange account reverts back to the School District for unpaid sick days. The MOU that was adopted removes the sick day option from the sabbatical exchange portion of the agreement.

**Auditor Conclusion**

Although the District disagrees with our observation, our position remains unchanged. We find the sabbatical exchange escrow account to be a questionable use of taxpayer funds. While we are encouraged by the District's revisions by Memorandum of Understanding to the agreements, we urge the District to implement our recommendations when renegotiating new agreements once the current agreements expire in June 2014.

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

---

---

**O**ur prior audit of the Pleasant 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.auditorgen.state.pa.us](http://www.auditorgen.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

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).

