

UNIONVILLE-CHADDS FORD SCHOOL DISTRICT  
CHESTER COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

MARCH 2012



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

Ms. Eilenn Bushelow, Board President  
Unionville-Chadds Ford School District  
740 Unionville Road  
Kennett Square, Pennsylvania 19348

Dear Governor Corbett and Ms. Bushelow:

We conducted a performance audit of the Unionville-Chadds Ford School District (UCFSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period February 3, 2006 through May 29, 2009, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008, 2007, 2006 and 2005. 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 UCFSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in the 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 UCFSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve UCFSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the UCFSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER  
Auditor General

March 9, 2012

cc: **UNIONVILLE-CHADDS FORD 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 Unionville-Chadds Ford School District (UCFSD). 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 UCFSD in response to our prior audit recommendations.

Our audit scope covered the period February 3, 2006 through May 29, 2009, 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 2007-08, 2006-07, 2005-06 and 2004-05.

### **District Background**

The UCFSD encompasses approximately 75 square miles. According to 2008 local census data, it serves a resident population of 23,815. According to District officials, in school year 2007-08 the UCFSD provided basic educational services to 4,196 pupils through the employment of 334 teachers, 300 full-time and part-time support personnel, and 23 administrators. Lastly, the UCFSD received more than \$8.5 million in state funding in school year 2007-08.

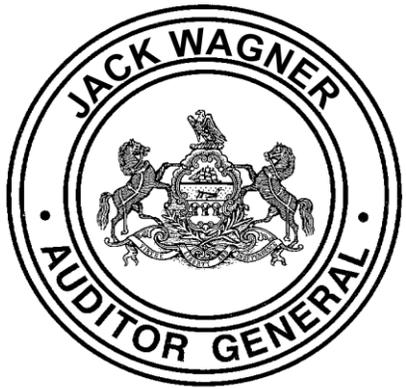
### **Audit Conclusion and Results**

Our audit found that the UCFSD 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: The District Entered into a Retirement Agreement with Its Superintendent Resulting in Costs to the Taxpayers Totaling \$225,091.**

On June 19, 2006, the UCFSD's board of school directors entered into a retirement agreement (Agreement) with its Superintendent, three years and eleven months into the term of his five year contract. The Agreement ended his tenure as Superintendent, and placed him in the position of Assistant to the Superintendent. In total, this Agreement cost the UCFSD's taxpayers \$225,091 (see page 6).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the UCFSD, we found the UCFSD had taken appropriate corrective action in implementing our recommendations pertaining to a certification deficiency (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 February 3, 2006 through May 29, 2009, except for the verification of professional employee certification which was performed for the period February 5, 2005 through March 30, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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 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 UCFSD'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?

- ✓ 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?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do 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 which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ 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 findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observations and conclusions based on our audit objectives.

*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.

UCFSD 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.

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, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on May 22, 2006, we performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### **The District Entered into a Retirement Agreement with its Superintendent Resulting in Costs to the Taxpayers Totalling \$225,091**

*Criteria relevant to the finding:*

Section 1073 of the Public School Code, 24 P.S. § 10-1073(a), requires school districts to enter into three-to-five-year employment contracts with their superintendents.

The Unionville-Chadds Ford School District's (District) Board of School Directors entered into an employment contract (Contract) with its Superintendent on June 17, 2002. That Contract was for a term of five years, effective from August 1, 2002 to July 31, 2007. The Contract provided the Superintendent with an annual salary of \$144,000 in the first year, as well as a variety of benefits. In the second and third contract years, the Contract mandated that his compensation increase by a minimum of 3.75 percent. Salary increases for the fourth and fifth years of the contract, if any, would be determined by mutual agreement between the Superintendent and the board. In addition, the Contract provided the following provisions regarding the termination of the Superintendent's employment:

- The Superintendent will give not less than six months written notice in advance of the effective date of resignation.
- The board may elect to pay Superintendent six months pay and benefits, as well as any other severance benefits required pursuant to this Contract, or require Superintendent to work during the notice period

According to the District's board meeting minutes, on June 19, 2006, the board entered into a retirement agreement (Agreement) with the Superintendent, three years and eleven months into the term of his five year contract. The Agreement ended his tenure as Superintendent beginning September 1, 2006, and simultaneously appointed him to the new position of Assistant to the Superintendent. In addition, it stated that he would continue to receive his full salary of \$190,470 per year through June 30, 2007, at which time he would retire from District service.

However, the Agreement also permitted the former Superintendent to use previously accrued and unused

vacation time from 2002 forward, which amounted to approximately 78 days. Furthermore, it stated that the former Superintendent would still be available while employed in his new position to consult with the Board on matters as requested.

The Agreement required the District to make the following payments, valued at \$225,091:

- Wages for the period September 1, 2006 through June 30, 2007, for a total payment \$161,167.
- Continued participation in all of the District's medical and life insurance programs through March 31, 2007, totaling \$8,323 and \$339, respectively.
- Reimbursement for the cost of a physical examination, up to \$500.
- An accrued service benefit pursuant to the Contract, totaling \$50,000.
- Lump sum retirement benefit pursuant to the Contract, totaling \$4,762.

The Agreement also stated that the former Superintendent acknowledged that the consideration described above was more than the District was required to provide under its normal policies, practices or employee benefit plans, and represented benefits to which he was not otherwise entitled.

In addition to the payments made to, or on behalf of, the former Superintendent, the District also paid \$156,538 to the new superintendent between September 1, 2006 and June 30, 2007.

We requested an attendance report for the former Superintendent for the 2006-07 school year in order to verify his work hours in his new position as Assistant to the Superintendent. However, the District's administration refused to provide us with this information, instead it stated that the former Superintendent served as a consultant and participated on several small projects during the 2006-07 school year. Consequently, we were unable to determine if the former Superintendent provided any services for the

remuneration he received in his capacity as the Assistant to the Superintendent.

Since participation in the Public School Employees' Retirement System (PSERS) is predicated upon actual service, a participant cannot earn service credit merely by reporting a salary and making contributions. Since the District could not provide documentation that the Superintendent engaged in any work after September 1, 2006, the inclusion of his salary payments of \$161,167 for retirement credit is potentially invalid.

By reclassifying the former Superintendent as the Assistant to the Superintendent, and by permitting him to remain as an employee until June 30, 2007, and then retire, the Board agreed to make payments that were not required under the Contract, totaling \$81,932. Specifically:

- The District was only obligated to pay the former Superintendent six months' salary totaling \$95,235, an overpayment of \$65,932.
- The service benefit pursuant to the Contract is calculated by multiplying \$10,000 times each full year of service. Since the former Superintendent only had four full years of service, his benefit at retirement should have been \$40,000, an overpayment of \$10,000.
- The lump sum retirement benefit pursuant to the Contract is only available with a minimum of five years in the school district. Since the former Superintendent only had four full years of service, he was not eligible for this payment, an overpayment of \$4,762.
- The District was only obligated to pay the Superintendent six months' medical insurance and life insurance of \$7,134 and \$290, respectively, overpayments of \$1,189 and \$49, respectively.

Additionally, the Contract provides that a maximum of 10 unused vacation days may be carried over in the following year and the Superintendent would have been entitled to the 25 vacation days earned for the 2006-07 school year. Therefore, the Superintendent would have been entitled to payment of 35 vacation days (\$25,640).

The overpayment of \$65,932 in wages paid to the Superintendent, the overpayment of \$10,000 for the service benefit, the overpayment of \$4,762 for the lump sum retirement pay, and the overpayment of \$1,189 and \$49 for medical and life insurance, less the \$25,640 vacation payout he was entitled to, results in total additional costs to the District of \$56,292.

At the October 19, 2006 board meeting, the board president provided an explanation to the public, stating that in the fall of 2005 the board engaged three consultants to conduct an organizational climate assessment of the District. In the winter of 2006, the board reviewed the findings of the study. Significant changes were necessary to sustain the academic improvements achieved under the former Superintendent and to address the significant trust, communication and morale issues that had been documented.

The personnel committee met with the former Superintendent to chart a path forward and communicate concerns candidly and in the spirit of partnership. In discussions, the former Superintendent indicated that he would retire when he completed his time with the District, whenever that might be. The Superintendent expressed his concern that it would be unfair for an outgoing superintendent to chart a new course and then hand things over to the new superintendent who would have to live with that course. The board believed that it would not be in the District's best interest to allow a full year to lapse before taking action to address the issues identified in the climate assessment. Therefore, it decided to enter into the Agreement with the Superintendent to facilitate his early retirement.

Nevertheless, the board's decision to reclassify the former Superintendent as Assistant to the Superintendent, and to pay him the same salary for dramatically reduced duties, was not in the best interest of the District's taxpayers. Nor was its decision to pay him benefits to which he was not entitled. The board should have avoided the costs related to the former Superintendent's early retirement by paying him only what was required under the terms of his Contract.

## **Recommendations**

The *Unionville-Chadds Ford School District* should:

1. Enter into employment contracts with prospective superintendents at the three-year minimum term permitted by state law, in order to limit potential financial liability by the District and its taxpayers.
2. Ensure that future terminations, resignations or retirements are paid out pursuant to the employment contract in effect at the time of the termination, resignation or retirement.

A copy of this report will be forwarded to PSERS for its review and whatever action it may deem appropriate with regard to the District's contributions to the Superintendent's retirement account during the 2006-07 fiscal year.

## **Management Response**

Management stated the following:

District Administration respectfully disagrees with the finding on principle, on calculation and on substance.

The School District acted in good faith, respectful of Federal, State or local laws by entering into the previously referenced agreement and believes it acted entirely within the scope of its authority and the best interest of the students and community.

The Retirement Agreement provided for the effective transition from one Superintendent to the next, with minimal disruption to school program and maximum continuity in critical matters occurring in the School District. These matters included litigation on construction projects.

Although the transition between Superintendents was to occur effective with the 2006-2007 school year, the former Superintendent's services were still required on these matters. The former Superintendent engaged in services to the School District until after the retirement date of June 30, 2007. The former Superintendent provided supportive consultation and a legal deposition as late as July 2007. A calendar of meetings with the new Superintendent during the month of October 2006 is attached. This document has been retrieved from the District's electronic archives. [Attachment not reproduced here.]

The report references “vacation payout he was entitled to” as being for 35 accrued vacation days. Unlike sick days which are typically credited at the beginning of a work year, vacation is earned during one work year and credited at the beginning of the following work year. Therefore, the former Superintendent, by the calculation in the report, would have been entitled to the 10 carry over days, 25 days credited for service from the prior work year (August 1, 2005 to July 31, 2006), and days earned from

August 1, 2006 through the reference month date of March 31, 2007, or 7 months totaling 15 additional accrued vacation.

District Administration requests consideration of the amount for the accrued vacation days in 2006-2007. This would revise the calculation of the alleged overpayment from \$56,292 to \$45,303.

It is our belief that the recommendations that follow do not address the violation of any statute. Rather they reflect an opinion regarding the discretion of school districts in the development of the terms and conditions of employment agreements. As noted at the beginning of the finding, Section 1073 of the Public School Code of 1949, as amended, [24 P.S. §10-1073(a)] requires school districts to enter into three- to five-year employment contracts with their superintendents. The recommendation to enter into only three-year agreements with superintendents restricts the local control of school districts in opposition to the District’s understanding of School Code. Further, the recommendation that future terminations, resignations or retirements are paid out pursuant to the employment contract in effect at the time of the termination, resignation or retirement does not provide for the school board’s discretion based upon circumstances at a local level.

**Auditor Conclusion**

Management asserts that the former Superintendent engaged in services to the District until after the retirement date of June 30, 2007, providing supportive consultation and a legal deposition as late as July 2007. We requested support documentation in addition to the October 2006 calendar provided to us. Two additional calendars, June 2007 and July 2007, were provided, each referencing one day for the above-mentioned legal deposition. All told

the District was only able to document approximately 2.5 days of services to the District. Since additional supporting documentation could not be provided, we were unable to determine if the former Superintendent provided any services other than the 2.5 days for the remuneration he received in his capacity as the Assistant to the Superintendent.

While we do not dispute the District's accrual of vacation days analysis, since the District cannot substantially document the former Superintendent's service to the District during the 2006-07 school year we do not accept the notion that he was accruing vacation days during this period of time.

Therefore, we stand by our finding that the Board entered into a retirement agreement with the former Superintendent resulting in costs to the taxpayers totaling \$225,091, and including \$56,292 in expenses that were not required under the terms of the Contract.

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

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Our prior audit of the Unionville-Chadds Ford School District (UCFSD) for the school years 2003-04 and 2002-03 resulted in one reported finding. The finding pertained to a certification deficiency. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and questioned District personnel regarding the prior finding. As shown below, we found that the UCFSD did implement recommendations related to certification deficiency.

### **School Years 2003-04 and 2002-03 Auditor General Performance Audit Report**

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**Finding:**                      **Certification Deficiency**

Finding Summary:      Our prior audit of the District's professional employees' certification for the period June 12, 2003 through December 2, 2005, found that one professional employee's certificate had lapsed for the period September 1, 2005 through November 30, 2005. The professional employee obtained permanent certification in December of 2005.

Recommendations:      Our audit recommended that the UCFSD:

Put procedures in place to ensure teachers with provisional certificates obtain permanent certification before the certificates lapse.

We also recommend that the Department of Education (DE):

Adjust the District's allocations to recover the appropriate subsidy forfeiture.

Current Status:              Our current audit found that the District implemented our recommendation. Additionally, in June 2007 DE recovered a \$1,700 subsidy forfeiture.



## **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  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Ronald J. Tomalis  
Secretary of Education  
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The Honorable Robert M. McCord  
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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).

