



UPPER PERKIOMEN SCHOOL DISTRICT  
MONTGOMERY COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

OCTOBER 2013

COMMONWEALTH OF PENNSYLVANIA

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

DEPARTMENT OF THE AUDITOR GENERAL



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**EUGENE A. DePASQUALE**  
AUDITOR GENERAL

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

Mr. William Scott, Board President  
Upper Perkiomen School District  
2229 East Buck Road  
Pennsburg, Pennsylvania 18073

Dear Governor Corbett and Mr. Scott:

We conducted a performance audit of the Upper Perkiomen School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period February 19, 2010 through December 19, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 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 District complied, in all significant respects, with relevant requirements, except as detailed in one finding noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE  
Auditor General

October 16, 2013

cc: **UPPER PERKIOMEN SCHOOL DISTRICT** Board of School Directors

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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 Upper Perkiomen School District (District). Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

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

### **District Background**

The District encompasses approximately 53 square miles. According to the 2010 federal census, it serves a resident population of 22,355. According to District officials, the District provided basic educational services to 3,190 pupils through the employment of 227 teachers, 173 full-time and part-time support personnel, and 22 administrators during the 2009-10 school year. Lastly, the District received \$14.4 million in state funding in the 2009-10 school year.

### **Audit Conclusion and Results**

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance related matter reported as a finding. In addition, we identified one matter unrelated to compliance that is reported as an observation.

**Finding: Errors in Reporting Membership for Nonresident Foster Children Resulted in a Reimbursement Overpayment of \$22,143.** Our audit of the Upper Perkiomen School District's (District) pupil membership reports submitted to the Pennsylvania Department of Education for the 2009-10 and 2008-09 school years found reporting errors. District personnel failed to reclassify two nonresident foster children that were adopted during the 2008-09 school year. Additionally, District staff miscoded these children for the entire 2009-10 school year and, therefore, inaccurately reported the District's membership data for that period (see page 6).

**Observation: Board Approved Generous Benefits for a Former Superintendent Totalling Approximately \$228,682.** As part of our audit, we reviewed the Upper Perkiomen School District's (District) employment contracts with its former Superintendent. We found that the District's Board of School Directors had approved contracts and contract amendments that had provided the former Superintendent with excessive compensation and retirement benefits (see page 8).

**Status of Prior Audit Findings and Observations.** There were no findings or observations included in our prior audit report.

## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

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, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 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 19, 2010 through December 19, 2012.

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

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 the Pennsylvania Department of Education (PDE) 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 District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

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

- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a 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 did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the District take 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 of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

## **Methodology**

*Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results 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 certain relevant laws, regulations, contracts, grant requirements, and administrative procedures.

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

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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications and financial stability.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.



## Findings and Observations

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### Finding

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#### **Errors in Reporting Membership for Nonresident Foster Children Resulted in a Reimbursement Overpayment of \$22,143**

*Criteria relevant to the finding:*

Section 2503(c) of the Public School Code provides that the Commonwealth will pay tuition to districts providing education to nonresident children placed in private homes. The payments are based on the membership days reported for such children.

Nonresident pupil membership data must be maintained and reported in accordance with the Pennsylvania Department of Education guidelines and instructions, since it is a major factor in determining the Commonwealth's payments of tuition for children placed in private homes.

Our audit found reporting errors in the Upper Perkiomen School District's (District) pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years. District personnel failed to reclassify two nonresident children that were adopted during the 2008-09 school year. Additionally, District staff miscoded these children for the entire 2009-10 school year and, therefore, inaccurately reported the District's membership data for that period.

As a result of this miscoding, during the 2008-09 school year, the District's membership days for children placed in private homes (foster children) were overstated by 37 days for the kindergarten and by 37 days for the elementary grades. These errors resulted in an overpayment of \$2,792 for the 2008-09 school year.

In addition, these two foster students were inaccurately reported to PDE for the entire 2009-10 school year, resulting in membership days for foster children being overstated by 362. This error resulted in an overpayment of \$19,351 for the 2009-10 school year. The combined nonresident overpayment for the two school years, 2009-10 and 2008-09, was \$22,143.

It is District management's responsibility to have appropriate internal policies and procedures in place to ensure that student data is collected properly and reported accurately to PDE. Without such internal controls, the District cannot be assured that it is reporting the correct student data or that it is receiving the appropriate subsidy amount.

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

**Recommendations**

The *Upper Perkiomen School District* should:

1. Review PDE instructions for categorizing nonresident and resident students.
2. Develop policies and procedures for conducting reconciliations between the information in the District's student information system and the information it reports to PDE.
3. Review membership data thoroughly for residency classifications prior to submitting reports to PDE.
4. Review reports submitted subsequent to the years audited and submit revised reports to PDE if errors are found.

The *Pennsylvania Department of Education* should:

5. Adjust the District's allocations to resolve the \$22,143 overpayment.

**Management Response**

Management stated the following:

“The District had two foster students who were adopted in May of 2009. The child accounting office received notification effective May 15, 2009 that these two children's last name changed. The administrative assistant did not realize that these two children were foster students at the time. The last names were changed and it wasn't until the start of the 2011-12 school year that these children were listed as resident students. The error was discovered by the administrative assistant and corrected. In the future the schools will place reasons for changes when submitting them to child accounting.”

**Auditor Conclusion**

We commend the District for taking steps to address this deficiency. We will examine the new internal controls during our next audit.

**Observation** →

**Board Approved Generous Benefits for a Former Superintendent Totaling Approximately \$228,682**

*Public School Code and criteria relevant to the observation:*

Effective November 1, 2012, Section 10-1073 (e)(2) states:

(ix) Limit compensation for unused sick leave in new employment contracts entered into after the effective date of this subsection for district superintendents or assistant superintendents who have no prior experience as a district superintendent or assistant district superintendent to the maximum compensation for unused sick leave under the school district’s administrator compensation plan under section 1164 in effect at the time of the contract.

(x) Limit transferred sick leave from previous employment to not more than thirty (30) days in new employment contracts after the effective date of this subsection for district superintendents or assistant district superintendents who have no prior experience as district superintendent or assistant district superintendent.

Section 10-1073(a) states:

. . . the board shall elect or approve a properly qualified district superintendent to enter into a contract to serve a term of three to five years . . .

As part of our audit, we reviewed the Upper Perkiomen School District’s (District) employment contracts with its former Superintendent. We found that the District’s Board of School Directors (Board) had approved contracts and contract amendments that had provided the former Superintendent with excessive compensation and retirement benefits.

The former Superintendent entered into his first contract with the District on June 17, 2004. It extended from August 9, 2004 through August 8, 2009. The District and the former Superintendent subsequently entered into a second contract, which extended from August 9, 2009 to August 8, 2014. The former Superintendent retired from the District effective February 25, 2012, two years and seven months into his second contract.

During the former Superintendent’s eight years of employment at the District, the Board approved a second contract and three contract amendments that significantly expanded his benefits. These benefits are summarized in the following table.

<b>Contract</b>	<b>Provisions</b>
<b>First 8/2004 – 8/2009</b>	Annual \$135,000 per year with a maximum 6-percent increase; transferred 100 unused sick days from his previous employer and provided him with 20 vacation days annually. However, must use all vacation days within 18 months.
<b>Amendment #1 7/2006</b>	Annual salary increased by \$20,438 or 15%, in lieu of any travel expense reimbursement and unused vacation pay.
<b>Amendment #2 8/2008</b>	Provided 5 more vacation days annually and can accumulate up to 50 vacation days to be paid out at per diem rate (\$757.70).
<b>Second 8/2009 – 8/2014</b>	Upon retirement, paid for up to 90 unused sick days at \$750/day and received post-retirement health benefits for him and spouse for up to 6 years.
<b>Amendment #1 11/2011</b>	Set retirement date of March 10, 2012; granted additional 7 vacation days; uncapped vacation day accumulation.

On February 9, 2012, the Board allowed the former Superintendent to change his final date of employment from March 10, 2012 to February 25, 2012. He received the following payout upon retirement:

<b>Former Superintendent's Retirement Package</b>	
<b>90 Unused Sick Days @ daily rate of \$750 per day</b>	\$67,500
<b>60 Unused Vacation Days @ \$757.70 per day</b>	\$45,462
<b>Health Coverage For Former Superintendent and Spouse For 6 Years</b>	\$115,720
<b>Total Benefit</b>	\$228,682

These contract provisions the Board approved not only expanded the former Superintendent's benefits while he was employed at the District but also ensured that the former Superintendent would receive a very generous payout upon his retirement. In addition, there were several instances where these contract changes contradicted themselves. For example, the former Superintendent's 15% salary increase in 2006 was supposed to be in lieu of payment for unused vacation leave. However, the Board later amended the same contract to allow the former Superintendent to be paid for up to 50 vacation days at his daily rate. Then the Board amended the former Superintendent's second contract approximately four months before he retired to grant him another seven vacation days and remove the cap on accumulated unused vacation days.

Each of these later amendments negates the logic behind the 15% raise the former Superintendent received in 2006. In addition, the amendment removing the original cap of 50 unused vacation days made the former Superintendent eligible to cash out an additional 10 days at a daily rate of \$757.70. These ten additional days cost the District another \$7,577.

The Board's decision to approve the generous terms in the former Superintendent's two contracts and three contract amendments was not in the best interest of the taxpayers.

The approximately \$228,682 in retirement compensation that the District's Board contractually agreed to pay to the former Superintendent is excessive and should have been spent on the education of the District's students. Furthermore, the District's taxpayers had already met their obligations for funding the retirement of these individuals through the District's regular payments to the Public School Employees' Retirement System, which guaranteed them a state pension.

## **Recommendations**

The *Upper Perkiomen School District* should:

1. Follow the terms and conditions of the employment contract.
2. Consider limiting amendments during a contract that would directly benefit an employee at the taxpayers' expenses.
3. Consider limiting contracts to the three year minimum as stated in the Public School Code Section 1073, which should minimize the need for amendments to the contract.
4. Review the cost of providing six years of post retirement health insurance to an employee as it could be considered excessive.
5. Review Public School Code Section 1073 in regards to limiting compensation or unused sick leave in new employment contracts after the effective date of November 1, 2012.

## **Management Response**

Management stated the following:

“The District acted fully in compliance with the Pennsylvania School Code and all other applicable laws as they existed at the time of the transactions cited above and the District should therefore not be the subject of a finding. The District has since entered into a contract with a successor Superintendent which complies with Act 82 in its entirety.”

**Auditor Conclusion**

As stated in the observation, the Board's decision to approve the generous terms in the former Superintendent's two contracts and three contract amendments was not in the best interest of the taxpayers. The former Superintendent's benefits were excessive and these funds should have been spent in the District's classrooms. Our observation will remain as presented.

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

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**O**ur prior audit of the Upper Perkiomen School District resulted in no findings or observations.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following stakeholders:

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

The Honorable Carolyn Dumaesq  
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Harrisburg, PA 17126

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This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).