

# PERFORMANCE AUDIT

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## Northwest Area School District Luzerne County, Pennsylvania

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September 2014



Commonwealth of Pennsylvania  
Department of the Auditor General  
Eugene A. DePasquale • Auditor General



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

Dear Governor Corbett and Mr. Tomasacci:

We conducted a performance audit of the Northwest Area School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period May 15, 2012 through April 3, 2014, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. 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.

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

September 11, 2014

cc: **NORTHWEST AREA 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 Northwest Area School District (District) in Luzerne County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period May 15, 2012 through April 3, 2014, 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 2010-11 and 2011-12 school years.

### **District Background**

The District encompasses approximately 118 square miles. According to 2010 federal census data, it serves a resident population of 9,164. According to District officials, the District provided basic educational services to 1,135 pupils through the employment of 89 teachers, 84 full-time and part-time support personnel, and nine (9) administrators during the 2011-12 school year. The District received \$11,175,812 in state funding in the 2011-12 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. Our audit resulted in no findings or observations.

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

**Observations.** With regard to the status of our prior audit recommendations to the Northwest Area School District (District) from an audit released on January 14, 2013, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to questionable early retirement healthcare coverage (see page 6) and a board-approved health benefit waiver for the former Superintendent, which was in violation of the administrative contract (see page 7).

## 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 May 15, 2012 through April 3, 2014, except for the verification of professional employee certification, which was performed for the period of July 1, 2013 through March 17, 2014.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 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 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:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District received transportation subsidies, was the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and

did they have written policies and procedures governing the hiring of new bus drivers?

- ✓ 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?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ 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?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ 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 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.

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 state laws, regulations, contracts, grant

*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 state laws, regulations, contracts, grant requirements, and administrative procedures.

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 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.

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 pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

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

To determine the status of our audit recommendations made in a prior audit report released on January 14, 2013, we reviewed the District's response to PDE dated May 15, 2013. We then performed additional audit procedures targeting the previously reported matters.

## **Findings and Observations**

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**F**or the audited period, our audit of the Northwest Area School District resulted in no findings or observations.



## Status of Prior Audit Findings and Observations

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Our prior audit of the Northwest Area School District (District) released on January 14, 2013, resulted in two (2) observations. The first observation pertained to questionable early retirement healthcare coverage, and the second observation pertained to a board-approved health benefit waiver for the former Superintendent, which was in violation of the administrative contract. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior observations. As shown below, we found that the District did implement our recommendations related to questionable early retirement healthcare coverage and the board-approved health benefit waiver for the former Superintendent.

### Auditor General Performance Audit Report Released on January 14, 2013

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

##### Observation

##### Summary:

The District's employment agreement with administration and professional employees offers health insurance benefits until age 65 after ten (10) years of service with the District if employees choose to retire.

During our prior audit, we found the District had one (1) retired teacher who exercised this option at the age of 40. The District is required to pay his healthcare coverage until age 65.

During the 2011-12 school year, the District was paying \$21,235 per year for family health coverage for this former employee. Providing such a benefit after only ten (10) years of service was a questionable use of taxpayer funds.

##### Recommendations:

Our audit observation recommended that the District should:

1. While negotiating the next employee agreement, consider the taxpayers' expectation that their money will be used for the education of the District's children.
2. Review all of the District's employment agreements and be as transparent as possible, so that the District's taxpayers can evaluate their appropriateness.

3. Reevaluate the retirement benefit.

Current Status:

During our current audit, we found that the District did implement our prior recommendations and instructed the solicitor to be aware of potential costs when negotiating new contracts. The District will evaluate costs of potential retirees prior to acceptance of their retirement letters.

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**Observation No. 2:**

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

Observation  
Summary:

The District's Board of School Directors (Board) allowed a health benefit waiver payment for the former Superintendent that was in violation of the contract. The District's Board did not address this matter during a regular board meeting.

Recommendations:

Our audit observation recommended that the District should:

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

Current Status:

During our current audit, we found that the District did implement our prior recommendations. Administrative and collective bargaining agreement contracts allow payments for health benefit waivers effective with the 2013-14 school year. The Board indicated that any modifications to a contract will be voted on in a public meeting.

## **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  
Acting Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
Room 129 - Finance Building  
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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).