

CENTENNIAL SCHOOL DISTRICT
BUCKS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2012



**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

Dr. Andrew Pollack, Board President
Centennial School District
433 Centennial Road
Warminster, Pennsylvania 18974

Dear Governor Corbett and Dr. Pollack:

We conducted a performance audit of the Centennial School District (CSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period June 12, 2009 through August 5, 2011, 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 CSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, we identified a 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 observation and recommendations have been discussed with CSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CSD's cooperation during the conduct of the audit.

Sincerely,

/s/

**JACK WAGNER
Auditor General**

December 20, 2012

cc: **CENTENNIAL SCHOOL DISTRICT** Board Members



Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Observation – The District Paid \$230,775 as a Result of Placing the Assistant Superintendent on Administrative Leave	6
Status of Prior Audit Findings and Observations	10
Distribution List	11



Executive Summary

Audit Work

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

Our audit scope covered the period June 12, 2009 through August 5, 2011, 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 CSD encompasses approximately 17 square miles. According to 2000 federal census data, it serves a resident population of 47,640. According to District officials, in school year 2009-10 the CSD provided basic educational services to 6,098 pupils through the employment of 454 teachers, 426 full-time and part-time support personnel, and 27 administrators. Lastly, the Centennial School District received more than \$20.5 million in state funding in school year 2009-10.

Audit Conclusion and Results

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

Observation: The District Paid \$230,775 as a Result of Placing the Assistant Superintendent on Administrative Leave.

On January 11, 2010, after the assistant superintendent had served one year and 11 months of her three year contract the board placed her on administrative leave and exercised their right to buy-out her contract under the termination without cause provision. This action cost CSD \$230,775 (see page 6).

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 June 12, 2009 through August 5, 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 CSD'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:

- ✓ 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?
- ✓ 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 buy-out 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 contracts 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

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, 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.

CSD 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 membership, pupil transportation, 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 pupil membership records.

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

Findings and Observations

Observation

The District Paid \$230,775 as a Result of Placing the Assistant Superintendent on Administrative Leave

Criteria relevant to the observation:

Section 1077 of the Public School Code, 24 P.S. § 10-1077, provides that assistant superintendents may serve through the term of the district superintendent, or enter into three- to five-year employment contracts.

On February 12, 2008, the Centennial School District's (District) Board of School Directors (Board) entered into an employment agreement (Agreement) with an individual to serve as the District's Assistant Superintendent (Assistant Superintendent). The Agreement had a term of two years and four months, from February 13, 2008 to June 30, 2011, and provided the Assistant Superintendent with an annual base compensation of \$134,550, as well as a variety of benefits. The Agreement further provided that the Board shall review and may increase the Assistant Superintendent's salary annually.

The Agreement included the following provisions with regard to the early termination of the Assistant Superintendent's employment with the District:

- This Agreement is made in accordance with and subject to the terms, conditions, and limitations contained in the Public School Code. As a result, this Agreement may be terminated by either party for all reasons permitted by law and subject to all terms, conditions, and limitations established in law with respect to the termination of this Agreement.
- [Assistant Superintendent] acknowledges that she has certain rights afforded to her by the Pennsylvania School Code and other State and Federal laws granting her certain protection with respect to her continued employment by the District. To that end, and notwithstanding anything to the contrary contained in this Agreement or the rights afforded to [Assistant Superintendent] by the Public School Code and other State and Federal regulations, [Assistant Superintendent] acknowledges and the parties agree that the District may terminate her employment without cause and at any time provided that if the District terminates her employment pursuant to this paragraph, [Assistant Superintendent] shall be entitled to receive full pay and benefits for the remainder of her

appointment from the date of her termination. Aside from the payment of her salary and benefits as set forth in this Agreement, if the District elects to terminate her employment consistent with this paragraph, [Assistant Superintendent] shall be entitled to no additional compensation, benefits, and the like except as set forth herein. (emphasis added)

Effective the close of business on January 11, 2010, the Board placed the Assistant Superintendent on “administrative leave” and exercised its “right to buy-out [the] contract” under the termination without cause provision after only one year and 11 months into its term. This action triggered the provisions in the Agreement described above, and forced the District to make the following payments to the Assistant Superintendent, in the amount of \$230,775:

- Salary for the period January 12, 2010 through June 30, 2011 totaling \$210,656; and
- Benefits for the period January 12, 2010 through June 30, 2011 totaling \$20,119.

Because 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. Therefore, the inclusion of her salary payments of \$210,656 for retirement credit is potentially invalid.

The Department of the Auditor General requested an explanation of the reasons for the District placing the Assistant Superintendent on administrative leave. However, because this matter is currently in litigation, no explanation was provided.

In agreeing to pay the Assistant Superintendent’s salary and benefits until the end of her Agreement, the Board committed the District to paying her \$230,775. Such generous terms are not in the best interest of taxpayers because the District spent a considerable sum of money without getting anything in return. This situation is particularly concerning given the state’s current economic climate.

Recommendations

The *Centennial School District* should:

1. Ensure that future employment Agreements with prospective administrators do not contain overly generous early termination provisions that may negatively impact the District and its taxpayers.
2. Provide as much information as possible to the taxpayers of the District explaining the reasons for the termination of the Assistant Superintendent and justifying the District's expenditure of public funds.

Management Response

Management stated the following:

Management agrees with the factual recitations and agrees with the proposition that the district and its taxpayers should get value for money expended. Management takes no position with regard to legal conclusion or references stated by the Auditor General. Where management disagrees is the fact that so much is not stated by the Auditor General in its Findings and Observations. The district hereby incorporates by reference the affidavits, transcripts and other documents that it filed in the federal law suit in explanation for the actions taken. As the Auditor General is well aware, personnel disputes have certain costs associated with them and a variety of factors must be evaluated in determining whether the methods used to address those disputes are reasonable and cost effective. We note that there was nothing in the Auditor General's findings and observations that addressed the nature of the personnel disputes or the validity of how those disputes were handled. We fully agree that all matters should be handled effectively, efficiently, and in a cost conscious basis.

Auditor Conclusion

Subsequent to our August 5, 2011, fieldwork completion date, PSERS reimbursed both the employee and employer contributions on February 1, 2012. PSERS has already made the adjustment; therefore, our report does not have to be forwarded for PSERS review.

As stated in the body of the observation, during our fieldwork we requested an explanation of the reasons for the District placing the Assistant Superintendent on administrative leave. Because this matter was currently in litigation (Civil Action No. 11-1996), no explanation was

provided nor was the documentation referenced in management's response provided to us. Subsequent to our fieldwork completion date of August 5, 2011, on December 21, 2011, a Memorandum Opinion was reached in the United States District Court for the Eastern District of Pennsylvania. As a result of the opinion, the District and the Assistant Superintendent entered into a Release and Settlement Agreement (Agreement). The Agreement provided the Assistant Superintendent compensation in return for releasing the District from all claims encompassed within or that could have been encompassed within the action pending in Civil Action No. 11-96 as follows:

Within sixty (60) days of January 10, 2012, the SCHOOL DISTRICTS insurance carrier shall pay to [Assistant Superintendent] and [Assistant Superintendent's] attorney the amount of One Hundred Thousand Dollars (\$100,000) broken down as follows:

- Fifty-five Thousand Dollars (\$55,000) shall be paid to [Assistant Superintendent] for tuition reimbursement.
- Forty-five Thousand Dollars (\$45,000) shall be paid to counsel to [Assistant Superintendent].

We reiterate that in agreeing to pay the Assistant Superintendent's salary and benefits until the end of her Agreement, the Board committed the District to paying her \$230,775. Such generous terms are not in the best interest of taxpayers because the District spent a considerable sum of money without getting anything in return.

Status of Prior Audit Findings and Observations

Our prior audit of the Centennial 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, and the following:

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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.

