



DALLAS SCHOOL DISTRICT  
LUZERNE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

AUGUST 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

Dr. Richard G. Coslett, Board President  
Dallas School District  
2000 Conyngham Avenue  
Dallas, Pennsylvania 18612

Dear Governor Corbett and Dr. Coslett:

We conducted a performance audit of the Dallas School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period July 14, 2009 through July 13, 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 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 applicable state laws, contracts, grant requirements, and administrative procedures, 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,

/s/

EUGENE A. DEPASQUALE  
Auditor General

August 9, 2013

cc: **DALLAS 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 Dallas School District (District). 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 District in response to our prior audit recommendations.

Our audit scope covered the period July 14, 2009 through July 13, 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 46 square miles. According to the 2010 federal census data, it serves a resident population of 20,554. According to District officials, the District provided basic educational services to 2,794 pupils through the employment of 190 teachers, 157 full-time and part-time support personnel, and 13 administrators during the 2009-10 school year. Lastly, the District received \$8.6 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 applicable state laws, 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: Certification Deficiencies.** Our audit identified a reading specialist serving with a provisional certificate that lapsed in June 2010, and an elementary school teacher serving with a provisional certificate that lapsed in January 2012 (see page 5).

**Observation: The District Entered Into a Separation Agreement with Its Former Principal Costing an Additional \$6,000.**

On January 10, 2011, the District's Board of School Directors resolved to accommodate the intention of the principal to retire as an employee of the District as of July 15, 2011, and accordingly, approved certain financial provisions with respect to her retirement (see page 7).

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

With regard to the status of our prior audit recommendations to the District from an audit released on January 26, 2010, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 11).

## 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 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 July 14, 2009 through July 13, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2010 through April 9, 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 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 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?
- ✓ 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?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ 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?
- ✓ 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 applicable laws, contracts, grant requirements, and administrative procedures. 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 applicable state laws, contracts, grant requirements, and administrative procedures 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 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.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 26, 2010, we reviewed the District's response to PDE dated November 3, 2010. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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*Criteria relevant to the finding:*

Section 1202 of the Public School Code (PSC), 24 P.S. § 1202, provides, in part:

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

Section 1212 of the PSC, 24 P.S. 24 § 12-1212, provides, in part:

“Every District superintendent shall keep an accurate record of all valid certificates held by the teachers of the schools within his jurisdiction.”

Section 2518 of the PSC, 24 P.S. § 2518, requires forfeiture for uncertified teachers by providing, in part:

“[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth 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.”

### Certification Deficiencies

Our audit of the Dallas School District’s (District) professional employees’ certification and assignments for the period July 1, 2010 through April 9, 2012, was performed to determine compliance with the Public School Code and the Certification and Staffing Policies and Guidelines issued by the Pennsylvania Department of Education’s Bureau of School Leadership and Teacher Quality’s (BSLTQ).

Our audit found a reading specialist served with a provisional certificate that lapsed in June 2010, and an elementary school teacher served with a provisional certificate that lapsed in January 2012.

Information pertaining to the deficiencies was submitted to BSLTQ for its review and final determination. On August 20, 2012, BSLTQ confirmed both employees were employed by the District with lapsed certificates. Consequently, the District is subject to subsidy forfeitures totaling \$8,294.

The certification deficiencies were caused by the administration’s failure to accurately monitor the years of service for its professional personnel with provisional certificates. In addition to resulting in a subsidy forfeiture, failing to employ certified teachers could have a negative impact on the academic performance of the District’s students.

It is the responsibility of District management to have appropriate policies and procedures in place to ensure that employees are properly certified to serve in the positions to which they are assigned. The failure to have such internal controls puts the District at risk to lose a portion of its state subsidy.

### Recommendations

The *Dallas School District* should:

1. Implement a review process to ensure individuals with provisional certificates receive their permanent certificates in a timely manner.



2. Adopt policies and procedures for verifying the status of employees' certifications.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to recover the subsidy forfeitures of \$8,294.

**Management Response**

Management stated the following:

“Both teachers are negligent of fulfilling their personal responsibilities regarding their application for Instructional II Certification. All teachers have been notified, on numerous occasions, by their union president, building-level principals, and central office administrators of their personal responsibility to keep their certificate current. The former Assistant Superintendent was in charge of Human Resources at the time of this occurrence.”

**Auditor Conclusion**

While the employees may be personally responsible for keeping their certifications current, it is the District's responsibility to be aware of the status of its employees' professional certification.

The finding will stand as written.

**Observation**



**The District Entered Into a Separation Agreement with Its Former Principal Costing an Additional \$6,000**

On January 27, 2011, the Dallas School District (District) entered into an agreement (Agreement) to sever employment with one of its principals.

On January 10, 2011, the Board of School Directors (Board) of the District resolved to accommodate the expressed intention of one of its principals (former principal) to retire as an employee of the District as of July 15, 2011, and accordingly, approved certain financial provisions with respect to her proposed retirement.

The Agreement states, in part:

1. “In consideration of and in reliance of the principal’s promise to retire as of July 15, 2011, as an employee of the District, the District agrees to increase her salary for the fiscal year 2010-11 from \$79,000 to \$85,000; being a total salary increase in the amount of \$6,000.”
2. “The principal’s salary increase for fiscal year 2010-11 in the amount of \$6,000 will be paid in full by the District to the principal, together with her existing salary, incrementally as an addition to the balance of payroll payments owing to her in the present fiscal year 2010-11, terminating on June 30, 2011.”
3. “The principal releases the District from any and all other salary claim or claims incidental to her retirement upon the acceptance in full of the aforesaid salary increase in the amount of \$6,000.”

Our review of the District’s payroll records found that the former principal did receive the \$6,000 severance payments in her 2010-11 wages. She retired on July 15, 2011.

Regardless of any savings the District may have determined it would achieve over the long term by coming to an agreement with the former principal to retire, the Board has essentially paid her \$6,000 for her consent to end her employment.

The taxpayers have the right to expect that their taxes will be spent on the education of the District's students and not on excess benefits to individuals.

*Criteria relevant to the finding:*

Section 1202 of the Public School Code (PSC), 24 P.S. § 1202, provides, in part:

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

Section 1212 of the PSC, 24 P.S. 24 § 12-1212, provides, in part:

“Every District superintendent shall keep an accurate record of all valid certificates held by the teachers of the schools within his jurisdiction.”

Section 2518 of the PSC, 24 P.S. § 2518, requires forfeiture for uncertified teachers by providing, in part:

“[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth 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.”

Furthermore, the information in employment agreements should be fully transparent to the public so that taxpayers can consider such information when determining whether the Board has made sound business decisions that are in the best interest of the District, its students, and its taxpayers. In this instance, the District did not provide the public with any information regarding why it entered into the Agreement with the former Superintendent.

Additionally, we found that the \$6,000 severance payment was improperly reported as eligible retirement wages to the Public School Employees' Retirement System (PSERS).

According to the criteria included in the *PSERS Employer's Reference Manual*, such payments are not eligible for inclusion in the wages reported to PSERS because they are payments contingent on the employee's agreement to retire. Although the District's Board has the authority to craft the terms of a contract, the Board may not supersede the PSERS' benefit structure.

Additionally, the error in reporting severance payments as eligible PSERS wages for the 2010-11 school year caused overpayments in the employee and employer contributions to PSERS of \$450 and \$519, respectively.

The reporting error was the result of District personnel misunderstanding PSERS regulations.

We have provided PSERS with a report detailing the questionable retirement wages for determination of eligibility and possible adjustments to the employee's retirement calculations.

## Recommendations

The *Dallas School District* should:

1. Consider the taxpayers' expectation that their money will be used for the education of the District's children when negotiating employment agreements.

2. Ensure that all of the District's employment agreements are as transparent as possible, so that the District's taxpayers can evaluate their appropriateness.
3. Contingent upon PSERS final determination, report to PSERS only those wages allowable for retirement purposes, as stated in the PSERS Employer's Reference Manual.
4. Implement procedures for reviewing all salary and contribution reports to ensure that only eligible wages are being reported to PSERS for retirement contributions.
5. Adjust subsequent years' PSERS wages for employees who received payments that should not have been reported as retirement wages.

The *Public School Employees' Retirement System* should:

6. Review the propriety of the wages for the employee reported and make any necessary adjustments.

## **Management Response**

Management repeated the following:

“It should be noted that our Act 93 Agreement was in current negotiations at the date of the agreement. It should also be noted that subsequent to our principal retiring, the Act 93 Agreement was reached with an average wage increase of 3.1 percent plus additional other benefits (i.e. 403(b) contribution and \$2,000 medical reimbursement provision) for the fiscal year ending June 30, 2012. When our principal retired, we moved our Assistant Superintendent to the principal role, as to reduce one administrative position. This resulted in total gross savings to the District of \$101,903. In addition, we have calculated that if our principal did not retire, after her salary was increased by the average stated above, the State of Pennsylvania would have incurred an additional \$6,638 of pension reimbursement as well as Social Security and Medicare tax reimbursement for the 2011-12 fiscal year alone. For all the above mentioned reasons, we believe the agreement between the District and the principal was a savings for both the District taxpayers and state taxpayers.”

## **Auditor Conclusion**

As stated above, regardless of any savings the District may have determined it would achieve over the long term by coming to an agreement with the former principal to retire, the District has essentially paid her \$6,000 for her consent to end her employment.

While the District may realize some savings over the long term, the fact remains that the District spent \$6,000 on excess benefits to individuals. Specifically, the District essentially paid the former principal \$6,000, to end her employment. We continue to contend that this was not a prudent use of taxpayer money.

In addition, regardless of the District's motives in developing its agreement with the former principal, it cannot circumvent the PSERS regulations. We reiterate that PSERS should review the propriety of the wages for the employee who received severance payments and make any necessary adjustments.

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

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Our prior audit of the Dallas School District (District) released on January 26, 2010, resulted in one reported observation pertaining to unmonitored vendor system access and logical access control weaknesses. 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, performed audit procedures, and interviewed District personnel regarding the prior observation. As shown below, we found that the District did implement our recommendations related to unmonitored vendor system access and logical access control weaknesses.

### **Auditor General Performance Audit Report Released on January 26, 2010**

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**Observation:** **Unmonitored Vendor System Access and Logical Access Control Weaknesses**

Observation Summary: Our prior audit found that the District employs the West Side Area Career and Technology Center as an outside vendor for its critical student accounting applications pertaining to membership and attendance. We determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was unable to monitor vendor activity and did not have documented procedures for formal reconciliations between manual records and computerized records for membership and attendance.

Recommendations: Our audit observation recommended that the District:

1. Develop an agreement with the vendor to provide student accounting applications and related information technology (IT) services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities and should include penalty clauses. All contracts and changes should be reviewed by legal advisors.
2. Keep a copy of the fully executed maintenance agreement signed by both parties on file.
3. Ensure that the contract with the vendor contains a non-disclosure agreement for the District's proprietary information.
4. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).

5. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
6. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (e.g., every 30 days), and to use passwords that include alpha numeric and special characters. The system should also lock out users after three unsuccessful access attempts and maintain a password history to prevent use of a repetitive password (e.g., approximately the last ten passwords).
7. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
8. Mitigate IT control weaknesses by having written documentation for compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

Current Status:

During our current audit, we found that the District implemented our recommendations through its contracts, policies, and procedures.

## **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.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following stakeholders:

The Honorable Tom Corbett  
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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).

