



**GREENSBURG SALEM SCHOOL  
DISTRICT**

**WESTMORELAND 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

Mr. Ronald Mellinger, Jr., Board President  
Greensburg Salem School District  
1 Academy Hill Place  
Greensburg, Pennsylvania 15601

Dear Governor Corbett and Mr. Mellinger:

We conducted a performance audit of the Greensburg Salem School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period November 24, 2010 through April 26, 2013, 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 significant noncompliance with applicable state laws, contracts, grant requirements, and administrative procedures, as detailed in the three findings and two observations within this report. A summary of the results is presented in the Executive Summary section of the audit report. These findings and observations include recommendations aimed at the District and a number of different government entities, including the Pennsylvania Department of Education and the Public School Employees' Retirement System.

Our audit findings, observations, 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 cursive script, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE  
Auditor General

August 9, 2013

cc: **GREENSBURG SALEM 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 Greensburg Salem 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.

Our audit scope covered the period November 24, 2010 through April 26, 2013, 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, unless otherwise indicated in the audit scope, objectives and methodology section of the report.

### **District Background**

The District encompasses approximately 50 square miles. According to 2010 federal census data, it serves a resident population of 28,473. According to District officials, the District provided basic educational services to 2,988 pupils through the employment of 204 teachers, 84 full-time and part-time support personnel, and 17 administrators during the 2009-10 school year. Lastly, the District received \$14.9 million in state funding in the 2009-10 school year.

### **Audit Conclusion and Results**

Our audit found significant noncompliance with applicable state laws, contracts, grant requirements, and administrative procedures, as detailed in the three audit findings and two observations within this report.

**Finding No. 1: Unqualified Earnings Improperly Reported to the Public School Employees' Retirement System.** Our audit of the Greensburg Salem School District's (District) administrative personnel payroll records and contributions for the 2004-05 through the 2011-12 school years found that District personnel reported unqualified earnings to the Public School Employees' Retirement System for use in calculating the District's state subsidy and employee retirement benefits (see page 6).

**Finding No. 2: Failure to Have All School Bus Drivers' Qualifications on File.** Our audit of the Greensburg Salem School District's (District) bus driver qualifications for the 2011-12 school year found a lack of documentation needed to verify that all the District's drivers possessed the minimum required qualifications for employment (see page 11).

**Finding No. 3: Failure to Develop Memorandum of Understanding with Local Law Enforcement Agencies.** Our audit of the Greensburg Salem School District (District) records found that the District failed to enter into a Memorandum of Understanding (MOU) with two local law enforcement agencies. In addition, the two MOUs that the District had in place were not updated until May 1, 2012 and

November 1, 2012, respectively, which was after the required due date of June 30, 2011 (see page 13).

**Observation No. 1: The Greensburg Salem School District's Board Allowed Two Administrators to Receive Excessive Retirement Benefits.** Our audit found that the Greensburg-Salem School District's (District) Board of School Directors (Board) permitted two senior members of the District's staff to unilaterally add excessive benefits to an established retirement incentive plan. As a result of these changes, the District spent at least \$43,804 more on the two retirements than it would have if it had followed the existing terms of the Board approved retirement incentive. The Board's decision to permit the two senior administrators to expand their retirement incentive benefits was not a prudent use of taxpayer money. (see page 15).

**Observation No. 2: The District Lacks Sufficient Internal Controls Over Its Child Accounting Data.** Our review of the Greensburg Salem School District's controls over the integrity of its child accounting data for the 2009-10 school year found that internal controls need to be strengthened (see page 20).

**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 November 24, 2010, through April 26, 2013, except for the verification of professional employee certification and bus driver qualifications which was performed for the period July 1, 2011 through June 30, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 school years, except for the review of administrative personnel payroll records and contributions, which was performed for the 2005-06 through 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 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?

- ✓ 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?
- ✓ 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 there any other areas of concern reported by independent auditors, citizens, or other interested parties?

## 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 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.



## Findings and Observations

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### Finding No. 1

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### Unqualified Earnings Improperly Reported to the Public School Employees' Retirement System

*Criteria relevant to this finding:*

Section 8102 (relating to Definitions) of the Public School Employees' Retirement Code, 24 Pa.C.S. § 8102, provides, in part, that compensation excludes:

“...any bonus, severance payments, any other remuneration or other emolument received by a school employee during his school service which is not based on the standard salary schedule under which he is rendering service, payments for **unused sick leave** or vacation leave, bonuses or other compensation for attending school seminars and conventions, payments **under health** and welfare **plans** based on hours of employment ....” (Emphasis added.)

*See also* Public School Employees' Retirement Board's regulations at 22 Pa. Code § 211.1 *et seq.*

Additionally, the Public School Employees' Retirement System (PSERS) Employer's Reference Manual for Reporting list as Additional Unqualified Payments “. . . payment for unused sick leave, payment to an employee in lieu of a benefit the employee is eligible to receive, salary paid to employees serving as PIAA officials. . . .”

Our audit of the Greensburg Salem School District's (District's) administrative personnel payroll records and contributions for the 2004-05 through the 2011-12 school years found that District personnel reported unqualified earnings to the Public School Employees' Retirement System (PSERS) for use in calculating the District's state subsidy and employee retirement benefits.

As a result of this error, the District may have received more state retirement subsidy than it was entitled to and may have paid excessive District funds into PSERS. In addition, the District included unqualified wages in its calculation of several administrative employees' annual salaries, subsequently inflating the annual salary amounts it reported to PSERS. This incorrectly reported salary information could cause those employees to receive excessive monthly retirement payments.

Our audit found that at a June 2005 board meeting, the District's Board of School Directors (Board) passed an addendum to the District's Administrative Compensation Plan/Agreement, also known as the Act 93 plan. The addendum, which covered the period July 1, 2002 to June 30, 2007, provided, in part, that any administrator could opt to receive an annual payment for up to 100 days of unused sick leave at the rate that would have been payable to them upon retirement. The District would then deduct the days it bought back under this arrangement from the administrator's accumulated sick leave balance. The payment for the sick days became part of the administrator's salary, and was paid over twelve months for that year only.

In addition, our audit found that the contracts for the District's former Superintendent, covering six school years from July 1, 2007 through June 30, 2013, contained language that would allow him to opt to be paid for the value of his retirement health insurance premium as part of his annual salary. Choosing this payment reduced the number of years the former superintendent was eligible for

post-retirement health insurance for each year he opted for this payment. As with the administrators' payment for unused sick days, this payment became part of the former Superintendent's salary, and was paid over twelve months for that year only.

The decision to offer these benefit programs was within the Board's purview. However, the District's senior administrative staff reported these payments to PSERS as qualified earnings, when according to the Public School Employees' Retirement Code, these payments are nonqualified earnings. The Public School Employees' Retirement Code clearly states that sick leave payouts and health insurance premiums—as a payment in lieu of a benefit—are considered unqualified earnings.

We tested records for 24 administrative employees to determine if District personnel reported their wages to PSERS accurately. Our results showed that the District reported unqualified earnings to PSERS for 7 of those 24 administrative employees. The following summarizes the test results:

| <b>Overstatement of Gross Allowable Wages</b> |  |                               |  |
|---|--|-------------------------------|--|
| <b>Administrative<br/>Employee #</b>          | <b>Wages<br/>Reported<br/>to PSERS</b> | <b>Qualified<br/>Earnings</b> | <b>Difference =<br/>Unqualified<br/>Earnings</b> |
| <b>1</b>                                      | \$ 1,072,617                           | \$ 997,725                    | \$ (74,892)                                      |
| <b>2</b>                                      | 509,621                                | 488,621                       | (21,000)   |
| <b>3</b>                                      | 859,841                                | 852,341                       | (7,500)  |
| <b>4</b>                                      | 324,610                                | 303,310                       | (21,300)   |
| <b>5</b>                                      | 497,772                                | 483,272                       | (14,500)   |
| <b>6</b>                                      | 316,486                                | 314,986                       | (1,500)  |
| <b>7</b>                                      | 472,302                                | 472,087                       | (215)  |
| <b>Totals</b>                                 | <u>\$4,053,249</u>                     | <u>\$3,912,342</u>            | <u>\$(140,907)</u>                               |

| Breakdown of Unqualified Earnings Payments |                  |                        |   |   |                                   |
|--|------------------|------------------------|---|---|-----------------------------------|
| Administrative<br>Employee #               | Total            | Unused<br>Sick<br>Days | In lieu of<br>Retirement<br>Health<br>Premium<br>Coverage | Unused Sick<br>Days as a<br>Retirement<br>Benefit | Basketball<br>Officiating<br>Fees |
| 1  | \$ 74,892        | \$ 6,500               | \$ 58,392   | \$ 0  | \$ 0                              |
| 2  | 21,000           | 21,000                 | 0   | 0   | 0                                 |
| 3  | 7,500            | 7,500                  | 0   | 0   | 0                                 |
| 4  | 21,300           | 21,000                 | 0   | 300   | 0                                 |
| 5  | 14,500           | 14,500                 | 0   | 0   | 0                                 |
| 6  | 1,500            | 1,500                  | 0   | 0   | 0                                 |
| 7  | 215              | 0                      | 0   | 0   | 215                               |
| <b>Totals</b>                              | <u>\$140,907</u> | \$ 82,000              | \$ 58,392   | \$ 300  | \$ 215                            |

*Criteria relevant to this finding:*

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis." U.S. General Accounting Office. *Standards for Internal Control in the Federal Government*. (November 1999), pg 1

By overstating these seven administrators' Gross Allowable Retirement Salaries to PSERS between the 2005 and 2011 school years, the District may have received excessive state retirement subsidies, and made excessive employer contributions to PSERS on behalf of these seven administrators.<sup>1</sup> In addition, the District withheld between \$16 and \$4,868 more than required for each of the seven administrators due to the erroneous reporting of unqualified earnings as qualified earnings to PSERS.

The errors involving six of these employees were caused by senior management overriding the District's prescribed policies, procedures, and references to the PSERS' Board regulations, which were in place to ensure that wages were correctly reported to PSERS. According to District employees, senior administrators instructed their subordinates to report the additional benefit payments as qualified earnings, even though those subordinates told them that doing so was against PSERS' Board regulations. However, the auditors found no documentation to prove that an override took place. The errors involving the seventh employee were caused by a clerical mistake that was never caught by the District's PSERS report review system. The District should have had an internal control structure in place to prevent inaccurate data from being reported to PSERS.

We provided PSERS with a report detailing the overstatement of these administrators' Gross Allowable

<sup>1</sup>We were unable to calculate the amount of these errors because we did not have access to the necessary PSERS information during our audit. PSERS and the Pennsylvania Department of Education will make the determination.

Retirement Earnings, and the related Retirement Contributions. PSERS will make the final determination of the appropriateness of the total compensation reported and the related contributions, as well as the effect of the errors on the seven administrative employees' retirement benefits.

## Recommendations

The *Greensburg Salem School District* should:

1. Develop strong internal controls over the reporting of its retirement information to PSERS in the form of a multi-level review and approval process.
2. Require District personnel to seek Board approval in instances in which management wants to override current District policies and procedures.

The *Public School Employees' Retirement System* should:

3. Review the audit test results regarding the overstatements related to the total compensation and related contributions and render an opinion on the appropriateness of the amount of compensation reported for retirement.
4. If payments are determined to be ineligible for retirement, make the necessary corrections to pension benefits and contributions.

If PSERS determines that the amount of compensation reported was improper, the *Pennsylvania Department of Education* should:

5. For the 2005-2006 through 2011-2012 school years, determine the amount of state reimbursement the District received for its retirement contributions and assess whether the District received an overpayment. If overpayments are identified PDE should make any necessary adjustments.

## Management Response

Management stated the following:

“After conferring with the board, the district agrees that the cause of this finding is management override. Upper level management in the previous administration forcibly instructed subordinates to qualify PSERS earnings

inappropriately. The board had no knowledge that this practice was occurring and would not have supported it. Further, they report that they never received copies of complete contracts and/or documents that stated the payments could be added to qualified salary.

The current administration correctly follows the criteria and regulations provided by PSERS. All errors in PSERS reporting occurred in the previous superintendent's term of office.

In addition, the current board and current administration have agreed to work collaboratively to review practices and procedures related to salary and benefits and tighten internal controls to ensure that contracts, agreements, policies and practices are well documented, transparent and applied consistently.”

**Auditor Conclusion**

We are pleased that the District will be making changes and we will evaluate its new procedures during the next audit.

**Finding No. 2** →

**Failure to Have All School Bus Drivers' Qualifications on File**

*Criteria relevant to the finding:*

Pennsylvania Department of Transportation bus driver regulations require the possession of a valid driver's licenses and passing a physical examination.

Section 111 of the Public School Code , 24 P.S. § 1-111 requires all current and prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. (See Act 24 of 2011, effective September 28, 2011, and Act 82 of 2012, effective July 1, 2012)

Section 111(e) lists convictions for certain criminal offenses that require a "lifetime ban" for the hiring and continued employment of individuals convicted of one of these offenses as required by Act 24 and Act 82, except in very limited circumstances as recently determined in several Pennsylvania Commonwealth Court cases. . See the PDE's guidance on its website regarding Background Checks.

Section 6355 of the Child Protective Services Law (CPSL), 23 Pa.C.S § 6355, requires prospective school employees to submit an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have a committed child abuse.

Our audit of the Greensburg Salem School District's (District) bus driver qualifications for the 2011-12 school year found that not all records were on file at the time of audit.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses.

Our audit found that the District did not have all of the required documentation on file for its bus drivers at the time of our audit. After the District obtained some of the missing documents from its contractor, two drivers were still missing valid Pennsylvania State Police Criminal History Reports. Additionally, the District was unable to provide a valid Child Abuse History Report for one bus monitor.

As a result of our analysis of the District's records and through discussions with the school district's Director of Transportation, we determined that the District relied solely upon the contractor to obtain information pertaining to the drivers. Also, there was no documentation to support the fact that the five (5) tested drivers were approved by the Board of School Directors.

By not having the required bus drivers' qualification documents on file at the District, the District was not able to review these documents prior to determining whether the drivers were qualified to transport students. If unqualified drivers transport students, there is an increased risk to the safety and welfare of students.

## Recommendations

*Criteria relevant to the finding  
(continued)*

Chapter 23 of the State Board of Education Regulations indicates the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations. *See* in particular, 22 Pa. Code § 23.4.

Additionally, Section 111(b) provides in part: . . .

“Administrations shall maintain a copy of the required information. Administrators shall require contractors to produce the original document for each prospective employee of such contractor prior to employment.”

The *Greensburg Salem School District* should:

1. Make it mandatory that all the required background documents and other driver qualification documentation is received and reviewed by the administrative staff prior to the hiring of any bus driver to serve the District.
2. Ensure that the District maintain files, separate from the transportation contractors, for all District drivers and monitors, and work with the contractor to ensure that the District’s files are up-to-date and complete.
3. Ensure that all drivers and monitors are approved by the Board of School Directors prior to commencement of their duties.

## Management Response

Management stated the following:

“The district always relied on the transportation company to obtain, review and provide the district with clearances for drivers. Drivers who came on board after the start of the year were not always updated. Beginning with the 2013-14 school year, the district will update onsite records. In addition, all new drivers will be approved by board action.”

## Auditor Conclusion

We are pleased that the District will be making changes, and we will evaluate its new procedures during the next audit.

### Finding No. 3

### Failure to Develop Memorandum of Understanding with Local Law Enforcement Agency

*Criteria relevant to this finding:*

Section 1303-A(c) of the Public School Code (PSC), 24 P.S. § 13-1303-A(c), amended November 17, 2010 with an effective date of February 15, 2011, provides, in part:

“ . . . each chief school administrator **shall enter** into a memorandum of understanding with police departments having jurisdiction over school property of the school entity. Each chief school administrator shall submit a copy of the memorandum of understanding to the office by **June 30, 2011**, and biennially update and re-execute a memorandum of understanding with local law enforcement and file such memorandum with the office on a biennial basis. The memorandum of understanding shall be signed by the chief school administrator, the chief of police of the police department with jurisdiction over the relevant school property and principals of each school building of the school entity. . . .” (Emphasis added.)

The “office” refers to the Office for Safe Schools established within the Department of Education through Section 1302-A(a) of the PSC, 24 P.S. § 13-1302-A(a). The term “biennially” means “an event that occurs every two years.”

Prior to the effective date of the above referenced enactment of the MOU requirements, all public schools were required to **develop** a memorandum of understanding with local law enforcement. The effective date of this amended provision was February 15, 2011.

Our audit of the Greensburg Salem School District (District) records found that the District failed to enter into a Memorandum of Understanding (MOU) with two local law enforcement agencies. In addition, the two MOUs that the District had in place were not updated until May 1, 2012 and November 1, 2012, which was after the required due date of June 30, 2011.

The failure to enter into an MOU with all pertinent local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and these agencies if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. Noncompliance with the statutory requirement to have an MOU could have an impact on law enforcement agency notification and response, and ultimately, the resolution of a problem situation.

Moreover, recently enacted amendments to the safe schools provisions of the Public School Code expanded the requirements to develop an MOU with the local law enforcement agencies. Now, beginning with the first filing deadline of June 30, 2011, public schools must biannually update and re-execute these MOUs and file them with the Pennsylvania Department of Education’s (PDE) Office of Safe Schools on a biannual basis. Consequently, this failure to have developed an MOU with its local police departments resulted in non-compliance with the additional MOU requirements that were enacted November 17, 2010.



**Recommendations**

The *Greensburg Salem School District* should:

1. Develop an MOU between the District and all local law enforcement agencies that have jurisdiction over school property of the District pursuant to the terms prescribed by law.
2. In consultation with the District's solicitor, review new requirements for an MOU and other school safety areas under the Public School Code to ensure compliance with amended Safe Schools provisions enacted November 17, 2010.
3. Adopt an official board policy requiring District administration to biennially update and re-execute all MOUs with local law enforcement agencies having jurisdiction over school property and file a copy with the PDE Office of Safe Schools on a biennial basis as required by law.

**Management Response**

Management stated the following:

“Management was not aware that we needed individual MOUs. We thank the audit team for pointing this out and have since obtained them from each agency. In South Greensburg, the solicitors met to revise the MOU according to the guidelines given by the Department of Education for a borough that does not contain a school building. The district is in the process of writing the Board Policy related to reviewing the MOUs biannually.”

**Auditor Conclusion**

We are pleased that the District will be making changes, and we will evaluate its new procedures during the next audit.

## Observation No. 1

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### The Greensburg Salem School District's Board Permitted Two Administrators to Receive Excessive Retirement Benefits

*Criteria relevant to the observation:*

Section 321 of the Public School Code, 24 P.S. § 3-321, provides in part:

“Before entering upon the duties of their office [school director] each shall take and subscribe to the following oath or affirmation, . . .

I do solemnly swear (or affirm) that I will support, obey and defend the Constitution of the United States and the Constitution of this Commonwealth, and that I will discharge the duties of my office with fidelity.”

The phrase in the oath, “with fidelity” implies that the board will act in the best interest of the District when conducting its business, not necessarily in the best interest of individuals or groups employed by the District.

Our audit found that the Greensburg-Salem School District's (District) Board of School Directors (Board) permitted two senior members of the District's staff to unilaterally add excessive benefits to an established retirement incentive plan. As a result of these changes, the District spent at least \$43,804 more on the two retirements than it would have if it had followed the existing terms of the Board approved retirement incentive. The Board's decision to permit the two senior administrators to expand their retirement incentive benefits was not a prudent use of taxpayer money.

Our review of documents relating to the Retirement Incentive Plan established by the Board under policy 300.31 disclosed that two senior District administrators, the former Superintendent and the former Director of Secondary Education, obtained additional retirement benefits. Specifically, the former Superintendent included an addendum to the retirement incentive plan that provided him with an additional \$10,417 for 15 unused vacation days. The addendum also stipulated that the former Superintendent would be paid at his 2011-12 per diem rate for any days he worked after his August 31, 2011, retirement date. However, the former Superintendent did not work any days after his official retirement.

The former Director of Secondary Education also included an addendum to his notification of a retirement form, which was established by the District. These changes provided for the following supplementary benefits:

- “The cash stipend [as offered in the Retirement Incentive Plan] will be increased by \$5,000 to a total of \$10,000 per year for five years.” This modification increased the former Director of Secondary Education's benefit by an additional \$25,000 over a five year period.
- “The District agrees to pay the difference between the monthly premium for PPO “A” and PPO “E” minus the \$400.00/month currently being paid by me.” This benefit essentially locked the administrator's required

monthly payment at the rate in effect at the time of his retirement and required the District to pay for any increase over the nine years it provided health insurance to the retiree. The costs associated with this supplementary benefit could not be determined.

- “The District agrees to pay for up to 15 unused vacation days remaining on August 31, 2011.” This change provided the former Director of Secondary Education with an additional \$8,333.
- “The District will pay at the 2011-2012 per diem rate for any days worked on an as-needed basis, after August 31, 2011.” The District’s Board rescinded its original approval of the Director of Secondary Education’s retirement so that he could work as the District’s Acting Superintendent until it hired a new superintendent. Therefore, the District did not end up having to pay out on this part of the amended retirement incentive. The former Director of Secondary Education officially retired on November 30, 2011, and there is no evidence that he worked for the District after that date.

Thus, the District spent at least \$33,333 more on the former Director of Secondary Education’s retirement than it was required to do under the established retirement incentive. Moreover, it is likely that the District paid even more in additional benefits since the auditors could not calculate a monetary value for all of the benefits included in the addendum. Combined with the additional benefits provided to the former Superintendent, this figure climbs to \$43,804 in additional benefits the District paid to these retirees, which were not required under the retirement incentive or their contracts.

Our review of the District’s board meeting minutes found that the Board approved the retirement incentives for both these senior administrators and the excessive additional benefits. In addition, the notation in the meeting minutes specifically indicated that the Board accepted both addendums to the Board’s standard retirement incentive policy<sup>2</sup>.

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<sup>2</sup> In April 2011, the board authorized the Retirement Incentive Policies numbered 300.28 through 300.31 for each of the various classes of employees. Policy 300.31 was authorized for the administrative employees. However, in the minutes that documented the approval of the individual employee’s retirement, the numbering was reflected as one digit higher than the original policy.

The Board failed to act in a prudent manner when it authorized the additional excessive terms placed on it by the two retiring administrators. The Board was already offering a fair retirement incentive to its employees, and its members have not put forth any reason for the additional terms submitted by the former Superintendent and former Director of Secondary Education. This action shows a lack of good judgment and a failure of the Board to act in the best interest of the taxpayers, citizens, and students of the District.

In these very difficult economic times, both nationally and throughout Pennsylvania, it is incumbent upon school boards to be good stewards of the taxpayer money entrusted to them. The District's Board disregarded this responsibility when it spent the District's limited taxpayer resources on addendums to retirement packages, rather than on the education of the District's students.

## **Recommendations**

The *Greensburg Salem School District* should:

1. Be more prudent in the spending of taxpayer monies by requiring that all administrative staff comply with board enacted policies for retirements.
2. Prevent individual employees from amending the terms of board policies on retirement.
3. Develop appropriate policies and procedures to ensure that its Board can regularly and consistently monitor whether management is appropriately implementing its policies.

## **Management Response**

Management stated the following:

“After discussion with the board, the district agrees that the contracts, salary arrangements and retirement packages of former administrators were excessive in nature. The board, however, does not believe it is because they disregarded their financial responsibility. Rather, they report that a culture of trust had been established in the district from working with the previous administration for so many years. Because of this, they operated in good faith when negotiating agreements.

They also report that the previous administration used the practice of presenting partial information to the board and public (such as changes in agreements or percentages rather than dollar amounts). Board members reported that they never received complete agreements or summaries of total dollar amounts until the current administration began to provide them. At the time, they believed the information presented to them to be complete and accurate and representing what they were being asked to vote on.

The current board has worked very hard with the current administration to use taxpayer dollars wisely and prudently. The contracts, salary arrangements and retirement packages cited in this finding were prepared during the prior superintendent and prior acting Superintendent's term of office.

This board and this administration will continue to work diligently to make all decisions regarding the compensation and benefits of current administrators reasonable and transparent. The district will also tighten internal controls to ensure that contracts, agreements, policies and practices are well documented, transparent and applied consistently. The board and administration will begin to work collaboratively to modify current administrative contracts and agreements to include termination clauses should the contracts end prematurely.”

### **Auditor Conclusion**

We are encouraged that the District has determined that it will tighten internal controls over contracts and agreements. As stated in the finding, each Board member has a duty to carry out his/her responsibilities with fidelity or with the best interest of the school district in mind so that he/she can ensure that the Board is receiving the information it needs to make effective operational decisions, and to ensure that management is effectively carrying out its policies. This goal can be achieved through effective internal control systems. We will evaluate the District's new procedures during our next audit.

## Observation No. 2

### The District Lacks Sufficient Internal Controls Over Its Child Accounting Data

*Criteria relevant to the observation:*

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

PDE began calculating the LEA's state subsidy using the data that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our review of the Greensburg Salem School District's (District) controls over the integrity of its child accounting data for the 2009-10 school year found that internal controls need to be strengthened. Specifically:

1. Our test of students with more than ten consecutive days of unexcused absences, found that the District had incorrectly kept them on the active membership rolls. In addition, the District was unable to provide evidence that the absences were legally excused, or that compulsory attendance prosecution had been or was being pursued.
2. Our test of student registrations found that the District does not maintain copies of the actual student registration forms or entry/withdrawal documentation to support the data entered into the PIMS child accounting records. As a result, we were unable to verify its student registration data.

*Criteria relevant to the observation  
(continued)*

Additionally, according to the *Federal Information System Controls Audit Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

It is the responsibility of District management to have internal policies and procedures in place to ensure that student data is properly collected and reported. Without such internal controls in place, the District cannot be assured that it is submitting the correct student data or that it is receiving the appropriate state subsidy.

**Recommendations**

The *Greensburg Salem School District* should:

1. Implement procedures to remove, from the active rolls of the District, any student that is absent for ten consecutive days without a valid excuse unless one of the following occurs:
  - a. The District has been provided with evidence that absence may be legally excused.
  - b. Compulsory attendance prosecution has been or is being pursued.
2. Maintain the forms and relevant support documentation related to its student registrations and entry/withdrawal transactions.

**Management Response**

Management stated the following:

“The district has the practice of seeking evidence through the guidance department for excused/unexcused absences. For the 2013-14 school year, we will begin to log onto the system and verify students with 10+ consecutive student days with known evidence of excused absences and override the unexcused code. The District has also been chosen to be a part of the county truancy pilot program with PDE and will review all attendance policies and student accounting practices in the upcoming school year.”

**Auditor Conclusion**

We are pleased that the District will be making changes, and we will evaluate its new procedures during the next audit.

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

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**O**ur prior audit of the Greensburg Salem 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.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following stakeholders:

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