



**MID VALLEY SCHOOL DISTRICT
LACKAWANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JULY 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. Gerald Luchansky, Board President
Mid Valley School District
52 Underwood Road
Throop, Pennsylvania 18512

Dear Governor Corbett and Mr. Luchansky:

We conducted a performance audit of the Mid Valley School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period February 23, 2011 through May 14, 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. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with the District's management, and their response is 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

July 11, 2013

cc: **MID VALLEY SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Mid Valley 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 February 23, 2011 through May 14, 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 15 square miles. According to 2010 federal census data, it serves a resident population of 15,309. According to District officials, the District provided basic educational services to 1,902 pupils through the employment of 129 teachers, 81 full-time and part-time support personnel, and 15 administrators during the 2009-10 school year. Lastly, the District received \$5.8 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.

Finding: Questionable Payout to Former Superintendent. The Mid Valley School District (District) paid a retirement incentive to its former Superintendent, based on accumulated sick and personal days, resulting in an incentive payment equal to 155 percent of his final salary, or \$187,711. In addition, the District's Board of School Director's (Board) approved a 10 percent salary increase to the former Superintendent one month prior to the Board's approval of his retirement (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Mid Valley School District (District), we found the District had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting nonpublic students (see page 8), a certification deficiency (see page 9), lack of documentation to verify bus drivers' qualifications (see page 9), a Memorandum of Understanding that was not updated timely (see page 10), and internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 10).

Audit Scope, Objectives, and Methodology

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 February 23, 2011 through May 14, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011 through April 10, 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 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 transportation subsidies, were the District, and any contracted vendors, in compliance with applicable state 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 audits?

Methodology

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations.
- Relevance and reliability of operational and financial information.
- Compliance with applicable laws, contracts, grant requirements, and administrative procedures.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with 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, financial stability, and reimbursement applications.
- 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 February 22, 2012, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

Section 1073 of the Public School Code, 24 P.S. § 10-1073(a), requires school districts to enter into three- to five-year employment contracts with their superintendents.

Questionable Payout to Former Superintendent

The Mid Valley School District's (District) Board of School Directors (Board) appointed its former Superintendent, effective July 1, 1987, without a signed contract. Based on Section 1073 of the Public School Code (PSC), the District's Board should have, at the very least, approved a contract with the former Superintendent during the 2003-04 school year. This action would have constituted a five-year contract between the former Superintendent and the Board. Current District personnel did not know why the former Superintendent did not have a contract.

The former Superintendent submitted his intent to retire at the April 23, 2008 school board meeting with an effective date of retirement of January 1, 2009. In lieu of an individual contract, the Board used the District's Administrative Compensation Plan or Act 93 Plan (Plan) to determine the former Superintendent's benefits. The Plan was in effect for the period July 1, 2003 through June 30, 2009.

The Plan stated that an early retirement incentive would be maintained for administrators as outlined in the collective bargaining agreement (Agreement) with the professional staff. The Agreement stated, in part:

“Eligible employees shall receive an incentive payment equal to a percentage of their final full year's base salary based upon the forfeiture of accumulated sick days in accord with Table A, payable in equal installments to be spread over three consecutive years beginning the following January.”

Table A. Early Retirement Incentive Payout:

<u>Sick Day Forfeiture</u>	<u>Percent of Final Base Salary</u>	<u>Sick Day Supplement @ \$200 each additional sick day</u>
100	55%	101.5 – 149.5
150	80%	150.5 – 199.5
200	105%	200.5 – 249.5
250	130%	250.5 – 299.5
300	155%	300.5 and above

The District’s Plan stated that sick leave would be provided to each administrator at a rate of ten sick days per year. Moreover, according to the plan, unused leave was cumulative from year to year, without limitation. Administrators were also permitted two personal days of leave per year, with any unused personal leave credited to the administrator’s available sick leave.

The District’s sick and personal leave records showed that the former Superintendent had not taken any sick leave since the 1978-79 school year, when he was still a teacher. This apparent lack of leave usage, and the unlimited allowance of accumulated leave, provided the former Superintendent with 421 accumulated sick/personal days as of January 1, 2009. Furthermore, at the time of his retirement, the former Superintendent’s salary was \$121,104. Consequently, in accordance with Table A, under the retirement incentive the former Superintendent was paid \$187,711.

Finally, our audit also found that although the Plan stated that administrators were entitled to a 3.5 percent wage increase effective July 1, 2007, the Board chose to increase the former Superintendent’s salary by 10 percent, for a total of \$117,009. As a result, it appears that the District used the Plan inconsistently when determining the former Superintendent’s benefits, in lieu of an individual contract.

In conclusion, the District violated the PSC by failing to enter into a contract with its former Superintendent. In addition, the Board inconsistently applied the District’s Plan to address the former Superintendent’s benefits in lieu of a contract. In doing so, the Board permitted him to receive a lucrative early retirement incentive, totaling

\$187,711, but did not keep within the mandated salary increases outlined in the Plan. This is money that could have been more judiciously spent on the education of the District's children.

Recommendations

The *Mid Valley School District* should:

1. Ensure that subsequent Superintendents have contracts in accordance with the PSC.
2. Consider limiting sick leave accumulation to avoid excessive early retirement incentive payouts.
3. Ensure that salary increases are made in accordance with the applicable contract.

Management Response

Management stated the following:

“The District recognizes that taxpayers have the right to expect their money will be used for the education of our children and the District will continue to negotiate contracts understanding these taxpayer concerns. The District believes the Retirement Incentive was within the norm considering his twenty years of service.”

Auditor Conclusion

Regardless of the District's beliefs regarding the appropriateness of the retirement incentive, as directed by the PSC, its Board should have entered into a contract with its former Superintendent. Moreover, if the District's Board made the decision to use the District's Plan in lieu of an individual contract it should have done so consistently. Finally, we continue to contend that the \$187,771 the District spent on the former Superintendent's retirement could have been more judiciously spent on the education of its students. The finding will stand as written.

Status of Prior Audit Findings and Observations

Our prior audit of the Mid Valley School District (District) released on February 22, 2012, resulted in three reported findings and two observations, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We performed audit procedures and interviewed District personnel regarding the prior findings and observations. As shown below, we found that the District did implement our recommendations related to the findings and observations.

Auditor General Performance Audit Report Released on February 22, 2012

Finding No. 1: Errors in Reporting the Number of Nonpublic Students Transported Resulted in Reimbursement Overpayments of \$22,330

Finding Summary: Our prior audit found that the District transportation reports submitted to the Pennsylvania Department of Education (PDE) for the 2007-08 and 2006-07 school years were inaccurate. District personnel made errors in reporting nonpublic students, which resulted in subsidy overpayments of \$22,330.

Recommendations: Our audit finding recommended that the District should:

1. Institute a system of review that would help ensure reports sent to PDE are accurate.
2. Review subsequent years' reports, and if errors are found submit revised reports to PDE.

We also recommended that PDE should:

3. Adjust the District's allocations to recover the overpayments of \$22,330.

Current Status: During our current audit, we found that the District did implement the recommendations to ensure accurate reporting of nonpublic students transported.

At the conclusion of our audit, PDE had not adjusted the District's allocations to recover the overpayments of \$22,330.

Finding No. 2: Certification Deficiency

Finding Summary: Our prior audit of the District professional employees' certification and assignments for the period July 1, 2006 through June 17, 2008, found that the District employed a long-term substitute as a librarian for the 2008-09 school year without proper certification.

Recommendations: Our audit finding recommended that the District should:

Ensure procedures are in place to compare teachers' certification to the certification requirements of the assignment the District intends to give the teacher.

We also recommended that PDE should:

Adjust the District's allocations to recover any subsidy forfeiture deemed necessary.

Current Status: During our current audit, we found that the District did implement the recommendations. On March 5, 2012, PDE determined the long-term substitute was employed without the proper certificate or emergency permit, resulting in a subsidy forfeiture of \$1,029. As of the conclusion of our current audit, PDE had not yet adjusted the District's allocations to recover this subsidy forfeiture.

Finding No. 3: Lack of Documentation Necessary to Verify Bus Drivers' Qualifications

Finding Summary: Our prior audit found that the District failed to obtain and retain the required documentation/clearances for several contracted bus drivers.

Recommendations: Our audit finding recommended that the District should:

1. Immediately obtain the missing documentation referred to in our finding from the transportation contractor, in order to ensure that drivers transporting students in the District possess proper qualifications.
2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.

Current Status: During our current audit, we found that the District did implement the recommendations to ensure they obtained and retained the required documentation/clearances for contracted bus drivers.

Observation No. 1: Memorandum of Understanding Not Updated Timely

Observation

Summary:

Our prior audit of the District's records found that the Memorandum of Understanding (MOU) between the District and the local police department was last signed August 24, 2005, and had not been updated. The District and the local police department did sign an updated MOU on January 17, 2011.

Recommendations:

Our audit observation recommended that the District should:

1. In consultation with the District's solicitor, review, update and re-execute each MOU between the District and all the police departments having jurisdiction over school property and file a copy with PDE's Office of Safe Schools on a biennial basis, pursuant to the terms prescribed by the Public School Code.
2. In consultation with the District's solicitor, review new requirements for MOUs and other school safety areas under the Public School Code to ensure compliance with amended safe schools provisions enacted November 17, 2010, effective February 15, 2011.
3. Adopt a board policy requiring the District's administration to biennially update and re-execute each MOU with police departments having jurisdiction over school property and file a copy with PDE's Office of Safe Schools on a biennial basis, as required by the Public School Code.

Current Status:

During our current audit, we found that the District did implement the recommendations and obtained an updated MOU effective July 1, 2011.

Observation No. 2: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Observation

Summary:

Our prior audit found that the District did not have written policies or procedures in place to inform them when any of their current employees are charged with crimes after their hire dates. This should be considered for the purpose of determining an individual's suitability to be in direct contact with children.

Recommendations: Our audit observation recommended that the District:

1. Implement written policies and procedures to determine whether current employees of the District have been charged with or convicted of crimes since their hire dates.
2. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.

Current Status: During our current audit, we found that the District did implement the recommendations to implement policies and procedures to ensure employees have not been charged with or convicted of crimes following their hire dates.

Distribution List

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, and the following stakeholders:

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

The Honorable William E. Harner
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The Honorable Robert M. McCord
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This report is a matter of public record and is available online at 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.

