

MOSHANNON VALLEY SCHOOL DISTRICT  
CLEARFIELD COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JUNE 2012



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

Mr. Rodney Kitko, Board President  
Moshannon Valley School District  
4934 Green Acre Road  
Houtzdale, Pennsylvania 16651

Dear Governor Corbett and Mr. Kitko:

We conducted a performance audit of the Moshannon Valley School District (MVSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period July 21, 2008 through September 2, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010, 2009, 2008 and 2007. 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 MVSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit findings and recommendations have been discussed with MVSD's management and their response is included in the audit report. We believe the implementation of our recommendations will improve MVSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the MVSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER  
Auditor General

June 19, 2012

cc: **MOSHANNON VALLEY SCHOOL DISTRICT** Board Members



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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 Moshannon Valley School District (MVSD). 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 MVSD in response to our prior audit recommendations.

Our audit scope covered the period July 21, 2008 through September 2, 2011, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10, 2008-09, 2007-08 and 2006-07.

### District Background

The MVSD encompasses approximately 94 square miles. According to 2000 federal census data, it serves a resident population of 8,764. According to District officials, in school year 2009-10 the MVSD provided basic educational services to 938 pupils through the employment of 72 teachers, 41 full-time and part-time support personnel, and 7 administrators. Lastly, the MVSD received more than \$8.5 million in state funding in school year 2009-10.

### Audit Conclusion and Results

Our audit found that the MVSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings.

**Finding No. 1: The District Again Failed to Provide Adequate Termination Provisions in the Superintendent's Employment Contract.** The MVSD failed to implement our prior audit recommendation regarding termination provisions in the Superintendent's contract (see page 6).

**Finding No 2: Certification Deficiency.** Our audit of the MVSD's professional employees' certification and assignments found one professional employee's teaching certificate lapsed. This resulted in a subsidy forfeiture of \$764 for the 2009-10 school year and \$1,534 for the 2010-11 school year (see page 8).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the MVSD from an audit we conducted of the 2004-05 and 2005-06 school years, we found the MVSD had taken appropriate corrective action in implementing our recommendations pertaining to reporting pupil membership days for area vocational-technical school and alternative education students (see page 10). However, MVSD had not fully implemented our recommendations regarding adequate termination provisions in the superintendent's employment contract (see page 11).





## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period July 21, 2008 through September 2, 2011, except for the verification of professional employee certification which was performed for the period June 14, 2008 through June 30, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10, 2008-09, 2007-08 and 2006-07.

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 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 MVSD'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?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Is the District's pupil transportation department, including any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Does the District ensure Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District 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 findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observations and conclusions based on our audit objectives.

MVSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit

*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 law, contracts, grant requirements and administrative procedures.

objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes and pupil membership records.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on May 9, 2011, we performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding No. 1 →

#### **The District Again Failed to Provide Adequate Termination Provisions in the Superintendent's Employment Contract**

In our prior audit, we recommended that the Moshannon Valley School District (MSVD) include in future employment contracts termination provisions sufficient to protect the interests of the District's taxpayers in the event that employment ends prematurely. We also recommended that the MSVD provide as much information as possible to the taxpayers of the MVSD explaining the reasons for buy-outs of contracts (see page 11).

Our review of the contract for the Superintendent who was hired effective August 22, 2011, found that the contract again lacked adequate termination provisions.

The contract was for a three-year period, as we recommended. However, under the section headed "Discharge or Termination," the contract states only that "the Superintendent shall be subject to discharge for valid and just cause for the reasons specified in Section 1080 of the Public School Code," (that is, for "neglect of duty, incompetency, intemperance, or immorality"). The contract also states that the superintendent may resign at any time if 90 days notice is provided. There is nothing in the contract addressing termination of employment for any other reasons, nor does the contract spell out the financial obligations of the District should the Superintendent's employment cease for any reason before the end of the contract. The terms are virtually identical to the terms of the contract that was the subject of criticism in our prior finding.

Our review found that there were no buy-out issues involved with the retirement of the superintendent who preceded the superintendent hired effective August 22, 2011. We are therefore unable to comment on the implementation of our prior audit recommendation that the MSVD provide as much information as possible to the taxpayers of the MVSD explaining the reasons for buy-outs of contracts.

**Recommendations**

The *Moshannon Valley School District* should:

1. Ensure that future employment contracts contain adequate termination provisions sufficient to protect the interests of the MVSD taxpayers in the event that the employment ends prematurely for any reason.
2. In the event that contract buy-outs occur in the future, provide as much information as possible to the taxpayers of the MVSD explaining the reasons for buy-outs.

**Management Response**

Management stated the following:

District is in consultation with solicitor for guidance on appropriate wording on future Superintendent's contract, as well as district policy, in order to protect the interest of the Superintendent and the tax payers of the district.

**Finding No. 2** →

**Certification Deficiency**

*Criteria relevant to the finding:*

Section 1202 of the Public School code provides, in part:

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

Section 2518 of the Public School code provides, in part:

[A]ny school district, intermediate unit, area vocational-technical school or other public school in the 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.

Our audit of the District's professional employees' certification and assignments for the period June 14, 2008 through June 30, 2011, found one professional employee's provisional (Instructional I) teaching certificate had lapsed.

Information pertaining to the certificate in question was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ) for its review. BSLTQ subsequently determined the certificate had lapsed. The MVSD is therefore subject to subsidy forfeitures of \$764 and \$1,534 for the 2009-10 and 2010-11 school years, respectively.

The lapsed certificate occurred because the District incorrectly believed the individual had applied for and received an Instructional II teaching certificate. The individual did not receive her Instructional II teaching certificate until August 10, 2011.

**Recommendations**

The *Moshannon Valley School District* should:

Put procedures in place to ensure all professional employees with provisional certificates obtain permanent certification before their certificates lapse.

The *Department of Education* should:

Adjust the District's allocations to recover the subsidy forfeitures of \$2,298.

**Management Response**

Management stated the following:

To remedy this situation, we will utilize the [company name] software program, which has a report called “Certification by Subject Report.” When a new Level I employee is hired, the Administrative Assistant can enter the date of the Level I certification and the estimated expiration date. Once this information is entered, the expiration dates will show up when the “Certification by Subject Report” is run. The Administrative Assistant will also develop a tickler file to run this report periodically, i.e. beginning, middle, and end of school year to identify if anyone has a Level I ready to expire. We will also revise our New Employee Checklist form to gather the needed information from Level I new hires.

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

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Our prior audit of the Moshannon Valley School District (MVSD) for the school years 2005-06 and 2004-05 resulted in two reported findings. The first finding pertained to errors in reporting pupil membership, and the second finding pertained to inadequate provisions in the Superintendent's employment contract. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the MVSD did implement recommendations related to reporting pupil membership. However, the District did not fully implement our recommendations related to provisions in the superintendent's contract.

### **School Years 2005-06 and 2004-05 Auditor General Performance Audit Report**

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**Finding No. 1: Errors in Reporting Pupil Membership**

Finding Summary: Our prior audit of the MVSD's pupil membership records found errors in resident pupil membership. These errors resulted in overpayments of \$16,465 in basic education funding (BEF) and special education funding.

Recommendations: Our audit finding recommended that the MSVD:

1. Implement procedures to make sure area vocational-technical school and alternative education membership days are reported only once.
2. Review membership reports submitted to the Department of Education (DE) for years subsequent to the audit, and if errors are found, submit revised reports to DE.
3. Implement procedures to continue training to all employees performing child accounting functions.

We also recommended that the Department of Education:

4. Recover the \$11,403 overpayment of BEF and the \$5,062 overpayment of special education subsidy.

Current Status: During our current audit procedures, we found that the District did implement all of the recommendations listed above. As of September 9, 2011, DE had not recovered the overpayments; we again recommend that they do so.



**Finding No. 2: The District Did Not Provide Adequate Provisions in the Superintendent's Employment Contract, Leading to a Confidential and Costly \$83,868 Buy-Out of the Contract**

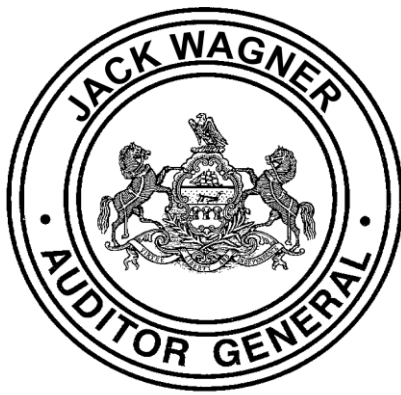
Finding Summary: Our prior audit found that the board approved a Settlement Agreement and Release (Agreement) with a previous superintendent (Superintendent) terminating his employment less than two years into his five-year contract. In exchange for the Superintendent's letter of resignation and promise not to sue the MVSD, the MVSD agreed to provide the Superintendent \$53,498 as compensation for unused vacation, personal and sick days, health care benefits, life insurance and additional compensation. The MVSD also paid \$30,370 for an acting superintendent. We determined that had the Superintendent's employment contract included adequate termination provisions these costs could have been limited.

Recommendations: Our audit finding recommended that the MVSD:

1. Enter into contracts with prospective superintendents at the three-year minimum term permitted by state law, in order to limit potential financial liability by the MVSD and its taxpayers.
2. Ensure that future employment contracts contain adequate termination provisions sufficient to protect the interests of the MVSD taxpayers in the event that the employment ends prematurely for any reason.
3. Provide as much information as possible to the taxpayers of the MVSD explaining the reasons for the termination of the Superintendent and justifying the MVSD's expenditure of public funds to buy out the Superintendent's contract.

Current Status: During our current audit we found that another superintendent retired as of June 29, 2011. Our review found that there were no buy-out issues involved with this retirement. We are therefore unable to comment on the implementation of our prior audit's recommendation number 3 above.

Our review of the contract with the current Superintendent found that it was for a three-year period, as recommended. However, we found that the contract again lacked termination provisions adequate to protect the interests of the MSVD taxpayers. This is addressed in our current Finding No. 1 (see page 6).



## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following:

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

The Honorable Ronald J. Tomalis  
Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).

