



MUNCY SCHOOL DISTRICT
LYCOMING 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. Thomas Gardner, Board President
Muncy School District
46 South Main Street
Muncy, Pennsylvania 17756

Dear Governor Corbett and Mr. Gardner:

We conducted a performance audit of the Muncy School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period January 7, 2011 through February 1, 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 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. However, we identified one matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements. We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

July 11, 2013

cc: **MUNCY 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 Muncy 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 January 7, 2011 through February 1, 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.

District Background

The District encompasses approximately 36 square miles. According to 2010 federal census data, it serves a resident population of 7,029. According to District officials, the District provided basic educational services to 1,016 pupils through the employment of 87 teachers, 64 full-time and part-time support personnel, and 6 administrators during the 2009-10 school year. Lastly, the District received \$5.1 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.

Observation: Excessive Benefits Payout for Former Administrator Totaling \$50,000.

Our audit of the Muncy School District (District) found that the District's Board of School Directors (Board) entered into an agreement with a school administrator (former Administrator) that superseded the current employment compensation contract and provided the former Administrator with an additional \$50,000 severance payment upon his/her retirement from the District (see page 5).

Status of Prior Audit Findings and

Observations. There were no findings or observations included in our prior audit report.

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the 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 January 7, 2011 through February 1, 2013, except for the verification of professional employee certification which was performed for the period July 1, 2012 through December 27, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 school years.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education (PDE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Does 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?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

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

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, regulations, 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, tuition receipts, financial stability 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

Observation

Excessive Benefits Payout for Former Administrator Totaling \$50,000

Administrator Contract Buy-Out:

The taxpayers have the right to be informed of an early termination of an administrator, the reason for the termination and the financial effect the buy-out has on the District. If this information is public, then the taxpayers can consider such information when determining if the board members have done what is best for them and the district.

Our audit of the Muncy School District (District) found that the District's Board of School Directors (Board) entered into an agreement with a school administrator (former Administrator) that superseded the current employment compensation contract and provided the former Administrator with an additional \$50,000 severance payment upon their retirement from the District.

On December 15, 2008, the District's Board approved an Administrator Compensation Plan (Compensation Plan) with a term of four years, from July 1, 2008 to June 30, 2012. This Compensation Plan provided the former Administrator with a retirement benefit of \$1,000 for each year of service to the District, not to exceed \$30,000. The money for this benefit came out of a life insurance policy that the District provided to the former Administrator.

However, at the November 14, 2011, board meeting, the Board agreed to draft a Compensation Plan Agreement Addendum (Agreement) in advance of the former Administrator's impending retirement. The Agreement, dated November 30, 2011, stated:

“Whereas, [the administrator] has indicated his intent to retire from the District effective June 30, 2012 after his many years of dedicated service; . . . Whereas, [the administrator] is entitled to \$27,000 (\$1,000 per year of service) under the agreement and, additionally is entitled to become the owner of the policy of insurance on his life upon retirement; Whereas, [the administrator] has opted to decline ownership of his life insurance policy; . . . Whereas, [the administrator] will receive \$50,000 as additional severance compensation which is available from the cash value of his policy. . . .”

The Board accepted the former Administrator's retirement at the December 5, 2011, board meeting, and the former Administrator was granted the additional \$50,000 severance compensation, funded from the cash value of his District-paid life insurance policy.

Our audit found that the District owned the policy and that it had paid \$83,565 in premiums on it. The policy's Net Surrender Value, calculated by adding the cash value of the policy, accumulated dividends, and loan interests paid, totaled \$133,099. Subtracting the \$50,000 additional severance compensation paid to the former Administrator, the District retained \$83,099 of the surrender value.

Under the Agreement, which was Board approved, the District paid the former Administrator \$50,000 that was not required under the terms of the original Compensation Plan. This is money that the District could have spent toward the education of its students.

Recommendations

The *Muncy School District* should:

1. Ensure that future employment contracts are followed to protect the interests of the taxpayers of the District in the event that the employment ends for any reason.
2. Provide as much information as possible to the taxpayers of the District justifying the District's expenditure of public funds to buy out the administrator's contract.

Management Response

Management stated the following:

“\$50,000 represents an early retirement incentive as provided for in the agreement between administrator and the Muncy School District Board of School Directors. The agreement was acted on and approved at the regularly scheduled public board meeting on November 14, 2011. The incentive amount of \$50,000 was funded by the surrender value of a district-owned life insurance policy. The effect of this administrator's early retirement resulted in annual salary savings to the district in the amount of \$31,359.

We believe that Acts 82 and 141 of 2012 which establish severance limits for superintendents and assistant

superintendents are not applicable to Act 93 administrators. Further, the effective date of these Acts as they relate to employment contracts was September 10, 2012. The administrator in question retired on June 30, 2012.

With no other known definition of ‘excessive’ based in Pennsylvania law other than those limits established in Acts 82 and 141 of 2012, we respectfully disagree with this [observation].”

Auditor Conclusion

At no time in this Observation do we suggest that Acts 82 and 141 of 2012 have any bearing on the issues discussed. Rather, our concern is that the District did not follow the terms in the former Administrator’s original Compensation Plan, and as a result, paid \$50,000 more than the terms required. Moreover, the amendment to the Compensation Plan was dated November 30, 2011, which was only seven months before the end of the Compensation Plan’s term. Therefore, even if the District’s calculations regarding annual salary savings of \$31,359 are accurate, it still would not have gained that amount following the former Administrator’s early retirement. In fact, it would only have saved \$18,292 over the period of the Compensation Plan, which is nearly \$32,000 less than it paid out as a result of the amendment.

Status of Prior Audit Findings and Observations

Our prior audit of the Muncy School District resulted in no findings or observations.

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
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The Honorable William E. Harner
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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 this 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.

