



PHOENIXVILLE AREA SCHOOL DISTRICT
CHESTER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MARCH 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. Joshua D. Gould, Board President
Phoenixville Area School District
386 City Line Avenue
Phoenixville, Pennsylvania 19460

Dear Governor Corbett and Mr. Gould:

We conducted a performance audit of the Phoenixville Area School District (PASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period June 8, 2009, through May 17, 2012, 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, 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 PASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures.

On March 6, 2012, the Department of the Auditor General (Department) initiated a special audit of the decision by the School Board of Directors for PASD to prematurely alter its Assistant Superintendent's employment contract and the expiration of two Acting Superintendent's contracts. This performance audit covered the period July 21, 2008, through June 30, 2010, and was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. This performance audit was separate and distinct from the District's cyclical performance audit, which was conducted simultaneously and the results of which are described in following pages of the audit report. The Department conducts its cyclical performance audits approximately every two years.

The Department's special audit of the premature alteration of the Assistant Superintendent's employment contract and the expiration of two Acting Superintendent's employment contracts found that the PASD complied, in all significant respects, with the applicable state laws, contracts, and administrative procedures related to our specific audit objectives. However, the Department still strongly recommends that the Commonwealth's local education agencies try to avoid prematurely altering the employment of their contracted employees. Our audit work has shown that engaging in such changes frequently leads to the inappropriate and/or inefficient use of taxpayer dollars. Consequently, we will continue to monitor these issues.

We appreciate the PASD's cooperation during the conduct of the audit.

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

March 13, 2013

cc: **PHOENIXVILLE AREA SCHOOL DISTRICT** Board Members

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Phoenixville Area School District (PASD). 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 PASD in response to our prior audit recommendations.

Our audit scope covered the period June 8, 2009, through May 17, 2012, 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 and 2008-09.

District Background

The PASD encompasses approximately 29 square miles. According to a 2010 local census data it serves a resident population of 22,390. According to District officials, in school year 2009-10 the PASD provided basic educational services to 3,427 pupils through the employment of 296 teachers, 170 full-time and part-time support personnel, and 29 administrators. Lastly, the PASD received more than \$11.5 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the PASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and Observations

With regard to the status of our prior audit recommendations to the PASD from an audit we conducted of the 2007-08, 2006-07, 2005-06, and 2004-05 school years, we found the PASD had taken appropriate corrective action in implementing our recommendations pertaining to the PASD incurring additional costs as a result of a confidential agreement that terminated the superintendent's employment with PASD (see page 7) and the PASD's failure to obtain a Memorandum of Understanding (see page 8).



Audit Scope, Objectives, and Methodology

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 June 8, 2009, through May 17, 2012.

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

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 PASD'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:

- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ 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?

- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose 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 does the current employment contract(s) contain adequate termination provisions?
- ✓ Is the District taking 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 members free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ 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.

PASD 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 objectives, we obtained an understanding of internal

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.

controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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 transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications, state ethics compliance, and financial stability.
- Items such as board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 9, 2010, we reviewed the PASD's response to PDE dated January 20, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Phoenixville Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Phoenixville Area School District (PASD) for the school years 2007-08, 2006-07, 2005-06, 2004-05 resulted in two reported findings. The first finding pertained to the PASD incurring additional costs totaling \$7,941 under a confidential agreement that terminated the superintendent's employment with the PASD and the second finding pertained to the failure to obtain the Memorandum of Understanding with local law enforcement agencies. As part of our current audit, we determined the status of corrective action taken by the PASD to implement our prior recommendations. We analyzed the PASD Board's written response, performed audit procedures, and questioned PASD personnel regarding the prior findings. As shown below, we found that the PASD did implement our recommendations related to both findings.

School Years 2007-08, 2006-07, 2005-06, 2004-05 Auditor General Performance Audit Report

Finding No. 1: The District Incurred Additional Costs Totaling \$7,941 under a Confidential Agreement that Terminated the Superintendent's Employment with the District

Finding Summary: Our prior audit of PASD found that on November 6, 2008, after the Superintendent had served less than five months of the term of the Contract, the Board approved a Separation and Release Agreement with the Superintendent which terminated her employment with the PASD and resulted in additional costs to the District of \$7,941.

Recommendations: Our audit finding recommended that the PASD:

1. Enter into employment contracts with prospective superintendents at the three-year minimum term permitted by state law, in order to limit potential financial liability by the District and its taxpayers.
2. Provide as much information as possible to the taxpayers of the District explaining the reasons for the termination of the employment relationship between the Superintendent and the District and justifying the District's expenditure of public funds beyond what was required by the original employment contract.
3. Ensure that future agreements do not contain confidentiality requirements that would prevent the District from adequately informing taxpayers and others of the reasons for a superintendent leaving employment at the time of separation.

Current Status: Our current audit found that prior to the release of our prior audit report PASD entered into a five year agreement with an individual to serve as the Superintendent of Schools for the period July 1, 2010, through June 30, 2015. During our current audit period four administrators left the employ of the District. We found that none had a separation agreement and received only what they were entitled to.

Finding No. 2: Failure to Obtain Memorandum of Understanding

Finding Summary: Our prior audit of the District's records found that the District had not obtained a Memorandum of Understanding (MOU) between the District and its three local law enforcement agencies.

Recommendations: Our audit finding recommended that the PASD:

1. Obtain MOU's between the District and all local law enforcement agencies.
2. Adopt an official board policy requiring the administration to review and re-execute the MOU every two years.

Current Status: Our current audit found that the PASD did implement the recommendations. During our prior audit's fieldwork, the District obtained a MOU with one of its local law enforcement agencies and obtained the MOUs with the other two local law enforcement agencies in July 2010. Subsequent to our current audit's fieldwork completion date of May 17, 2012, the District obtained MOUs with all three local law enforcement agencies for the period July 1, 2012, through June 30, 2014. The MOUs are required to be reviewed and re-executed within two years of the date of its original execution and every two years thereafter. Additionally, Act 104 of 2010 required that the current MOU was to be submitted to the Office of Safe Schools by June 30, 2011, and then biennially updated, re-executed and filed with the Office of Safe Schools.

Distribution List

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, and the following:

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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.

