



**POCONO MOUNTAIN SCHOOL DISTRICT  
MONROE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**OCTOBER 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

Ms. Meg Dilger, Board President  
Pocono Mountain School District  
P.O. Box 200  
Swiftwater, Pennsylvania 18370

Dear Governor Corbett and Ms. Dilger:

We conducted a performance audit of the Pocono Mountain School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period April 5, 2010 through January 30, 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 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 that the District complied, in all significant respects, with relevant requirements, except as detailed in two findings noted in this report. In addition, 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 findings, observation, 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 black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE  
Auditor General

October 11, 2013

cc: **POCONO MOUNTAIN 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 Pocono Mountain School District (District). Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, 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 April 5, 2010 through January 30, 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 304 square miles. According to 2010 federal census data, it serves a resident population of 64,586. According to District officials, the District provided basic educational services to 10,929 pupils through the employment of 1,071 teachers, 654 full-time and part-time support personnel, and 53 administrators during the 2009-10 school year. Lastly, the District received \$46.6 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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for two compliance related matters reported as findings. In addition, we identified one matter unrelated to compliance that is reported as an observation.

**Finding No. 1: Continued General Fund Deficit Balance.** Our review of the Pocono Mountain School District's annual financial reports, local auditor's report, and general fund budgets for fiscal years ended June 30, 2012, 2011, and 2010 found deficit general fund balances of \$11,913,782, \$18,996,061, and \$3,459,402, respectively. Our prior audit noted a deficit general fund balance of \$3,638,637 at June 30, 2009 (see page 6).

**Finding No. 2: Continued Errors in Reporting Pupil Membership Resulted in Subsidy and Reimbursement Net Overpayments of \$165,515.** Our current audit of the Pocono Mountain School District's (District) membership reports submitted to the Pennsylvania Department of Education for the 2009-10 and 2008-09 school years found that District personnel failed to implement our prior audit recommendations and continued to incorrectly report nonresident pupil membership in both years resulting in net overpayments of \$165,515 (see page 11).

**Observation: Questionable Annuity Payment.** Our review of the Pocono Mountain School District's (District) board

meeting minutes and vendor payment history reports found that the District made a payment of \$12,162 into the former Superintendent's 403(b) Tax Sheltered Annuity retirement plan that was not provided for in his contract nor approved by the Board of School Directors (see page 14).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the Pocono Mountain School District released on December 13, 2010, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to a general fund deficit and continued errors in the reporting of pupil membership (see page 18).

## 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 April 5, 2010 through January 30, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2010 through November 11, 2011.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-08 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 certain relevant state laws, regulations, 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?

- ✓ 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 state subsidies and reimbursements based on payroll (e.g. retirement), did it follow applicable laws and procedures?
- ✓ 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 does 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?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

## 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 certain relevant 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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). 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 relevant requirements 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.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 13, 2010, we performed additional audit procedures targeting the previously reported matters.



## Findings and Observations

### Finding No. 1

### Continued General Fund Deficit Balance

*Criteria relevant to the finding:*

Section 609 of the Public School Code, 24 P.S. § 6-609 provides, in part:

“No work shall be hired to be done, no materials purchased, and no contracts made by any board of school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.”

Our review of the Pocono Mountain School District’s (District) annual financial reports (AFRs), independent auditor’s report (IAR), and general fund budgets for fiscal years ended June 30, 2012, 2011, and 2010 found deficit general fund balances of \$11,913,782, \$18,996,061, and \$3,459,402, respectively. Our prior audit noted a deficit general fund balance of \$3,638,637 at June 30, 2009.

We found that the District’s expenditures exceeded its revenues for the 2011-12 and 2010-11 school years, resulting in the depletion of its general fund balance.

<b>TREND: Effect of Expenditures Exceeding Revenues on General Fund</b>				
<u>School Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Expenditures(Over)/ Under Revenue</u>	<u>General Fund Surplus/(Deficit)</u>
2011-12	\$192,636,908	\$194,528,601	\$ (1,891,693)	\$(11,913,782)
2010-11	191,015,996	210,747,514	(19,731,518)	(18,996,061)
2009-10	192,968,371	192,931,017	37,354	* (3,459,402)

\* The 2010-11 independent auditors restated this amount to \$9,771,439 as of June 30, 2010, due to prior adjustments of recorded liabilities for charges for services incurred and due to Internal Service Funds.

We also found that the District exceeded its budgeted expenditures as follows:

<b>TREND: Actual Expenditures Exceeded Budgeted Expenditures</b>			
<u>School Year</u>	<u>Expenditures- Budget</u>	<u>Expenditures- Actual</u>	<u>Expenditures (Over)/ Under Budget</u>
2011-12	\$192,186,725	\$194,528,601	\$ (2,341,876)
2010-11	198,110,000	210,747,514	(12,637,514)
2009-10	190,116,700	192,931,017	(2,814,317)

For the 2011-12 school year, actual expenditures exceeded budgeted expenditures primarily in the areas of regular education instruction, debt service, and transfers out. These areas exceeded the budget by \$6,594,852, \$3,887,654 and \$2,293,835, respectively.

For the 2010-11 school year, actual expenditures exceeded budgeted expenditures primarily in the areas of regular

education instruction and debt service, which were exceeded by \$8,069,310 and \$8,977,363, respectively. During the 2009-10 school year, actual expenditures exceeded budgeted expenditures mainly in the area of debt service, which was exceeded by \$1,308,161.

The District's deficit general fund balance has been increasing over the last three years in part because of its declining revenues and its declining student enrollment. The declining revenues are caused in part by the decreasing property values in the District's tax base, leading to increases in successful property tax appeals and expanded property tax refunds. The District's declining student enrollment is attributed, at least partially, to home foreclosures, increased unemployment, and the high cost of commuting to nearby metropolitan areas such as New York City. The District has also had to deal with unanticipated increases in tuition expenditures to charter and cyber charter schools (see table below), the defunding of the charter school reimbursement payments and increased health insurance costs. For example, the District's state charter school reimbursements for the 2010-11 school year, the last year they were funded, totaled \$1,661,235. As a result, the District has depended on short-term borrowing to maintain its cash flow.

<b>TREND: Growth in Tuition Payments to Charter Schools</b>		
<u>School Year</u>	<u>Tuition Paid</u>	<u>Increase</u>
2011-12	\$9,938,975	26.34 %
2010-11	7,866,982	9.09 %
2009-10	7,211,149	8.98 %

In addition, the District terminated three Fixed Payor Interest Rate Swap Agreements (swaps) that were initially entered into in November 2005 and March 2007. As part of the swap termination, on July 9, 2009, the District had to make a \$3,169,887 termination payment and a \$528,113 accrued interest payment.

On July 24, 2012, Moody's Investors Service downgraded the District's bond rating. The downgrades "incorporate the District's distressed financial position, characterized by a large accumulated fund balance deficit and the ongoing challenges the District faces to achieving structurally balanced operations." The rating also reflects the District's sizeable tax base with average wealth levels and a

relatively high debt burden. Moody's also considered the District's reliance on cash flow borrowing to fund operations to be a weakness. The downgrading of the District's bond rating could lead to increased borrowing costs because lenders may view the District as a high risk borrower, and may charge it a higher interest rate.

In response to the deficit in the 2012-13 school year, the District took the following steps:

- Eliminated 280 professional, support, and administrative staff positions by closing three school facilities, consolidating educational program and making other alterations and curtailments to address its falling student enrollment.
- Instituted competitive bidding on nearly all vendor contracts and where possible has pursued non-renewals or contract reductions with vendors. The District has also obtained substantial cost savings by changing its third-party health insurance administrator.
- Established a five-year financial and capital projects plan to address its long-term fiscal health. This plan includes annual appropriations to both the District's budgetary reserve and capital projects funds in order to provide funding for future capital improvements and to avoid incurring additional general obligation debt and related borrowing costs.

According to the District administrators, they chose to use the previous fund balance due to an influx of students and poor economic times. However, that decision depleted the District's resources and resulted in a deficit to its general fund balance.

## **Recommendations**

The *Pocono Mountain School District* should:

1. With direction and advice of the Board of School Directors, put into place a plan to systematically reduce the fund balance deficit in the general fund.
2. Provide the Board with monthly budget status reports, including a comparison of budget versus actual expenditures for the month, and year-to-date.

## Management Response

Management stated the following:

“A significant and sustained influx of students for two decades left the District with very large debt service related to the construction of schools to accommodate the increase in students and to provide adequate, safe, and secure learning environments. During this long period of growth, the District’s majority of revenues came from local sources-mainly real estate taxes. To prevent local home owners from bearing the brunt of double digit millage tax increases, the School Board decided for several consecutive years to use the Fund Balance to offset the tax impact on local taxpayers.

The economic downturn across the nation has also negatively impacted our District’s revenue sources. The collapse of the housing market has created a stiff decline in real estate transfer tax revenues, as well as, interim real estate tax revenues that are derived from new construction and home renovations. The reductions in these two revenue items, in addition to, the drastic drop in interest earnings from deposits held at various financial institutions have created a large revenue shortfall in local revenue sources. Declining Federal, State and other local revenues continue to impact the District’s ability to restore a healthy fund balance.

Specific steps to be taken to correct the situation or specific reasons why corrective action is not necessary:

The District has proceeded with the following actions and is consistently monitoring the progress:

- Established a finance committee that consists of the Superintendent of Schools, Business Manager, Executive Director of Support Staff Services and four Board members to discuss financial matters and business operations and make recommendations to the Board of Education.
- Established a five-year financial plan with the assistance of the District’s Financial Advisor and Finance Committee to evaluate and project revenue and expenditures. This plan is updated frequently based upon when new information is received.
- Continued with zero-based budget approach for all buildings and departments.

- Sale of Delinquent Real Estate Tax Liens each February in order to obtain an immediate source of cash flow to be utilized for educational needs.
- Filed revenue property tax appeals against several large commercial properties that were determined to be significantly under assessed in order to generate additional revenue. To date, successful appeals have generated approximately \$2 million in additional real estate tax revenues.

Significant reduction and/or curtailment of several expenditure areas including, but not limited to:

- Field Trips
- Conferences & Seminars
- After School Activity Bus Runs
- Summer School Programs not Funded via Grants
- Four Day Summer Work Week
- Electricity Procurement
- District-wide Lighting Retrofit and Participation in PPL Rebate Program
- Conversion from Heating Oil to Natural Gas
- Summer Work Staffing
- Administrative and Supervisor Staff
- Professional Staff
- Acquisition of School Buses
- Acquisition of Support Staff Vehicles
- Consolidation of Students [Coolbaugh Learning Center] to [Clear Run Elementary Center]
- Closure of School Buildings
- Vacate Support Staff Buildings
- Return & Removal of Modular Classrooms
- Termination of Third Party Contracted Services
- Establishment of Online Learning (Pocono Mountain Learning Academy)
- Use of Electronic Media (School Calendar)”

**Auditor Conclusion**

We commend the District’s action plan to address the deficit. We will monitor the District’s progress in our next audit.

## Finding No. 2

### Continued Errors in Reporting Pupil Membership Resulted in Subsidy and Reimbursement Net Overpayments of \$165,515

#### *Criteria relevant to the finding:*

Child accounting guidelines and instructions require accurate reporting of pupil membership days, student classification, and residency information, since these are major factors in calculating various district subsidies and reimbursements.

Section 2503(c) provides that the Commonwealth pay tuition to districts providing education to nonresident children placed in private homes. The payments are based on the membership days reported for such children.

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 built into the entity as a part of its infrastructure to help . . . 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 and 5-6.

Our prior audits of the Pocono Mountain School District (District) found that it submitted inaccurate pupil membership reports to Pennsylvania Department of Education (PDE) for the 2007-08, 2006-07, 2005-06, and 2004-05 school years. Errors in reporting resident and nonresident membership days resulted in net subsidies and reimbursement overpayments of \$298,789 for the 2005-06 and 2004-05 school years and \$188,299 for the 2007-08 and 2006-07 school years.

Our current audit of the District's membership reports submitted to PDE for the 2009-10 and 2008-09 school years found that District personnel failed to implement our recommendations and continued to incorrectly report nonresident pupil membership in both years, resulting in a net overpayment of \$165,515.

The errors in the 2009-10 school year occurred when District personnel made the following reporting errors:

- Underreported nonresident foster student membership for grades 1 through 6 by 122 days and grades 7 and 8 by 24 days.
- Overreported foster student membership grades 9 through 12 by 195 days.
- Underreported resident membership for grades 9 through 12 by 195 days.

The nonresident membership errors discussed above resulted in the District being overpaid \$4,660 for the 2009-10 school year. However, the resident membership errors did not impact on the District's basic education funding (BEF).

The errors in the 2008-09 school year occurred when District personnel made the following errors:

- Overreported nonresident foster student membership and underreported resident membership for grade 6 by 62 days, grades 8 and 9

by 906 days, grade 7 by 497, and grades 10 through 12 by 1,036 days.

- Overreported nonresident foster student membership for grades 1 thru 5 by 574.
- Underreported resident membership days by 459.

The nonresident membership errors discussed above resulted in the District being overpaid \$175,463 for the 2008-09 school year. The effect of the District's resident membership errors on its BEF for 2008-09 were insignificant. However, 2008-09 resident membership data was used to calculate BEF for the 2009-10 school year resulting in an underpayment of \$14,608.

Data entry errors as well as District personnel misclassifying resident students as nonresidents and nonresidents as residents caused the net overpayments. Also, District personnel failed to follow our prior audit recommendations.

It is the District's management's responsibility to have appropriate internal controls in place to ensure accurate student membership data. Without such controls, the District cannot be assured that it is receiving the correct reimbursement from PDE. For example, the District's management should ensure that multiple staff of increasing authority reviews the District's membership reports before they are submitted to PDE.

## **Recommendations**

The *Pocono Mountain School District* should:

1. Provide regular in-service training to staff responsible for recording and reporting membership. This training should emphasize the importance of maintaining accurate records and the relationship of membership data to subsidies and reimbursements.
2. Strengthen controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions.
3. Implement controls to verify actual membership days to computer generated reports.

4. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
5. Compare letters for children placed in private homes with District reports to ensure that student membership is properly classified.
6. Review subsequent years reports and if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

7. Adjust the District's future allocations to recover the net overpayments of \$188,299 for the 2007-08 and 2006-07 school years and \$298,789 for the 2005-06 and 2004-05 school years.
8. Adjust the District's future allocations to recover the net overpayments of \$165,515 for the 2009-10 and 2008-09 school years.

**Management Response**

Management stated the following:

“This finding in the amount of \$165,515 involves child accounting reporting errors in the year 2009 and is similar to findings in previous audits on which the District has since taken corrective action. Management implemented centralized student registration on July 6, 2010, and improved child accounting procedures and oversight to correct this reporting error.”

**Auditor Conclusion**

We commend the District's management for taking some steps toward improving the accuracy of its membership reporting. We will evaluate the District's new child accounting procedures during our next cyclical audit.



## Observation

### *Criteria relevant to the observation:*

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.

Section 508 (relating to Majority vote required; recording) of the Public School Code of 1949 (PSC), 24 P.S. § 5-508, provides, in part:

“The affirmative vote of a majority of all the members of the board of school directors in every school district, duly recorded, showing how each member voted, shall be required in order to take action on the following subjects:

\*\*\*

Fixing salaries or compensation of officers, teaches, or other appointees of the board of school directors.”

## Questionable Annuity Payment

Our review of the Pocono Mountain School District’s (District) board meeting minutes and vendor payment history reports found that the District made a \$12,162 payment into its former Superintendent’s 403(b) Tax Sheltered Annuity (TSA) retirement plan. A lack of clarity in the former Superintendent’s original contract, and a subsequent Board of School Directors’ (Board) resolution makes it appear that this payment was an additional benefit not required by the contract. In addition, this confusion makes it appear that the Board did not approve this payment.

On October 7, 2009, the Board entered into a resolution establishing the former Superintendent’s salary for the 2009-10 school year at \$165,000. The same resolution also included the following:

Whereas, the Board of School Directors of Pocono Mountain School District approve the Superintendent of Schools to be provided an employer contribution to the Superintendent’s existing 403(b) tax sheltered annuity retirement plan in the amount of \$12,162 for the period beginning July 1, 2009 through June 30, 2010.

In accordance with this provision, the District’s vendor payment history report shows that on November 6, 2009, the District made a payment of \$12,162 to the former Superintendent’s TSA account.

However, the vendor report also showed that the District made another payment of \$12,162 to the former Superintendent’s TSA account on December 10, 2010. As the resolution above states, the original \$12,162 annuity payment was only for the 2009-10 school year. There was no Board approval for this additional payment.

The former Superintendent’s Contract (Contract), effective for the period July 1, 2010 through June 30, 2015, provided the former Superintendent with TSA payments of \$5,000 annually throughout the term of the Contract. The Contract also provided the former Superintendent with annual increases in compensation based on his performance in accordance with goals and expectations he and the Board

mutually agreed upon at the beginning of each contract year.

On December 1, 2010, the Board voted to freeze the former Superintendent's salary for the 2010-11 and 2011-12 school year and to grant him a one-time stipend of \$3,000 for the 2010-11 school year.

District personnel explained the additional \$12,162 payment to the former Superintendent's TSA account by stating that the Board's resolution to freeze the former Superintendent's salary was a total compensation package. Thus, freezing the former Superintendent's salary for the 2009-10 school year at \$177,162 or \$165,000 paid as salary and \$12,162 to be paid to his TSA account. District personnel stated that since the Board froze the former Superintendent's salary for the 2010-11 and 2011-12 school years on December 1, 2010, no additional Board motion was needed to approve the December 10, 2010 payment of \$12,162.

On June 1, 2011, the Board approved the former Superintendent's resignation effective August 31, 2011, which was during the 2011-12 school year.

If the Board intended to include the \$12,162 TSA account payment as part of the former Superintendent's total compensation package then it should have ensured that this approach was more clearly stated in the former Superintendent's original contract. Likewise, if the Board also intended to include the TSA payment as part of the former Superintendent's "frozen" salary amount then it should also have more clearly documented this decision in its board meeting minutes. As it stands now, it appears that the December 10, 2012 TSA account payment of \$12,162 was an additional benefit to the former Superintendent.

The District's taxpayers have a right to well documented information regarding superintendent compensation levels. In addition, the more transparent the process for determining such benefits packages, the more the public can be assured that the Board is judiciously spending its money. Finally, without a transparent record of the Board's intentions, the District's \$12,162 TSA payment on December 10, 2012, appears to have been made without Board approval, which would be a violation of the Public

School Code. In addition, this lack of clarity causes that payment to appear to be an additional benefit, not required under the former Superintendent's original contract. In the future, the Board should avoid such confusion by clarifying its resolutions.

## **Recommendations**

The *Pocono Mountain School District* should:

1. Work with its solicitor to ensure that all contract provisions and Board resolutions clearly document the Board's intentions.
2. Ensure all of the District's employment agreements and subsequent resolutions are as transparent as possible, so that the District's taxpayers can evaluate their appropriateness.

## **Management Response**

Management stated the following:

"The Superintendent received Board approved raises ranging from 3.5% to 5.0% each year since being hired by the District. A portion of the increase in compensation was placed in a 403(b) account. The 403(b) contribution not only provides income tax deferment for the Superintendent, but also enables the District to save taxpayer funds by not having to contribute for Medicare taxes as well as not having to fund an employer retirement contribution to the Public Employees Retirement System (PSERS).

The Board approved the Superintendent's compensation for 2009-10 which included his salary of \$165,000 and 403(b) contribution of \$12,162 totaling \$177,162 at the October 7, 2009 Board Meeting.

During the 2010-11 fiscal year, salary increases were approved by the Board for all Administrative Act 93 except for the Superintendent. At the December 1, 2010 Board meeting, the Board approved to freeze the Superintendent's current compensation for the 2010-2011 and 2011-2012 fiscal year and grant a one-time stipend for the 2010-11 fiscal year.

The 403(b) contribution of \$12,162 was part of the total compensation of the Superintendent based upon approved salary increases over the past fiscal years. The 403(b) contribution in the amount of \$12,162 was not remitted

until after the Board approved to freeze the Superintendent's compensation based upon the prior fiscal year and the 403(b) contribution amount remained the same as the prior fiscal year.”

**Auditor Conclusion**

The Board has clearly explained its intentions in providing the former Superintendent with the additional payment of \$12,162. However, the issue remains that these intentions were not clearly laid out in the former Superintendent's original contract and were not clearly documented in the board meeting minutes. As a result, it continues to appear as though the Board provided the former Superintendent with a benefit that was not required under the terms of his contract and that it in fact did not officially approve this benefit. As a result, this finding will stand as written.

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

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Our prior audit of the Pocono Mountain School District (District) released on December 13, 2010, resulted in two reported findings. The first finding pertained to a deficit general fund balance, and the second finding pertained to pupil membership. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings. As shown below, we found that the District did not implement recommendations related to a deficit fund balance or pupil membership.

### **Auditor General Performance Audit Report Released on December 13, 2010**

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**Finding No. 1:           General Fund Deficit Balance**

Finding Summary:   Our prior review of the District's annual financial reports, local auditor's report, and general fund budgets for fiscal years ended June 30, 2009 and 2008 found that the District's general fund balance surplus of \$3,570,631 as of June 30, 2007, decreased to deficit fund balances of \$2,903,503 and \$3,638,637, respectively.

Recommendations:   Our prior audit finding recommended that the District:  
  
Provide for systematic reduction of the fund balance deficit in the general fund by utilizing monthly budget status reports to scrutinize proposed expenditures for current operations and limit expenditures to revenues available and the amounts appropriated.

Current Status:       During our current audit, we found that the District did not implement the prior recommendations, as noted in Finding No. 1 of this report.

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**Finding No. 2:           Continued Errors in Reporting Pupil Membership Resulted in Subsidy and Reimbursement Net Overpayments of \$188,299**

Finding Summary:   Our audit of the District's 2005-06 and 2004-05 school years pupil membership reports found inaccuracies in the reports that that the District submitted to PDE. Errors in reporting resident and nonresident membership days resulted in a net overpayment of \$298,789 in subsidies and reimbursements.

Likewise, our prior audit of the District's membership reports submitted to PDE for the 2007-08 and 2006-07 school years found District personnel failed to implement our prior audit recommendations and continued to incorrectly report nonresident pupil membership in both years resulting in a net overpayment of \$188,299.

Recommendations: Our audit finding recommended that the District:

1. Provide regular in-service training to staff responsible for recording and reporting membership. This training should emphasize the importance of maintaining accurate records and the relationship of membership data to subsidies and reimbursements.
2. Strengthen controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions.
3. Implement controls to verify actual membership days to computer generated reports.
4. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
5. Compare letters for children placed in private homes with District reports to ensure that student membership is properly classified.
6. Review subsequent years reports and if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

7. Adjust the District's future allocations to recover the net overpayments of \$188,299 for the 2007-08 and 2006-07 school years and \$298,789 for the 2005-06 and 2004-05 school years.

Current Status: During our current audit, we found that the District continued to not implement the recommendations as noted in Finding No. 2 of this report. PDE has not made the deductions for the 2004-05 through 2007-08 school years.

## **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.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following stakeholders:

The Honorable Tom Corbett  
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