

REYNOLDS SCHOOL DISTRICT  
MERCER COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JUNE 2012



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

Mr. John Lowry, Board President  
Reynolds School District  
531 Reynolds Road  
Greenville, Pennsylvania 16125

Dear Governor Corbett and Mr. Lowry:

We conducted a performance audit of the Reynolds School District (RSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period November 19, 2009 through November 28, 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 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 RSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. We appreciate the RSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER  
Auditor General

June 19, 2012

cc: **REYNOLDS 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 Reynolds School District (RSD). 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 RSD in response to our prior audit recommendations.

Our audit scope covered the period November 19, 2009 through November 28, 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 and 2008-09.

### **District Background**

The RSD encompasses approximately 88 square miles. According to 2000 federal census data, it serves a resident population of 10,158. According to District officials, in school year 2009-10 the RSD provided basic educational services to 1,265 pupils through the employment of 96 teachers, 66 full-time and part-time support personnel, and 12 administrators. Lastly, the RSD received more than \$11.1 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the RSD 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 RSD from an audit we conducted of the 2007-08, 2006-07, 2005-06 and 2004-05 school years, we found the RSD had taken appropriate corrective action in implementing our recommendations pertaining to additional costs incurred as a result of terminating the former Superintendent's employment with the RSD (see page 7).





## 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 November 19, 2009 through November 28, 2011, except for the verification of professional employee certification which was performed for the period July 1, 2009 through September 1, 2011.

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 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 RSD'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?
- ✓ Is the District's pupil transportation department, including any contracted vendors in compliance with applicable state laws and procedures?
- ✓ 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 use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

## 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 applicable 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 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.

RSD 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 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, and financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 2, 2011, we performed additional audit procedures targeting the previously reported matters.

## **Findings and Observations**

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**F**or the audited period, our audit of the Reynolds School District resulted in no findings or observations.

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

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Our prior audit of the Reynolds School District (RSD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in one reported finding. The finding pertained to the District incurring additional costs as a result of terminating the former Superintendent's employment with the District. 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 finding. As shown below, we found that the RSD did implement recommendations related to the termination of the Superintendent's contract.

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

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**Finding:**                      **The District Incurred Additional Costs Totaling \$74,834 as a Result of Terminating the Superintendent's Employment with the District**

Finding Summary:        On November 7, 2008, with eight months remaining in the contract, the Board and the Superintendent signed an agreement to end the tenure of the Superintendent. The agreement provided no reasons for the early termination of the contract and resulted in additional costs to the District.

It should be noted that during the prior audit we reviewed the contract for another Superintendent whose employment also ended prematurely. That contract did contain adequate termination provisions and as a result there were no additional costs to the District.

Recommendations:      Our audit finding recommended that the RSD:

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. Ensure that future employment contracts continue to contain adequate termination provisions sufficient to protect the interests of the District and its taxpayers in the event that the employment ends prematurely for any reason.
3. Avoid paying multiple individuals to do the same job for the same period of time.

Current Status: During our current audit procedures we found that the RSD entered into a four-year contract with its current Superintendent. While not the three-year term recommended in our prior audit, it is less than the maximum five-year contracted permitted by the Public School Code.

In our opinion, the current Superintendent's contract again provides sufficient protection to the taxpayers of RSD should the employment end prematurely.

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

The Honorable Tom Corbett  
Governor  
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The Honorable Ronald J. Tomalis  
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