



**SCHUYLKILL VALLEY SCHOOL DISTRICT
BERKS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

APRIL 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

Mrs. Carol E. Weyandt, Board President
Schuylkill Valley School District
929 Lakeshore Drive
Leesport, Pennsylvania 19533

Dear Governor Corbett and Mrs. Weyandt:

We conducted a performance audit of the Schuylkill Valley School District (SVSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period July 7, 2009, through September 28, 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 SVSD 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 the SVSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve the SVSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the SVSD's cooperation during the conduct of the audit.

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

April 24, 2013

cc: **SCHUYLKILL VALLEY 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 Schuylkill Valley School District (SVSD). 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 SVSD in response to our prior audit recommendations.

Our audit scope covered the period July 7, 2009, through September 28, 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 SVSD encompasses approximately 52 square miles. According to 2010 federal census data, it serves a resident population of 14,799. According to District officials, in school year 2009-10 the SVSD provided basic educational services to 2,002 pupils through the employment of 150 teachers, 108 full-time and part-time support personnel, and 15 administrators. Lastly, the SVSD received more than \$6.0 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the SVSD 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: Ineligible Retirement

Incentive. SVSD provided an early retirement incentive to employees whose terms and conditions of employment are established in the Collective Bargaining Agreement between the SVSD school board and the Schuylkill Valley Education Association. However, the previous business manager retired under this agreement without following the terms of the agreement for the incentive (see page 6).

Finding No. 2: Continued Inadequate Documentation and Errors in Membership Reported for Children Placed in Private Homes Resulted in a Reimbursement Overpayment of \$9,556.

Our audit of the SVSD's pupil membership reports submitted to the Pennsylvania Department of Education for the 2008-09 school year found reporting errors. SVSD personnel did not maintain adequate documentation and inaccurately reported membership for children placed in private homes (see page 8).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the SVSD from an audit we conducted of the 2007-08, 2006-07, 2005-06 and 2004-05 school years, we found the SVSD had not taken appropriate corrective action in implementing our recommendations pertaining to the nonresident membership errors (see page 10). However, the SVSD did take appropriate corrective action in implementing our recommendations pertaining to the Memorandum of Understanding not updated timely (see page 11).

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 July 7, 2009, through September 28, 2012, except for the verification of retirement wages, which was performed for the period July 1, 2011, through August 6, 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 SVSD'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?

- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to 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 its current bus drivers are properly qualified, and does it 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?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ 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?
- ✓ 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 and conclusions based on our audit objectives. We believe that

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 evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

SVSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the SVSD 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 IT 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/reimbursement, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, and financial stability.
- Items such as board meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 12, 2010, we reviewed the SVSD's response to PDE dated August 24, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Criteria relevant to the finding:

Section 5-508 of the Public School Code requires that the affirmative vote of a majority of all 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. . . .

Ineligible Retirement Incentive

On May 4, 2009, the Schuylkill Valley Board of School Directors (SVBSD) and the Schuylkill Valley Education Association (SVEA) agreed to offer a retirement incentive to eligible employees. Persons whose terms and conditions of employment were established in the Collective Bargaining Agreement between the Schuylkill Valley School District (SVSD) and the SVEA were eligible for this incentive. To accept this offer, eligible employees had to provide the SVSD a written notice of intent to retire, which the SVSD must have received by close of the work day May 20, 2009. In addition, the eligible employee had to communicate in writing their intent to retire effective on or before June 30, 2009.

For eligible employees, the SVSD provided a lump-sum payment equal to the premium of two-person health insurance coverage. For the 2009-10 school year, this resulted in a payment of \$11,458, and for the 2010-11 school year, a payment of \$12,128.

The former business manager was eligible for the retirement incentive according to his contract. However, he did not meet the deadlines of May 20, 2009 and June 30, 2009. Therefore, the former business manager presented his proposal to the Superintendent and the Superintendent presented the proposal to the board. The board agreed to the proposal. However, they did not take a formal vote which would have been documented in the official board minutes.

A memo to the Superintendent from the former business manager dated June 18, 2009, indicated that the SVBSD had approved paying a reduced retirement incentive to the former business manager if he retired as of December 31, 2009. The incentive would be a payment of \$5,729 (one half of the incentive being paid to other employees who accepted the offered incentive) in January 2010, and then a second payment of \$12,128, in January 2011, the same incentive in the second year as being paid to the other employees. Additionally, the memo states that it was the former business manager's

intent to retire effective December 31, 2009. However, he would make a final decision by September 2009. A letter written to the Superintendent from the former business manager dated September 23, 2009, indicated his intentions to retire effective December 31, 2009.

The memo to the Superintendent from the former business manager stated that the SVBSD did approve a reduced retirement incentive. However, the SVSD was unable to provide records showing a separate SVBSD approval for this reduced retirement incentive with the former business manager. Therefore, the SVSD did not follow their own retirement incentive agreement with the SVEA which established the terms and conditions of eligible employees, a deadline date of a written notice of intent to retire, and a deadline date of a written notice of effective retirement date.

When the audit team informed the SVSD personnel of the lack of approval by the board, the SVBSD approved the retirement incentive at a board meeting on August 27, 2012.

Recommendations

The *Schuylkill Valley School District* should:

1. Obtain board approval for any payments made beyond an employee's contract.
2. Follow the terms and conditions of the retirement incentive offered to the SVEA.

Management Response

Management stated the following:

The board of school directors offered an early retirement incentive to the Schuylkill Valley Education Association, the Act 93 Group (by contract), and to the former business manager.

Due to an administrative oversight, these two early retirement incentives were not placed on the board agenda for formal approval.

As soon as district administration became aware of this situation, the school board formally ratified and approved both early retirement incentives at their board meeting on August 27, 2012.

Finding No. 2

Continued Inadequate Documentation and Errors in Membership Reported for Children Placed in Private Homes Resulted in a Reimbursement Overpayment of \$9,556

Criteria relevant to the finding:

Section 2503(c) of the Public School Code provides that the Commonwealth will 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.

Nonresident pupil membership data must be maintained and reported in accordance with the Pennsylvania Department of Education guidelines and instructions, since it is a major factor in determining the Commonwealth's payments of tuition for children placed in private

Our audit of the Schuylkill Valley School District (SVSD) pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2008-09 school year found reporting errors. SVSD personnel did not maintain adequate documentation and inaccurately reported membership for children placed in private homes. These errors resulted in an overpayment of \$9,556 for the 2008-09 school year.

Membership days during the 2008-09 school year for children placed in private homes were understated by 9 for kindergarten students, overstated by 41 for elementary students and overstated by 153 for secondary students. These reporting errors occurred because SVSD personnel made errors and failed to maintain proper documentation of these children.

These errors had an insignificant effect on basic education funding.

PDE has been provided a report detailing the errors for use in recalculating the SVSD's reimbursement.

Recommendations

The *Schuylkill Valley School District* should:

1. Review PDE instructions and compile the nonresident listing accordingly.
2. Maintain placement letters for all children placed in private homes for audit.
3. Review membership data thoroughly for residency classifications prior to submitting reports to PDE.
4. Review reports submitted subsequent to the years audited and, submit revised reports to PDE, if errors are found.

The *Pennsylvania Department of Education* should:

5. Adjust the SVSD's allocations to resolve the \$9,556 overpayment.

Management Response

Management stated the following:

For the 2008-2009 school year changes occurred in personnel job responsibilities and the child accounting reporting software.

The personnel changes occurred specifically during the reporting period of child accounting. The child accounting software change occurred with our student information system transmitting from CAD to PIMS during this reporting period. The auditors reviewed the errors with the officials involved in completing the reports and they do understand the information presented by the auditors. In fact the reports were filed correctly for the 2009-2010 school year.

No further action is required.

Status of Prior Audit Findings and Observations

Our prior audit of the Schuylkill Valley School District (SVSD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in one reported finding and one observation. The finding pertained to nonresident membership errors, and the observation pertained to a Memorandum of Understanding. As part of our current audit, we determined the status of corrective action taken by the SVSD to implement our prior recommendations. We analyzed the SVSD Superintendent's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned SVSD personnel regarding the prior finding and observation. As shown below, we found that the SVSD did not implement recommendations related to nonresident membership errors. However, SVSD did implement the recommendation related to their Memorandum of Understanding.

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

Finding: **Nonresident Membership Errors Resulting in a \$13,841 Overpayment**

Finding Summary: Our prior audit of SVSD's pupil membership records for the 2007-08, 2006-07, 2005-06 and 2004-05 school years found errors in the reports submitted to PDE for the 2004-05 school year. The inaccurate reporting of nonresident days of membership for children placed in private homes and tuition waiver students resulted in a \$13,841 overpayment in Commonwealth-paid tuition for students placed in private homes.

Recommendations: Our audit finding recommended that the SVSD:

Continue to ensure that student membership for nonresident children placed in private homes and tuition waiver students is reported correctly.

We further recommended that PDE:

Adjust the SVSD's allocations to resolve the \$13,841 overpayment.

Current Status: During our current audit procedures we found that the SVSD did not implement our recommendations. Therefore, we cited a continued finding on page 8.

Observation: Memorandum of Understanding Not Updated Timely

Observation

Summary:

Our prior audit of the SVSD's records found that the most current Memorandum of Understanding (MOU) between the SVSD and the local police department was dated April 30, 2007.

Recommendations:

Our audit observation recommended that the SVSD:

Adopt a policy requiring the administration to review, update and re-execute the MOU every two years.

Current Status:

During our current audit procedures we found that the SVSD did implement the recommendation and provided a signed MOU dated June 10, 2011.



Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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