



STROUDSBURG AREA SCHOOL DISTRICT
MONROE 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. Rodney Baechtold, Jr., Board President
Stroudsburg Area School District
123 Linden Street
Stroudsburg, Pennsylvania 18360

Dear Governor Corbett and Mr. Baechtold:

We conducted a performance audit of the Stroudsburg Area School District (SASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period August 3, 2009, through May 25, 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 SASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

March 13, 2013

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



Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding – Errors in the Reporting of Nonresident Membership Resulted in an Underpayment of \$135,772	6
Observation – Employment Agreements with a Questionable Sabbatical Option	8
Issue Needing Further Study	12
Status of Prior Audit Findings and Observations	13
Distribution List	17



Executive Summary

Audit Work

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

Our audit scope covered the period August 3, 2009, through May 25, 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 SASD encompasses approximately 73 square miles. According to 2010 federal census data, it serves a resident population of 34,609. According to District officials, in school year 2009-10 the SASD provided basic educational services to 5,641 pupils through the employment of 491 teachers, 362 full-time and part-time support personnel, and 25 administrators. Lastly, the SASD received more than \$21.3 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the SASD 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 and one matter unrelated to compliance that is reported as an observation.

Finding: Errors in the Reporting of Nonresident Membership Resulted in an Underpayment of \$135,772. SASD failed to report membership for nonresident students for the 2009-10 school year (see page 6).

Observation: Employment Agreements with a Questionable Sabbatical Option. The employment agreements state that an administrator who is eligible for a sabbatical, even though he/she has received a prior sabbatical in the past from the SASD, and who does not exercise that option of a paid sabbatical from the SASD may choose to exchange a sabbatical leave for a monetary escrow upon retirement from the SASD (see page 8).

Issue Needing Further Study. SASD is facing a \$10 million shortfall for the 2012-13 budget. This issue will be addressed in the next audit (see page 12).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the SASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the SASD had taken appropriate corrective action in implementing our recommendations pertaining to their Memorandums of Understanding (see page 13) and their student accounting applications (page 14).

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 August 3, 2009, through May 25, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011, through February 15, 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 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 SASD'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 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?
- ✓ 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

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 finding, observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding, observation and conclusions based on our audit objectives.

SASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, 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. 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 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 SASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 11, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding →

Errors in the Reporting of Nonresident Membership Resulted in an Underpayment of \$135,772

Criteria relevant to the finding:

According to PDE's 2009-10 PIMS User Manual, all Pennsylvania LEAs must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the Federal Information Systems Control Manual (FISCAM), a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

Section 2503 (c) of the Public School Code (PSC) provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court when such a resident is compensated for keeping the child.

Beginning with the 2009-10 school year, the Pennsylvania Department of Education (PDE) now bases all local education agencies' state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems. PIMS replaces PDE's previous reporting system, the Child Accounting Database (CAD), which PDE ran concurrently until it brought PIMS completely online. PDE no longer accepts child accounting data through the CAD system.

Our audit of the Stroudsburg Area School District's (SASD) pupil membership reports submitted to PDE by the SASD for the 2009-10 school year found reporting errors for nonresident students. District personnel failed to report membership for nonresident students. These errors resulted in underpayments of \$135,772 for the 2009-10 school year.

Membership days for nonresident students were never reported to PDE resulting in an understatement of 174 kindergarten days, 277 elementary days and 1,741 secondary days for the 2009-10 school year.

These errors occurred because District personnel made clerical errors and failed to ensure the data was properly reported.

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

Recommendations

Section 2503 (c) of the PSC provides, in part:

For Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court when such a resident is compensated for keeping the child.

The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

Membership data for nonresident children placed in private homes must be maintained and reported accurately and in accordance with PDE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

Management Response

The *Stroudsburg Area School District* should:

1. Strengthen controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions.
2. Implement controls to verify actual membership days to computer generated reports.
3. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
4. Review subsequent year reports and if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

5. Adjust the District's allocations to resolve the underpayments in the amount of \$135,772 for the 2009-10 school year.

Management stated the following:

Our 1305/1306 students were incorrectly reported because we had three things that all occurred at the same time. Final implementation of a new student information system internally; retirement of our child accounting person and training of a replacement; and PDE's conversion from CAD to PIMS for child accounting. Our person has now been correctly trained, our 1305/1306 students are being correctly accounted for internally, and our PIMS reporting is now accurate for these students.

Observation

Employment Agreements with a Questionable Sabbatical Option

Criteria relevant to the observation:

Section 1166(a) provides, in part:

[A]ny person employed in the public school system of this Commonwealth who has completed ten (10) years of satisfactory service as a professional employee or member of the supervisory, instructional or administrative staff . . . shall be entitled to a leave of absence for professional development or a sabbatical leave for restoration of health or, at the discretion of the board of school directors, for other purposes.

On August 5, 2009, the Stroudsburg Area School District and board of school directors (Board) entered into employee agreements (Agreement) with all of the District's administration (except business manager). The Agreements have a term of five years, from July 1, 2009, through June 30, 2014. The Agreement states that an administrator who is eligible for a sabbatical, even though he/she has received a prior sabbatical in the past from the District, and who does not exercise that option of a paid sabbatical from the District may choose to exchange a sabbatical leave for a monetary escrow upon retirement from the District.

The Agreement contains the following conditions:

- The escrow account shall be used only for the purchase of health insurance provided to the professional staff.
- The District will make direct payments to the District's designated health insurance carrier.
- Administrator may choose the coverage specifics from the plans provided to the professional staff.
- Interest earned on the escrow account will be the property of the District.

The Escrow Determination/Calculation is as follows:

- The sabbatical exchange escrow [E] amount shall be calculated by determining the cost difference between the salaries of an administrative sabbatical [S] and the continuous [C] employment in the District. A replacement [R] Administrator's salary shall be determined at 10 percent less than the incumbent Administrator. The value for [C] is the Administrator's salary in his/her final year in the District. [E=S+R-C].
- Unexpended sabbatical exchange escrow funds, in the event of a retired Administrator's death, shall remain the property of the District.

The Sabbatical Option procedure will be executed in the following way:

- An administrator who wishes to exercise the Sabbatical Exchange Option must declare in writing to the Superintendent and the Business Manager his/her intent at least one year prior to retirement. The Administrator must request the establishment of the escrow account.
- The District Business Manager will establish the tentative escrow accounts during the last year of employment. A final determination will be made as of the last day of the Administrator's employment with the District.
- Health insurance premiums will be paid to the District's designated health insurance carrier for the Administrator and/or spouse until the funds are exhausted.
- Once Medicare age is reached, all health care benefits cease, and the remaining escrow is forfeited to the District.

During our review, there are seven administrators currently exercising this benefit that date back to September of 2006. All seven have retired at different times, with the most recent one retiring in March of 2010. The former Superintendent's calculated escrow amount is \$72,265, two former Assistant Superintendents are \$67,442, the former Special Education Director is \$36,626, former Principal \$38,829, former Director of Curriculum \$38,261 and former Technology Director \$39,588. The total amount in escrow for these seven administrators is \$293,011.

A sabbatical leave is itself a benefit. Therefore, if an administrator or Act 93 employee chooses not to exercise this leave option, then he or she should not be compensated for it. The taxpayers have the right to expect that their hard earned money will be spent on the education of the District's students and not on excess benefits to individuals.

Furthermore, the information in these agreements should be more transparent to the public so that the taxpayers can consider such information when determining whether the Board has made decisions in the best interest of the District, the taxpayers and the students.

The Department views the sabbatical option to be a questionable use of taxpayer dollars. Sabbaticals are allowable per Public School Code. However, there is no provision in the Public School Code which calls for employees to be compensated if they choose not to take a sabbatical.

Recommendations

The *Stroudsburg Area School District* should:

1. When negotiating employee agreements consider the taxpayers' expectation that their money will be used for the education of the District's children.
2. Create all of the District's employment agreements as transparent as possible, so that the District's taxpayers can evaluate their appropriateness.

Management Response

Management stated the following:

We agree that the listed employment agreements contain a "Sabbatical Option," but disagree that it is any issue or cause for alarm. School districts typically provide to administrators all the benefits provided to teachers, plus a little. One of the benefits teachers here get is that if they retire with 30 years in PSERS and 15 years in the District, their medical insurance is provided until they reach Medicare age. Administrators who are hired from another district often cannot get the district years in, so their agreement allows them to agree to waive their right to a sabbatical in return for having the cost of the waived sabbatical made available to pay for post-retirement insurance coverage. The dollar value of the benefit cannot exceed what teachers get, and is often less.

Auditor Conclusion

As stated in the observation, a sabbatical is itself a benefit. Therefore, if an administrator or Act 93 employee chooses not to exercise this leave option, then he or she should not be compensated for it. The taxpayers have the right to expect that their hard earned money will be spent on the education of the District's students and not on excess benefits to individuals.

ISSUE NEEDING FURTHER STUDY

The Stroudsburg Area School District is facing a \$10 million shortfall for the 2012-13 budget (General Fund). District administration presented to the board a list of 36 potential cost saving measures to help close that projected deficit. These cost saving measures total \$13,858,656. This determination could not be made during this audit since our fieldwork completion was before the board's final decision. Therefore, this issue will be addressed in the next audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Stroudsburg Area School District (SASD) for the school years 2007-08 and 2006-07 resulted in two reported observations. The first observation pertained to their Memorandums of Understanding and the second observation pertained to their student accounting applications. 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 observations. As shown below, we found that the SASD did implement recommendations related to their Memorandums of Understanding and their student accounting applications.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Observation No. 1: Memorandums of Understanding Continued to Not Be Updated Timely

Observation Summary:

Our prior audit of the SASD's records found that the current Memorandums of Understanding (MOU) between the SASD and two of the three local law enforcement agencies: Delaware Water Gap Police Department and the Pennsylvania State Police, Swiftwater Barracks were signed December 6, 2001, and November 14, 2001, respectively, and have not been updated. The MOU between the SASD and the Stroud Area Regional Police Department was updated and signed on December 10, 2008.

Recommendations: Our audit observation recommended that the SASD:

1. In consultation with the solicitor, review, update and re-execute the current MOUs between the SASD and the three local law enforcement agencies.
2. Adopt a policy requiring the administration to review and re-execute the MOUs every two years.

Current Status:

During our current audit procedures we found that the SASD did implement the recommendations by updating and re-executing their current MOUs with the three local law enforcement agencies. Also, the District adopted a policy that requires the District to update and re-execute the MOUs every two years.

Observation No. 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation

Summary:

Our prior audit found that the SASD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District's entire computer system, including all its data and the vendor's software are maintained on the vendor's servers which are physically located at the vendor's location. The District has remote access into the vendor's network servers. The vendor also provides the District with system maintenance and support.

Recommendations:

Our audit observation recommended that the SASD:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the District should require the vendor to sign the District's Acceptable Use Policy.
3. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric and special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords); lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e. 60 minutes maximum).
4. Only allow access to their system when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
5. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.

Current Status: During our current audit procedures we found that the SASD did implement all five recommendations.



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.

