



**ELIZABETHTOWN AREA SCHOOL DISTRICT
LANCASTER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

MAY 2014

COMMONWEALTH OF PENNSYLVANIA
EUGENE A. DEPASQUALE - AUDITOR GENERAL
DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Terry L. Seiders, Board President
Elizabethtown Area School District
600 East High Street
Elizabethtown, Pennsylvania 17022

Dear Governor Corbett and Mr. Seiders:

We conducted a performance audit of the Elizabethtown Area 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 October 20, 2009 through August 28, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2009, 2010, 2011, and 2012. 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.

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

May 1, 2014

cc: **ELIZABETHTOWN AREA SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Elizabethtown Area School District (District) in Lancaster County. 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 October 20, 2009 through August 28, 2013, 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 2008-09, 2009-10, 2010-11, and 2011-12 school years.

District Background

The District encompasses approximately 134 square miles. According to 2010 federal census data, it serves a resident population of 30,109. According to District officials, the District provided basic educational services to 3,951 pupils through the employment of 275 teachers, 199 full-time and part-time support personnel, and 21 administrators during the 2011-12 school year. The District received \$14.2 million in state funding in the 2011-12 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. 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 Elizabethtown Area School District (District) from an audit released on June 21, 2011, we found the District had implemented our recommendations pertaining to the District incurring additional costs totaling \$11,023 under an agreement that terminated the Superintendent's employment with the District (see page 6), and our recommendations pertaining to the lack of a Memorandum of Understanding and Memorandums of Understanding not updated timely (see page 8).

Audit Scope, Objectives, and Methodology

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 October 20, 2009 through August 28, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through June 30, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2008-09, 2009-10, 2010-11, and 2011-12 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?
- ✓ 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?

- ✓ Did the District, and any contracted vendors, ensure that 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 did 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?

Methodology

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

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 state laws, regulations, contracts, grant requirements, and administrative procedures.

objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls 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.

To determine the status of our audit recommendations made in a prior audit report released on June 21, 2011, we reviewed the District's response to PDE dated July 16, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Elizabethtown Area School District (District) released on June 21, 2011, resulted in two (2) findings. The first finding pertained to the District incurring additional costs totaling \$11,023 under an agreement that terminated the Superintendent's employment with the District, and the second finding pertained to the lack of a Memorandum of Understanding and Memorandums of Understanding not updated timely. 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 implemented our recommendations related to the District incurring additional costs totaling \$11,023 under an agreement that terminated the Superintendent's employment with the District and did implement our recommendations related to the lack of a Memorandum of Understanding and Memorandums of Understanding not updated timely.

Auditor General Performance Audit Report Released on June 21, 2011

Finding No. 1: The District Incurred Additional Costs Totaling \$11,023 Under an Agreement that Terminated the Superintendent's Employment with the District

Finding Summary: Our prior audit found that on November 13, 2007, the District's Board of School Directors (Board) approved an Agreement and Resignation of Employment (Agreement) with its former Superintendent a mere four-and-one-half months into his employment contract (Contract), which terminated his employment with the District effective February 28, 2008. The Agreement stated that, until the effective date of his resignation, the Superintendent "shall not report regularly to work in the School District's office." The Agreement characterized the separation as "early termination by mutual agreement" pursuant to the Contract. The Agreement required the District to make payments to the Superintendent totaling \$53,824. The Agreement did not provide a reason for the buy-out, only stating that the District shall explain that the Superintendent is resigning for personal reasons.

In addition to payments and benefits made to the Superintendent, the Board authorized a salary adjustment of \$7,500 for additional duties performed by the District's Assistant Superintendent for the period November 13, 2007 through February 28, 2008. This, along with the \$3,523 for medical and vision benefits not required by the terms of the Contract, resulted in additional costs to the District of \$11,023.

Since participation in the Public School Employees' Retirement System (PSERS) is predicated upon actual service, a participant cannot earn service credit merely by reporting a salary and making contributions. Because the Superintendent did not engage in any work after November 5, 2007, the inclusion of his salary payments of \$42,931 for retirement credit is invalid.

Recommendations: Our audit finding recommended that the District should:

1. Ensure that future employment contracts with prospective administrators 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.
2. Provide as much information as possible to the taxpayers of the District explaining the reasons for the termination of the Superintendent and justifying the District's expenditure of public funds to buy-out the contract.
3. Work with successors to the Superintendent to include in his/her current and future employment contracts provisions that address the compensation and benefits payable to, or on behalf of, said administrator in the event of a premature termination of his/her contract.

We also recommended that *PSERS* should:

3. Review the Superintendent's salary payments and determine what actions, if any, are necessary with regard to the District's inclusion of his salary payments of \$42,931 for retirement credit.

Current Status: During our current audit, we found that the District did implement the recommendations. We found that the five-year contract between the District and the Superintendent hired June 17, 2008, contained early termination of Contract provisions, which included a mutual written agreement of the Superintendent and the District, as well as provisions regarding the payment of salary and benefits in case of early termination.

Included in our previous audit report (released on June 21, 2011), the District did provide the public with further explanation for the former Superintendent's termination.

As of the end of our audit fieldwork, no action or response was taken by PSERS on this matter. Further, subsequent to the prior audit, Section 1073 of the Public School Code was amended by Act 141 of 2012, effective September 10, 2012, limiting compensation paid for unused sick leave.

Finding No. 2: Lack of a Memorandum of Understanding and Memorandums of Understanding Not Updated Timely

Finding Summary: Our prior audit of District records found that the District did not have a signed Memorandum of Understanding (MOU) with one (1) of its three (3) local law enforcement agencies available for audit.

It was further noted, that the current MOUs between the District and the other two (2) local law enforcement agencies were signed July 16, 2007 and October 26, 1998, and have not since been updated.

The failure to obtain and update a signed MOU with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

Recommendations: Our audit finding recommended that the District should:

1. In consultation with the solicitor, develop and implement a MOU between the District and the local law enforcement agency for which no MOU exists.
2. Review, update, and re-execute the current MOU between the District and the other two (2) local law enforcement agencies.
3. Adopt a policy requiring the administration to review and re-execute all MOUs every two (2) years.

Current Status: During our current audit, we found that the District did implement the recommendations by developing, implementing, and updating its MOUs with all three (3) law enforcement agencies dated July 11, 2013. The District has a written policy requiring the MOU to be updated at least every two (2) years.

Further, subsequent to the prior audit, Section 1303-A(c) of the Public School Code, 24 P.S. § 13-1303-A(c), amended November 17, 2010, with an effective date of February 15, 2011, provides, in part:

[E]ach chief school administrator shall enter into a Memorandum of Understanding [MOU] with local law enforcement agencies having jurisdiction over school property of the school entity. Each chief school administrator shall submit a copy of the MOU to the office by June 30, 2011, and biennially update and re-execute a MOU with local law enforcement and file such memorandum with the office on a biennial basis. The MOU shall be signed by the chief school administrator, the chief of police of the local law enforcement agency with jurisdiction over the relevant school property and principals of each school building of the school entity.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following stakeholders:

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This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.