

PALISADES SCHOOL DISTRICT
BUCKS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2012

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

Mr. Michael Lynch, Board President
Palisades School District
39 Thomas Free Drive
Kintnersville, Pennsylvania 18930

Dear Governor Corbett and Mr. Lynch:

We conducted a performance audit of the Palisades School District (PSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period November 25, 2009 through January 31, 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 PSD 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. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

December 20, 2012

cc: **PALISADES 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 Palisades School District (PSD). 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 PSD in response to our prior audit recommendations.

Our audit scope covered the period November 25, 2009 through January 31, 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 PSD encompasses approximately 102 square miles. According to 2011 local census data, it serves a resident population of 14,892. According to District officials, in school year 2009-10 the PSD provided basic educational services to 1,898 pupils through the employment of 148 teachers, 121 full-time and part-time support personnel, and 21 administrators. Lastly, the PSD received more than \$6.9 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the PSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

Finding: Possible Inaccurate Reporting of Retirement Wages. Our audit of the PSD found PSD reported wages of the former superintendent to Public School Employees' Retirement System which may have been ineligible as qualified wages to be included for retirement purposes (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the PSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the PSD had taken appropriate corrective action in implementing our recommendation pertaining to a logical access control weakness for the student accounting applications (see page 8).



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 November 25, 2009 through January 31, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011 through January 12, 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 PSD'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?
- ✓ 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

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, regulations, contracts, grant requirements and administrative procedures.

PSD 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. 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 pertaining to bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes, pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 25, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

PSERS allows only qualified salary and wages to be included for retirement purposes. According to Pennsylvania School Employees' Retirement Board Regulations, Section 211.2, reported compensation should: exclude . . . payments or similar emoluments which may be negotiated in a collective bargaining agreement for the express purpose of enhancing the compensation factor for retirement benefits.

According to Chapter 5 of the PSERS Employers' Reference Manual for Reporting, unqualified earnings not eligible for retirement contributions include:

"Payment to an employee in lieu of a benefit the employee is eligible to receive, or any reimbursement received by the employee. (These payments do not become part of your standard pay.)"

Possible Inaccurate Reporting of Retirement Wages

During our audit of the Palisades School District (PSD), we reviewed the former Superintendent's employment contract, payroll records, and retirement records and we found retirement wages may have been overstated in reports submitted to the Public School Employees' Retirement System (PSERS) for the 2010-11, 2009-10, 2008-09 school years. The total possible ineligible payments reported for the former Superintendent was \$44,080.

The former Superintendent's employment consisted of two contracts. The first commenced on September 6, 2005 and terminated on June 30, 2010. The second commenced on July 1, 2010 and terminated on June 30, 2013. The former Superintendent's last day of full time employment with the PSD occurred on July 31, 2011 when he retired.

In addition to the former Superintendent's annual base salary plus an annual performance-based stipend, the PSD paid the former Superintendent \$9,000 annually for transportation expenses per his contract of September 6, 2005 through June 30, 2010. PSD continued to pay the former Superintendent \$9,000 for the 2010-11 school year, although his contract of July 1, 2010 through June 30, 2013 did not stipulate this provision. These payments totaled \$27,000 for the three year period and were included in retirement wages submitted to PSERS.

Separate from his contract, PSD paid the former Superintendent \$6,000 annually for the 2008-09 and 2009-10 school years and \$5,080 for the 2010-11 school year with the intent that the payments would be used by the former Superintendent as tax deductible contributions to the Palisades Community Foundation/School Board/Superintendent Joint Scholarship Award. The scholarship fund monies are awarded to students who attend the PSD. An agreement dated June 4, 2007 and signed by the board president at the time, stated that the former Superintendent and the board agreed to the contribution. These payments totaled \$17,080 for the three-year period and were included in retirement wages submitted to PSERS.

The possible ineligible payments reported to PSERS for inclusion in retirement wages were \$15,000 for the 2008-09 school year; \$15,000 for the 2009-10 school year and \$14,080 for the 2010-11 school year.

PSERS has been provided reports detailing the questionable retirement wages for determination of eligibility and possible adjustments to individual retirement calculations.

Recommendations

The *Palisades School District*, in conjunction with PSERS' determination, should:

1. Ensure that PSD personnel report to PSERS only those wages allowable for retirement purposes, as stated in PSERS regulations and guidelines.
2. Ensure that PSD personnel make payments according to contracts.

The *Public School Employees' Retirement System* should:

3. Review the compensation reported for the former Superintendent for the 2010-11, 2009-10, and 2008-09 school years and render an opinion on the propriety of the wages reported by PSD.
4. Make the necessary correction to the pension benefits and contributions if any part of the payments are determined to be ineligible for retirement.

Management Response

Management stated the following:

For the 2010-2011 year, the district asserts that the \$6,000 increase to base salary was an increase to base salary despite the former superintendent's decision to return the increase as a scholarship. In all other respects, the district will await PSERS' determination.

Auditor Conclusion

The former Superintendent's contract for the 2010-11 school year does not stipulate that the former Superintendent was entitled to a \$6,000 increase to base salary.

Status of Prior Audit Findings and Observations

Our prior audit of the Palisades School District (PSD) for the school years 2007-08 and 2006-07 resulted in one observation. The observation pertained to a logical access control weakness for the 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 observation. As shown below, we found that the PSD did implement our recommendation related to a logical access control weakness for the student accounting applications.

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

Observation: Continued Logical Access Control Weakness

Observation

Summary:

Our prior audit found that the District had the following continued weakness over vendor access to the District's system. The District does not maintain the servers with membership/attendance data in a restricted/secure area. The servers are located in the administration office copy room which is open during the normal working hours.

Recommendations:

Our audit observation recommended that the PSD:

Maintain the servers with the membership/attendance data in a restricted/secure area in order to detect/deter unauthorized physical access to the membership/attendance data.

Current Status:

During our current audit procedures we found that the PSD did implement our recommendation by moving their servers into a restricted and secure area.

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:

The Honorable Tom Corbett
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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 \.

