

WEATHERLY AREA SCHOOL DISTRICT
CARBON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2013



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER
AUDITOR GENERAL**

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

Mr. John Toft, Jr., Board President
Weatherly Area School District
602 Sixth Street
Weatherly, Pennsylvania 18255

Dear Governor Corbett and Mr. Toft:

We conducted a performance audit of the Weatherly Area School District (WASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period January 5, 2010 through March 14, 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 WASD 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 WASD's management and their responses are included in the audit report. We believe the implementation of our finding and recommendations will improve WASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the WASD's cooperation during the conduct of the audit.

Sincerely,

/s/

**JACK WAGNER
Auditor General**

January 14, 2013

cc: **WEATHERLY AREA 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 Weatherly Area School District (WASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period January 5, 2010 through March 14, 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 WASD encompasses approximately 91 square miles. According to 2010 federal census data, it serves a resident population of 5,201. According to District officials, in school year 2009-10 the WASD provided basic educational services to 707 pupils through the employment of 64 teachers, 43 full-time and part-time support personnel, and 7 administrators. Lastly, the WASD received more than \$4.4 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the WASD 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.

Finding: Possible Inaccurate Reporting of Retirement Wages. Our review of the former Superintendent's employment contract, payroll records, and retirement records found that retirement wages may have been overstated in reports submitted to the Public School Employees' Retirement System for the 2011-12 school year. The total possible ineligible payments reported for the former Superintendent were \$20,239 (see page 6).

Status of Prior Audit Findings and Observations. There were no findings or observations included in our prior audit report.



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 January 5, 2010 through March 14, 2012, except for:

- The verification of professional employee certification which was performed for the period July 1, 2011 through December 31, 2011.
- The verification of retirement wages which was performed for 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 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 WASD'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 transportation subsidies, is the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that its 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 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.

WASD 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 pupil transportation, bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Findings and Observations

Finding

Possible Inaccurate Reporting of Retirement Wages

Criteria relevant for the finding:

PSERS allows only qualified salary and wages to be included for retirement purposes. According to Pennsylvania School Employees' Retirement Employers' Reference Manual for Member Benefits, Chapter 6:

Act 204-63 expanded the period of time and conditions under which PSERS retirees may return to Pennsylvania public school employment without loss of their monthly retirement benefit provided certain criteria is met, including: an increase in workload; and a serious impairment of service to the school; a shortage of certified teachers or other personnel.

If a retiree returns to service under any circumstances other than the provisions covered by Act 204-63, the retirement benefit will be suspended.

A retiree must be treated as a return to service when; it is non-emergency employment; or the retiree continues to work after the emergency ceases to exist.

Our review of the former Superintendent's employment contract, payroll records, and retirement records found that retirement wages may have been overstated in reports submitted to the Public School Employees' Retirement System (PSERS) for the 2011-12 school year. The total possible ineligible payments reported for the former Superintendent were \$20,239.

The former Superintendent retired as Superintendent effective June 30, 2011 and offered to work on the budget, contract negotiations and assistance with the transition to the new Superintendent. The Weatherly Area School District (WASD) Board approved the former Superintendent to continue employment as Administrative Assistant through August 31, 2011, at his current salary and benefits, including PSERS membership to complete these duties.

Service credits are used to determine the percentage of salary a former employee would receive in retirement payments. According to the criteria included in the PSERS Reference Manual, to be eligible for PSERS membership, an employee must meet full or part-time requirements. The former Superintendent did continue to work full-time and earn and use leave days for the period July 1, 2011 through August 31, 2011. The former Superintendent did have approximately 39 years of service credited towards PSERS wages; therefore, service credit years were not needed to enhance retirement.

The circumstances of retiring and coming back in another position are questionable in regards to eligible PSERS wages.

According to District personnel, the former Superintendent, at the request of the Board, verified eligibility of the wages earned between July 1, 2011 and August 31, 2011.

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

Recommendations

The *Weatherly Area School District* should:

1. Contingent upon PSERS final determination, report to PSERS only those wages allowable for retirement purposes, as stated in PSERS Employer Reference Manual.
2. Implement procedures for reviewing all salary and contribution reports, in order to ensure that only eligible wages are being reported to PSERS for retirement contributions.

The *Public School Employees' Retirement System* should:

3. Review the propriety of the wages and service credits for the above mentioned employee and make any necessary adjustments.

Management Response

Management stated the following:

Based on information provided to the school district, the above finding was not an issue related to PSERS benefits. The District is waiting on further clarification on the definition of possible inaccurate reporting of retirement wages to determine the appropriate plan of action.

Auditor Conclusion

The District should await PSERS final determination for further clarification.

Status of Prior Audit Findings and Observations

Our prior audit of the Weatherly Area School District resulted in no findings or observations.

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
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Ronald J. Tomalis
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Nichole Duffy
Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Tom Templeton
Assistant Executive Director
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

Ms. Connie Billett
Assistant Internal Auditor
Public School Employees' Retirement
System
P.O. Box 125
Harrisburg, PA 17101

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.

