

PERFORMANCE AUDIT

Ambridge Area School District Beaver County, Pennsylvania

January 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Dr. L. Joan Welter, Superintendent
Ambridge Area School District
901 Duss Avenue
Ambridge, Pennsylvania 15003

Mr. Scott Angus, Board President
Ambridge Area School District
901 Duss Avenue
Ambridge, Pennsylvania 15003

Dear Dr. Welter and Mr. Angus:

We have conducted a performance audit of the Ambridge Area School District (District) for the period July 1, 2012, through June 30, 2016, except as otherwise indicated in the audit scope, objective, and methodology section of the report. We evaluated the District's performance in the following areas as further described in the appendix of this report:

- Administrative Contract Buyout
- Financial Stability
- Hiring Practices
- Bus Driver Requirements
- School Safety

The audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code (72 P.S. §§ 402 and 403), and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit found that the District performed adequately in the areas listed above, except as noted in the following finding:

- The Board Included Health Insurance Retirement Benefits with No Minimum Years of Service in the District's Superintendent Contracts That Could Have Significant Long Term Financial Implications

Dr. L. Joan Welter
Mr. Scott Angus
Page 2

We appreciate the District's cooperation during the course of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Eugene A. DePasquale
Auditor General

December 5, 2017

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

Table of Contents

	Page
Background Information	1
Finding(s)	8
Finding – The Board Included Health Insurance Retirement Benefits with No Minimum Years of Service in the District’s Superintendent Contracts That Could Have Significant Long Term Financial Implications	8
Status of Prior Audit Findings and Observations	12
Appendix: Audit Scope, Objectives, and Methodology	13
Distribution List	16

Background Information

School Characteristics 2016-17 School Year ^A	
County	Beaver
Total Square Miles	27
Resident Population^B	23,827
Number of School Buildings	5
Total Teachers	187
Total Full or Part-Time Support Staff	68
Total Administrators	17
Total Enrollment for Most Recent School Year	2,537
Intermediate Unit Number	27
District Vo-Tech School	Beaver County Career & Technology Center

A - Source: Information provided by the District administration and is unaudited.

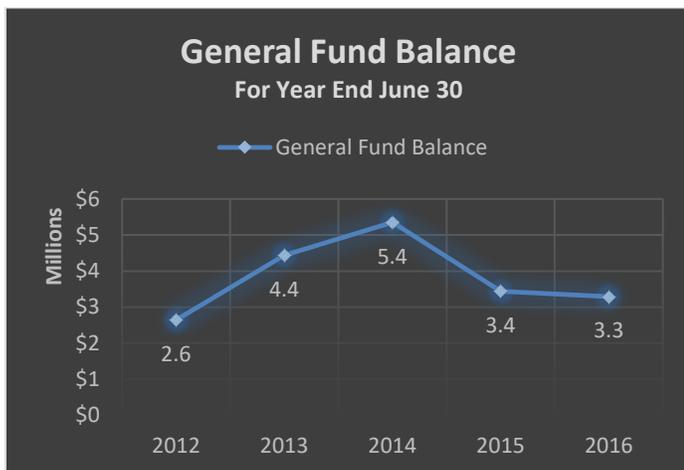
B - Source: United States Census
<http://www.census.gov/2010census>.

Mission Statement^A

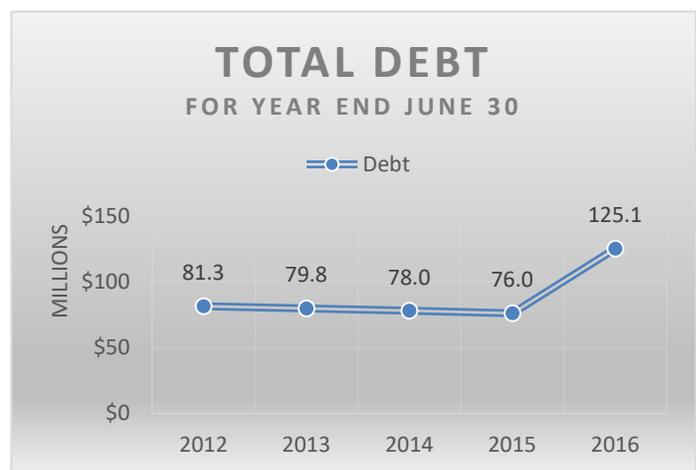
To be the “Bridge” to leading and learning, preparing students for the future through academic excellence!

Financial Information

The following pages contain financial information about the Ambridge Area School District (District) obtained from annual financial data reported to the Pennsylvania Department of Education (PDE) and available on PDE’s public website. This information was not audited and is presented for **informational purposes only**.

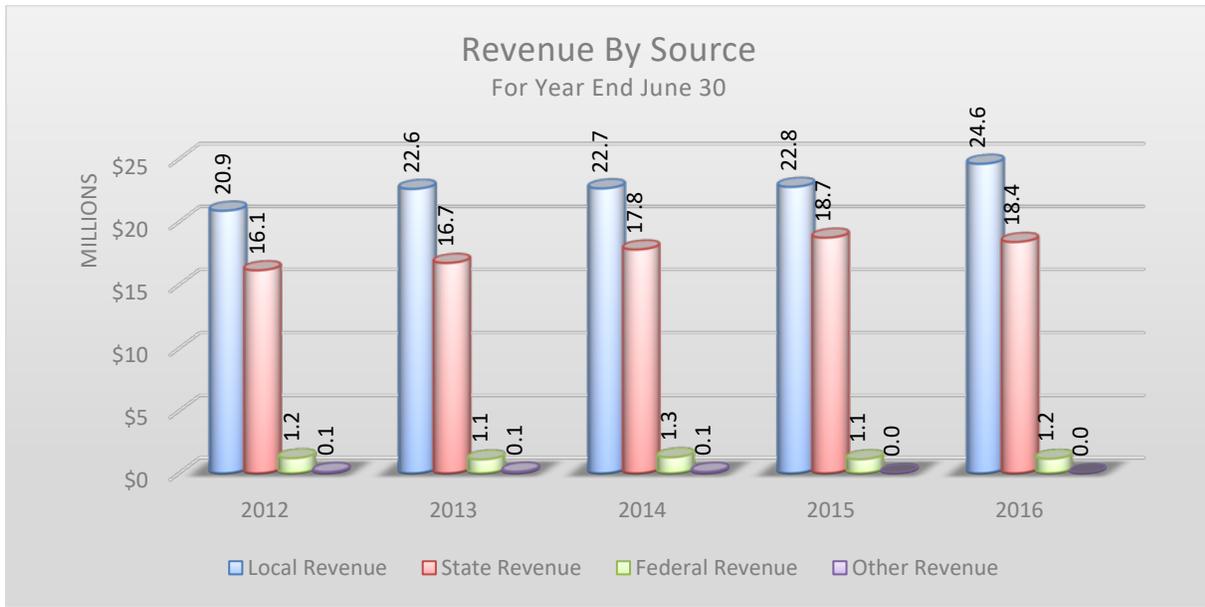
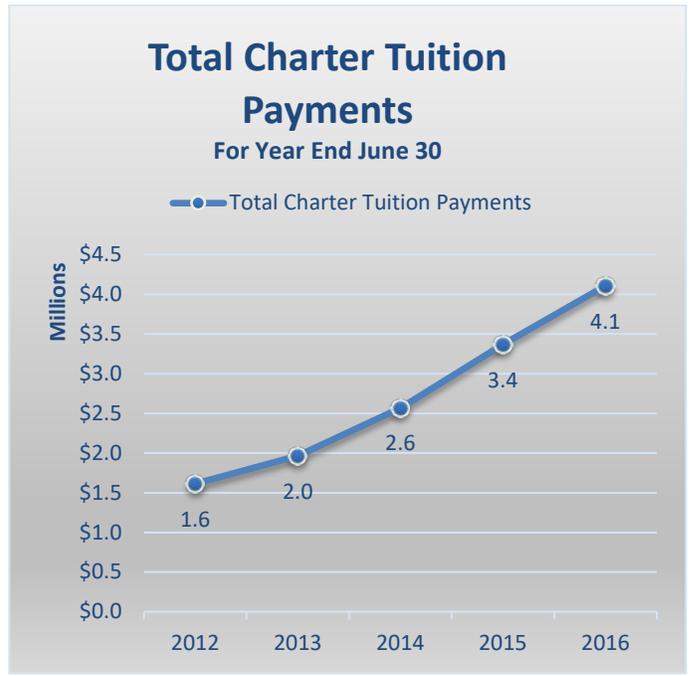
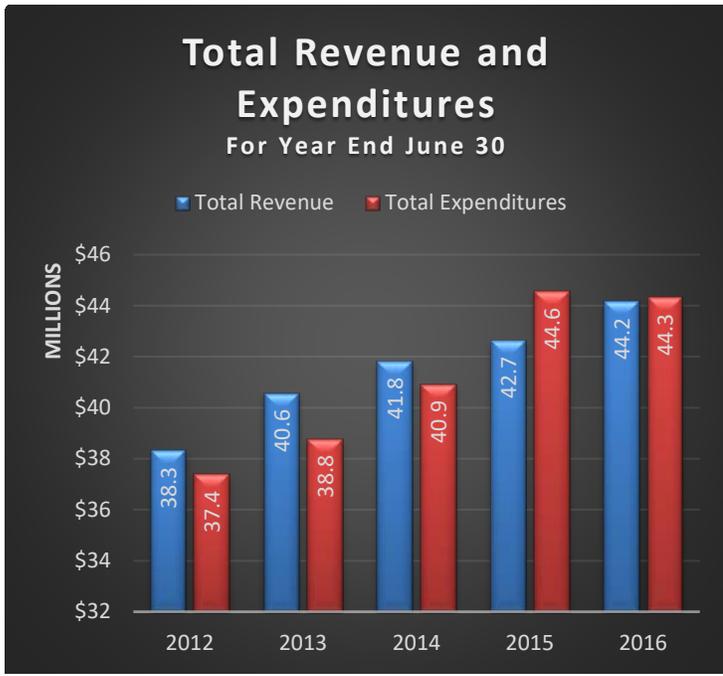


Note: General Fund Balance is comprised of the District’s Committed, Assigned and Unassigned Fund Balances.



Note: Total Debt is comprised of Short-Term Borrowing, General Obligation Bonds, Authority Building Obligations, Other Long-Term Debt, Other Post-Employment Benefits and Compensated Absences.

Financial Information Continued



Academic Information

The graphs on the following pages present School Performance Profile (SPP) scores, Pennsylvania System of School Assessment (PSSA), Keystone Exam results, and 4-Year Cohort Graduation Rates for the District obtained from PDE's data files for the 2014-15 and 2015-16 school years.¹ These scores are provided in the District's audit report for **informational purposes only**, and they were not audited by our Department. Please note that if one of the District's schools did not receive a score in a particular category and year presented below, the school will not be listed in the corresponding chart.² Finally, benchmarks noted in the following graphs represent the statewide average of all public school buildings in the Commonwealth that received a score in the category and year noted.³

What is a SPP score?

A SPP score serves as a benchmark for schools to reflect on successes, achievements, and yearly growth. PDE issues a SPP score using a 0-100 scale for all school buildings in the Commonwealth annually, which is calculated based on standardized testing (i.e. PSSA and Keystone exams), student improvement, advance course offerings, and attendance and graduation rates. Generally speaking, a SPP score of 70 or above is considered to be a passing rate.

PDE started issuing a SPP score for all public school buildings beginning with the 2012-13 school year. For the 2014-15 school year, PDE only issued SPP scores for high schools taking the Keystone Exams as scores for elementary and middle schools were put on hold due to changes with PSSA testing.⁴ PDE resumed issuing a SPP score for all schools for the 2015-16 school year.

What is the PSSA?

The PSSA is an annual, standardized test given across the Commonwealth to students in grades 3 through 8 in core subject areas, including English and Math. The PSSAs help Pennsylvania meet federal and state requirements and inform instructional practices, as well as provide educators, stakeholders, and policymakers with important information about the state's students and schools.

¹ PDE is the sole source of academic data presented in this report. All academic data was obtained from PDE's publically available website.

² PDE's data does not provide any further information regarding the reason a score was not published for a specific school. However, readers can refer to PDE's website for general information regarding the issuance of academic scores.

³ Statewide averages were calculated by our Department based on individual school building scores for all public schools in the Commonwealth, including district schools, charters schools, and cyber charter schools.

⁴ According to PDE, SPP scores for elementary and middle schools were put on hold for the 2014-15 school year due to the state's major overhaul of PSSA exams to align with state Common Core standards and an unprecedented drop in public schools' PSSA scores that year. Since PSSA scores are an important factor in the SPP calculation, the state decided not to use PSSA scores to calculate a SPP score for elementary and middle schools for the 2014-15 school year. Only high schools using the Keystone Exam as the standardized testing component received a SPP score.

The 2014-15 school year marked the first year that PSSA testing was aligned to the more rigorous PA Core Standards.⁵ The state uses a grading system with scoring ranges that place an individual student's performance into one of four performance levels: Below Basic, Basic, Proficient, and Advanced. The state's goal is for students to score Proficient or Advanced on the exam in each subject area.

What is the Keystone Exam?

The Keystone Exam measures student proficiency at the end of specific courses, such as Algebra I, Literature, and Biology. The Keystone Exam was intended to be a graduation requirement starting with the class of 2017, but that requirement has been put on hold until at least 2020. In the meantime, the exam is still given as a standardized assessment and results are included in the calculation of SPP scores. The Keystone Exam is scored using the same four performance levels as the PSSAs, and the goal is to score Proficient or Advanced for each course requiring the test.

What is a 4-Year Cohort Graduation Rate?

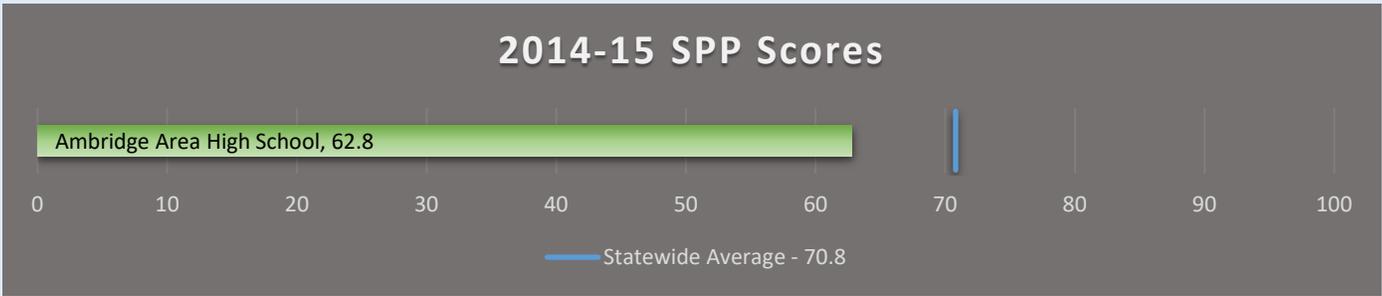
PDE collects enrollment and graduate data for all Pennsylvania public schools, which is used to calculate graduation rates. Cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student first entered high school. The rate is determined for a cohort of students who have all entered high school for the first time during the same school year. Data specific to the 4-year cohort graduation rate is presented in the graph.⁶

⁵ PDE has determined that PSSA scores issued beginning with the 2014-15 school year and after are not comparable to prior years due to restructuring of the exam. (Also, see footnote 4).

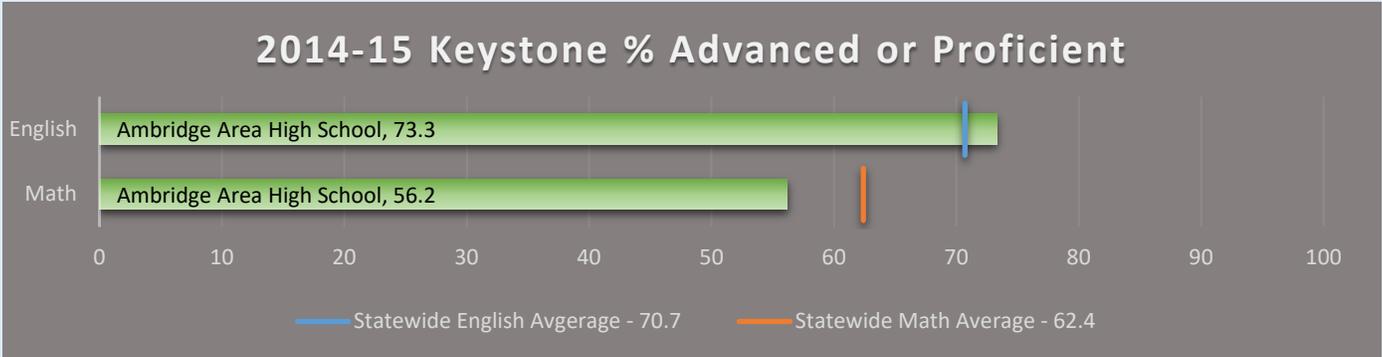
⁶ PDE also calculates 5-year and 6-year cohort graduation rates. Please visit PDE's website for additional information: <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.

2014-15 Academic Data
School Scores Compared to Statewide Averages

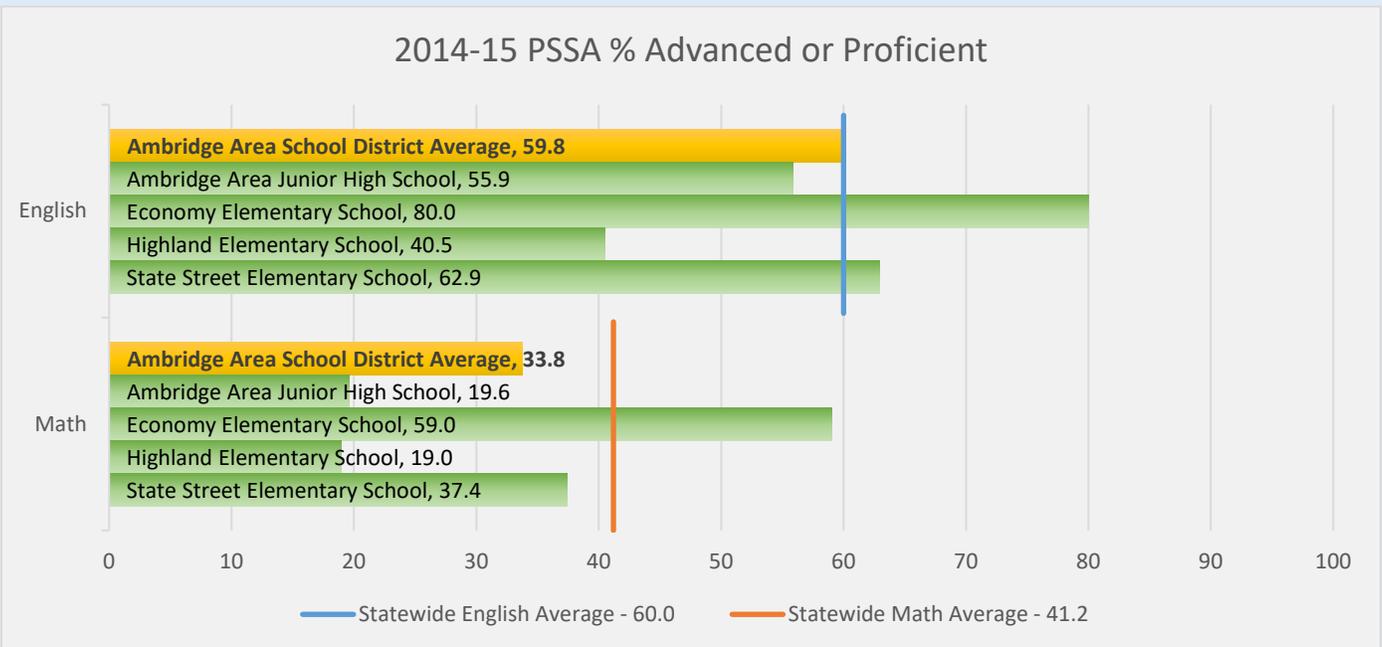
2014-15 SPP Scores



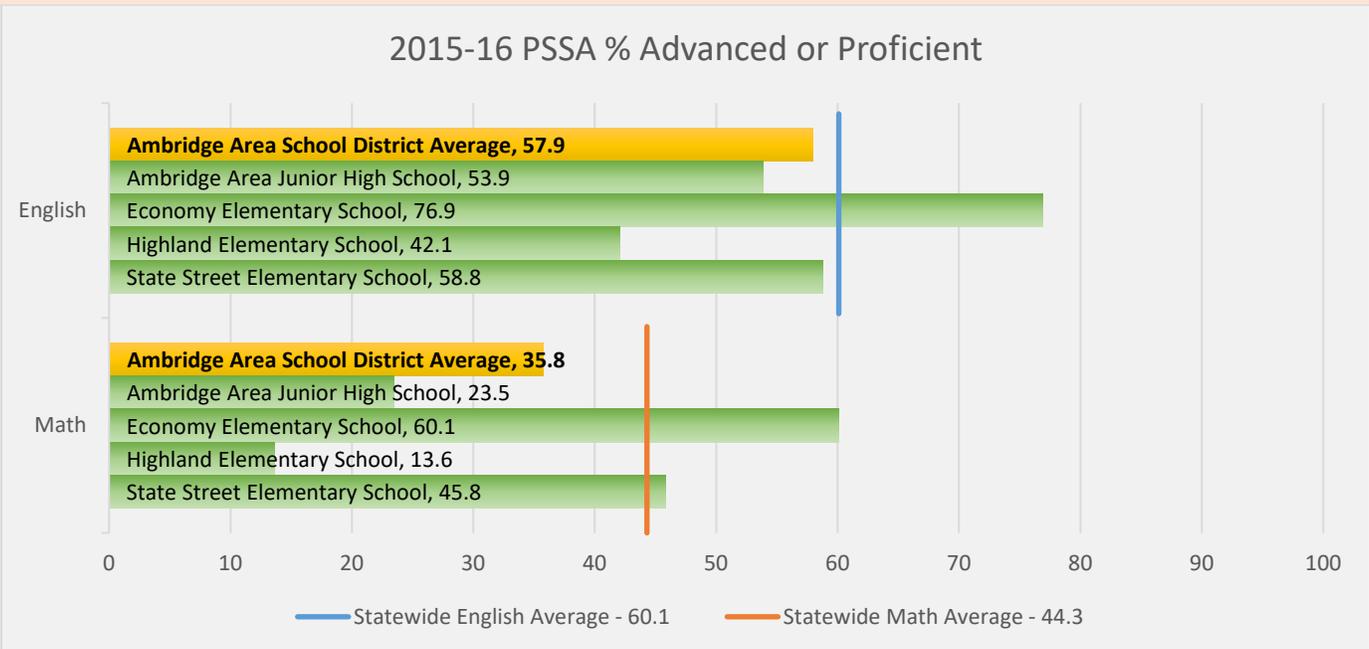
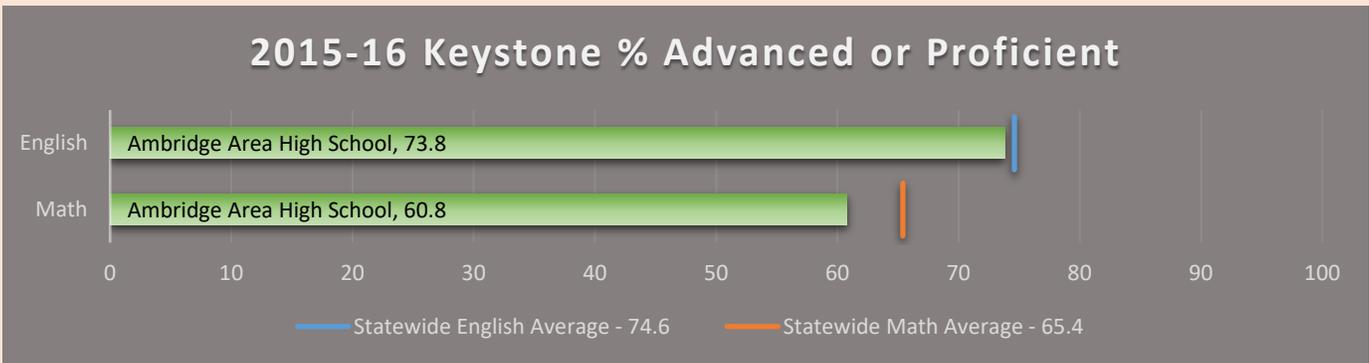
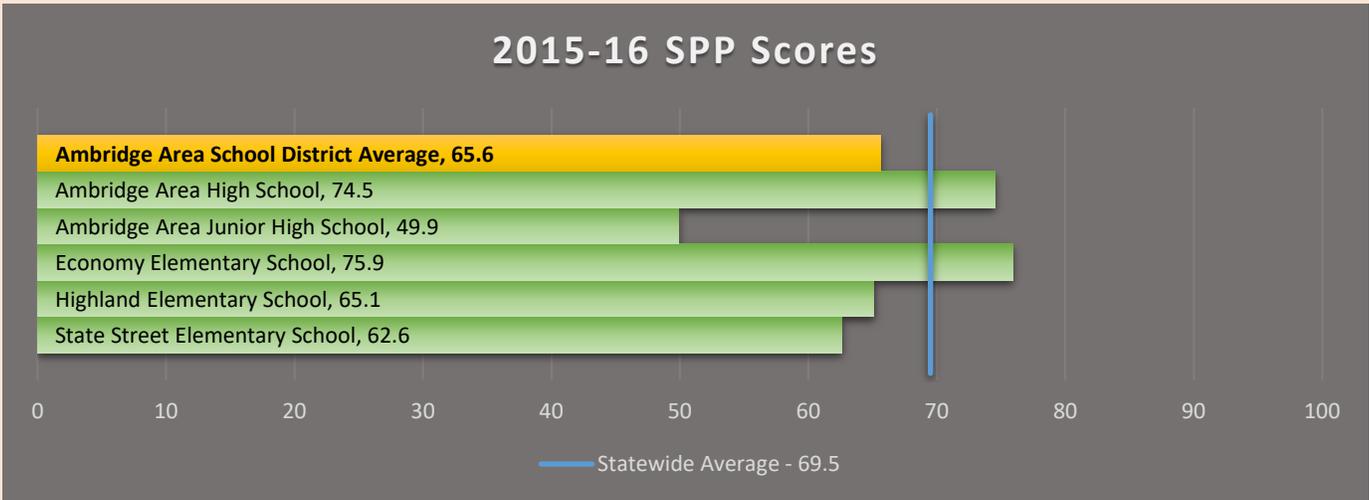
2014-15 Keystone % Advanced or Proficient



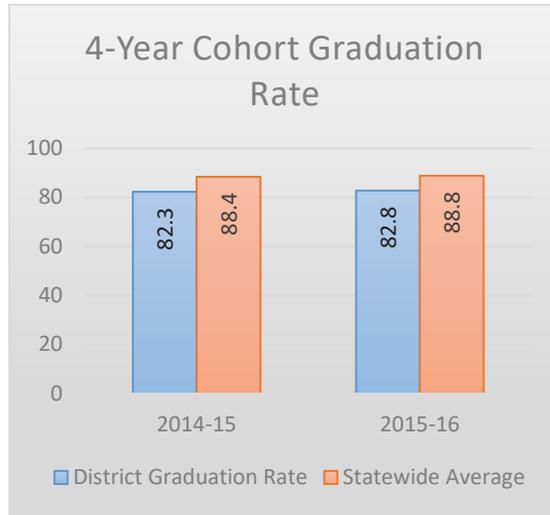
2014-15 PSSA % Advanced or Proficient



2015-16 Academic Data
School Scores Compared to Statewide Averages



4-Year Cohort Graduation Rate



Finding(s)

Finding

The Board Included Health Insurance Retirement Benefits with No Minimum Years of Service in the District’s Superintendent Contracts That Could Have Significant Long Term Financial Implications

Criteria relevant to the finding:

Section 1073(e) of the Public School Code (PSC), 24 P.S. § 10-1073(e), states, in part:

“(e) The following shall apply:
(1) Notwithstanding any other provision of law, no individual shall be employed as a district superintendent or assistant district superintendent by a school district except pursuant to a written contract of employment expressly stating the terms and conditions of employment.”

Pertinent Contract Language in former and current Superintendent’s employment contract:

“At retirement from the School District, the Superintendent shall be eligible for health insurance for her and her spouse until age 65, under the terms and conditions in effect for administrators under the Act 93 Plan in effect from time to time. Retirement as used in this section and elsewhere in this Agreement means receipt of PSERS [Public School Employees’ Retirement System] pension benefits, which must begin within sixty (60) days of her retirement from the School District for the Superintendent to be eligible for this benefit. If not eligible at the time she leaves the employ of the School District, she shall not thereafter be eligible. Suspension of her PSERS pension shall terminate this benefit.”

The Ambridge Area School District’s (District) Board of School Directors (Board) included a retirement provision in the former Superintendent and current Superintendent’s contracts that provides health insurance until the age of 65, yet does not require the employee to work for the District for a minimum number of years. When the former Superintendent retired, the District incurred significant unnecessary costs as a result of the provision and will most likely incur considerable future costs that could exceed \$223,000. The Board has important governance duties including being responsible for making financial decisions that are in the best interest of the District and ultimately taxpayers. In this case, the Board failed in that responsibility.

Former Superintendent Contract

On March 20, 2013, the Board executed a four-year contract with the former Superintendent. The contract effective dates were July 1, 2013, through June 30, 2017. The contract contained a “Retirement Health Insurance Benefits” provision with no minimum years of service requirement that negatively affected the District financially when the Superintendent retired from the District on September 12, 2016.⁷

⁷ The former Superintendent filed a federal lawsuit against the District and certain District officials on June 23, 2017. As of November 28, 2017, the lawsuit has not been resolved. *See Zurchin v. Ambridge Area School District et al.*, U.S. District Court, Western District of PA, 2:17-cv-00836-NBF.

This contract provision allowed the former Superintendent, upon retirement from the District, to receive health insurance for herself and her spouse until the former Superintendent turns 65 years of age.⁸ During the 2016-17 school year, the District paid \$19,428 for this contracted provision. The contract provision may result in the District providing health insurance coverage for the former Superintendent and her dependents up to and including the 2027-28 school year. If the former Superintendent remains on the District's health insurance plan until that time the District could spend more than \$223,000 to satisfy this contracted benefit.

This contract provision did not contain a minimum years of service requirement with the District that the Superintendent must fulfill to receive this benefit. Without including a minimum years of service requirement with the District, the District is extremely vulnerable to significant financial costs when a Superintendent retires.

Current Superintendent Contract

We reviewed the current Superintendent's contract, which is effective from July 1, 2017, through June 30, 2020, and found a similar "Retirement Health Insurance Benefits" provision with no minimum years of service requirement in this contract. If the District's current Superintendent retires at the end of this contract term, the District would still be required to pay for her health insurance for at least four more years. Again, the District would incur significant costs to provide a benefit to an employee who only worked for the District for three years.

Recommendations

The *Ambridge Area School District* should:

Ensure that all future employment contracts contain a minimum years of service provision that requires an employee to work in the District for a specific timeframe before receiving health insurance benefits upon retirement. The minimum years of service provision should be established based on the individual circumstances of each employee as opposed to a blanket provision.

⁸ Retirement means receipt of PSERS pension benefits. PSERS pension benefits must begin within 60 days of retirement from the District.

Management Response

District management provided the following response:

The Ambridge Area School District appreciates the recommendations provided by the Auditor General's Office following its review of District finances and operations. The District takes all recommendations seriously. Undoubtedly, with the benefit of hindsight, the District would have structured the past Superintendent's contract differently, as identified in the Report.

As the Finding relates to the current Superintendent's contract, while the Report claims that post-retirement health benefits are "unnecessary" and that the board "failed" to act in the best interest of taxpayers when it included them, these provisions were intensely negotiated between the District and its current Superintendent.

In fact, they represent the final sticking point in those employment negotiations. Contrary to the implications of the Report, the post-retirement benefits provided for the current Superintendent offer significantly less post-retirement coverage and at greater cost to the Superintendent than she would have received under her contract with her former School District employer.⁹ The authors of this Report audit every school district in the Commonwealth, and are no doubt aware that such post-retirement insurance provisions are common features of superintendents' contracts and are frequently more generous than what the District agreed to provide its current Superintendent.

The past Superintendent's contract provided coverage for herself and her spouse at a cost of more than \$19,400 per year. The current Superintendent's contract, however, only provides individual coverage for the Superintendent herself and contains additional safe guards limiting the potential costs to the District absent from the past Superintendent's contract which this report ignores. The current cost of individual health insurance is only \$6,564 per year.

⁹ The Auditor General's Office last completed an audit of the current Superintendent's former employer in February 2015. Yet, absent from that School District's Report was a Finding critiquing that District for its post-retirement health insurance coverage for administrators which was more generous and with fewer safe guards than that provided for by Ambridge Area School District for its current Superintendent.

The School Board is mindful of the financial impact these post-retirement benefits carry and their obligation to taxpayers. The School Board will continue to negotiate employment contracts with this in mind.

Auditor Conclusion

We acknowledge that the contract with the current Superintendent does not impose the same financial impact to the taxpayers as the previous Superintendent's contract because the contract no longer covers the Superintendent's family. We believe that this is a step in the right direction for the District, but continue to recommend that the District include a minimum years of service provision in all future employment contracts.

It is important to understand that comparing the current Superintendent's contract provisions to the former Superintendent's contract provisions are not analogous. The District's current Superintendent had an employment history with her former employer and as a result of that work history, post-retirement health insurance benefits can be expected.

We believe it is especially important for the District to include a years of service provision due to recent turnover it has experienced with contracted employees. The failure to implement this recommendation could result in additional financial costs for the District and its taxpayers.

Status of Prior Audit Findings and Observations

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

Appendix: Audit Scope, Objectives, and Methodology

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, Pennsylvania Department of Education (PDE), and other concerned entities.

Our audit, conducted under authority of Sections 402 and 403 of The Fiscal Code,¹⁰ is not a substitute for the local annual financial 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. Those 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

Scope

Overall, our audit covered the period July 1, 2012, through June 30, 2016. In addition, the scope of each individual audit objective is detailed on the next page.

The Ambridge Area School District's (District) management is responsible for establishing and maintaining effective internal controls¹¹ to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, which 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 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.

¹⁰ 72 P.S. §§ 402 and 403.

¹¹ 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; and compliance with certain relevant state laws, regulations, contracts, and administrative procedures.

Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, annual financial reports, annual budgets, new or amended policies and procedures, and the independent audit report of the District's basic financial statements for the fiscal years July 1, 2012, through June 30, 2016. We also determined if the District had key personnel or software vendor changes since the prior audit.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies, and best business practices. Our audit focused on the District's efficiency and effectiveness in the following areas:

- Administrator Contract Buyout
- Financial Stability
- Hiring Practices
- Bus Driver Requirements
- School Safety

As we conducted our audit procedures, we sought to determine answers to the following questions, which served as our audit objectives:

- ✓ 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 employment contract(s) comply with the Public School Code¹² and Public School Employees' Retirement System guidelines?
 - To address this objective, we reviewed the contracts, settlement agreements, board meeting minutes, board policies, and payroll records for the three administrators who separated employment from the District during the period October 30, 2015, through June 30, 2017. We also reviewed the contract for the District's current Superintendent entered into on April 19, 2017. See the finding in this report for the results of our review of this objective.
- ✓ Based on an assessment of financial indicators, was the District in a declining financial position, and did it comply with all statutes prohibiting deficit fund balances and the over expending of the District's budget?
 - To address this objective, we reviewed the District's annual financial reports, budget, and independent auditor's reports for fiscal years 2011-12 through 2015-16. The financial and statistical data was used to calculate the District's General Fund balance, operating position, charter school costs, and current ratio, among other things. These financial indicators were deemed appropriate for

¹² 24 P.S. § 10-1073(e)(2)(v).

assessing the District's financial stability. The financial indicators are based on best business practices established by several agencies, including Pennsylvania Association of School Business Officials, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District follow the Public School Code¹³ and the District's policy and procedures when hiring new staff?
 - To address this objective, we obtained and reviewed the District's hiring policies and procedures. We selected the last three employees hired by the District during the period July 1, 2012, through November 14, 2016, and reviewed documentation to determine if the District complied with the Public School Code and the District's policy and procedures in hiring new employees. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances as outlined in applicable laws?¹⁴ Also, did the District have written policies and procedures governing the hiring of new bus drivers that would, when followed, provide reasonable assurance of compliance with applicable laws?
 - To address this objective, we randomly selected 5 of the 54 bus drivers hired by the District bus contractor, during the period July 1, 2012, through June 30, 2017, and reviewed documentation to ensure the District complied with the requirements for bus drivers. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures, when followed, ensure compliance with bus driver hiring requirements. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District take actions to ensure it provided a safe school environment?¹⁵
 - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, and anti-bullying policies. In addition, we conducted on-site reviews at the two District elementary school buildings that were not reviewed in the prior audit to assess whether the District had implemented basic safety practices.¹⁶ Due to the sensitive nature of school safety, the results of our review of this objective are not described in our report. The results of our review of school safety are shared with the District officials and, if deemed necessary, PDE. Our review of this objective did not disclose any reportable issues.

¹³ 24 P.S. § 5-508, 24 P.S. § 11-1106, and 24 P.S. § 11-1111.

¹⁴ 24 P.S. § 1-111, 23 Pa.C.S. § 6344(a.1), 24 P.S. § 2070.1a *et seq.*, 75 Pa.C.S. §§ 1508.1 and 1509, and 22 *Pa. Code Chapter 8*.

¹⁵ 24 P.S. § 13-1301-A *et seq.*

¹⁶ 24 P.S. § 13-1301-A *et seq.*

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

The Honorable Tom W. Wolf

Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Pedro A. Rivera

Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Joe Torsella

State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Mrs. Danielle Mariano

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. Nathan Mains

Executive Director
Pennsylvania School Boards Association
400 Bent Creek Boulevard
Mechanicsburg, PA 17050

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: News@PaAuditor.gov.