



TWIN VALLEY SCHOOL DISTRICT
BERKS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 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. Thomas Legel, Board President
Twin Valley School District
4851 North Twin Valley Road
Elverson, Pennsylvania 19520

Dear Governor Corbett and Mr. Legel:

We conducted a performance audit of the Twin Valley School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period April 15, 2009 through April 17, 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, 2012, 2011, 2010, and 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 District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in the two findings noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit findings and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative 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

August 28, 2013

cc: **TWIN VALLEY 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 Twin Valley School District (District). 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 District in response to our prior audit recommendations.

Our audit scope covered the period April 15, 2009 through April 17, 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 2011-12, 2010-11, 2009-10, and 2008-09 school years.

District Background

The District encompasses approximately 89 square miles. According to 2010 federal census data, it serves a resident population of 24,082. According to District officials, the District provided basic educational services to 3,410 pupils through the employment of 251 teachers, 124 full-time and part-time support personnel, and 22 administrators during the 2011-12 school years. Lastly, the District received \$11 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 applicable state laws, contracts, grant requirements, and administrative procedures, except for two related matters reported as findings.

Finding No. 1: Deficit Fund Balance of \$1,205,370 as of June 30, 2012. Our analysis of historical financial data found the Twin Valley School District's (District) general fund balance declined from \$5,384,689 as of June 30, 2005, to a deficit of \$1,893,107 as of June 30, 2010. The District has implemented a fund balance plan to erase the deficit and reestablish a fund balance. As of June 30, 2012, the deficit stands at \$1,205,370 (see page 5).

Finding No. 2: Inaccurate Reporting of Child Accounting Data Resulted in an Underpayment of \$49,052 in State Subsidy. Our review of child accounting data reported for the 2010-11 school year to the Pennsylvania Department of Education found resident and nonresident membership errors. The nonresident membership errors resulted in an underpayment of \$49,052 in tuition subsidy for foster children subsidy to the Twin Valley School District (see page 8).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Twin Valley School District's (District) from an audit released on December 11, 2009, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to Memoranda of Understanding (see page 11).

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 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 April 15, 2009 through April 13, 2013, except for the verification of professional employee certification which was performed for the period July 1, 2012 through March 22, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2011-12, 2010-11, 2009-10, and 2008-09 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 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 received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ 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?
- ✓ In areas where the District received transportation subsidies, were the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their 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 local auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

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 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 applicable laws, contracts, grant requirements, and administrative procedures. 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 applicable state laws, contracts, grant requirements, and administrative procedures that 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 control 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, and financial stability.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 11, 2009, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Criteria relevant to the finding:

Section 687 of the Public School Code provides, in part:

- (b) The board of school directors, after making such revisions and changes therein as appear advisable, shall adopt the budget and the necessary appropriation measures required to put it into effect. The total amount of such budget shall not exceed the amount of funds, including the proposed annual tax levy and State appropriations, available for school purposes in that district.

Section 609 of the Public School Code provides, in part:

“No work shall be hired to be done, no materials purchased, and no contracts made by any board of school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.”

Deficit Fund Balance of \$1,205,370 as of June 30, 2012

Our review of the Twin Valley School District’s (District) Annual Financial Reports, Independent Auditor Reports, and General Fund Budgets for fiscal years ended June 30, 2006 through 2012, found that the balance in the District’s General Fund decreased during the review period from a \$5,384,689 surplus on June 30, 2005, to a \$1,205,370 deficit on June 30, 2012.

<u>Fiscal Year</u> <u>End June 30</u>	<u>Beginning</u> <u>Fund</u> <u>Balance</u>	<u>Ending Fund</u> <u>Balance</u>
2005		\$ 5,384,689
2006	\$ 5,384,689	4,480,950
2007	4,480,950	2,230,492
2008	2,230,492	19,912
2009	19,912	(1,803,165)
2010	(1,803,165)	(1,893,107)
2011	(1,893,107)	(1,640,625)
2012	(1,640,625)	(1,205,370)

Additionally, as detailed in the chart below, the District engaged in a practice of deficit spending whereby actual expenditures exceeded actual revenues for the fiscal years ended June 30, 2006 through 2010. Revenues were greater than expenditures for the years ended June 30, 2011 and 2012.

<u>Fiscal Year</u> <u>End June 30</u>	<u>Actual</u> <u>Revenue</u>	<u>Actual</u> <u>Expenditures</u>	<u>(Over)/Under</u> <u>Difference</u>
2006	\$ 37,660,898	\$ 38,589,673	\$ (928,775)
2007	39,932,104	42,183,001	(2,250,897)
2008	43,143,357	46,068,853	(2,925,496)
2009	45,406,951	48,039,552	(2,632,601)
2010	47,052,632	47,154,345	(101,713)
2011	47,664,474	47,439,973	224,501
2012	48,098,733	47,674,812	423,921

We also found that for the years ended June 30, 2006 through 2010, the District's budgeted expenditures exceeded budgeted revenues as follows:

Budgeted: Revenues v. Expenditures			
<u>Fiscal Year</u> <u>End June 30</u>	<u>Budgeted</u> <u>Revenue</u>	<u>Budgeted</u> <u>Expenditures</u>	<u>Budgeted</u> <u>Expenditures</u> <u>Over Revenue</u>
2006	\$ 37,937,701	\$ 38,948,373	\$ (1,010,672)
2007	41,166,639	42,827,785	(1,661,146)
2008	44,263,686	46,345,982	(2,082,296)
2009	49,075,450	50,333,146	(1,257,696)
2010	49,920,480	49,948,149	(27,669)

Furthermore, the District continued to annually project increases in revenue as follows:

Revenue Budgeting			
<u>Fiscal Year</u> <u>End June 30</u>	<u>Current</u> <u>Year's</u> <u>Budgeted</u> <u>Revenue</u>	<u>Prior Year's</u> <u>Actual</u> <u>Revenue</u>	<u>Current</u> <u>Year's</u> <u>Budget Over</u> <u>Prior Year's</u> <u>Actual</u>
2006	\$ 37,937,701	\$ 35,634,726	\$ 2,302,975
2007	41,166,639	37,660,898	3,505,741
2008	44,263,686	39,932,104	4,331,582
2009	49,075,450	43,143,357	5,932,093
2010	49,920,480	45,406,951	4,513,529
2011	50,975,840	47,052,632	3,923,208
2012	50,089,832	47,664,474	2,399,920

The District's former business manager noted that the reduction in the General Fund balance from 2006 through 2010 is attributable to interim taxes and transfer taxes being decreased due to a slow-down in real estate taxes for housing starts, and Act 511 taxes declined while delinquent taxes increased due to the sagging economy. These factors caused revenue to lag behind projections. At the same time, expenditures rose as the District incurred increased costs to provide mandated special education services to its students, professional staff salaries increased, and the cost of purchased services (i.e. contracted pupil transportation), tuition paid to charter schools, and debt service obligations also increased.

In more recent years, the District has managed to contain actual expenditures, as noted by the decrease in actual expenditures between the fiscal years ended June 30, 2009 and 2010. Actual expenditures between the years ended

June 30, 2010, 2011, and 2012 were relatively stable. (See information presented in the first chart.)

In November 2011, the Board of School Directors adopted Board Policy #620, which directs the District administration to develop a fund balance plan designed to erase the deficit and reestablish a fund balance. Since implementation of this policy, the deficit has been reduced from \$1,640,625 on June 30, 2011, to \$1,205,370 on June 30, 2012.

Recommendations

The *Twin Valley School District Board of School Directors* should:

1. Immediately adopt a Board policy requiring the District's Business Office to prepare annual budgets with historical trend data and support for revenue projections.
2. Require the District's Business Manager to provide the Board with monthly status reports on key financial indicators such as actual year-to-date revenues and expenditures, updated revenue projections, and current fund balances.
3. Immediately adopt a Board policy that would require all expenditure proposals to be accompanied by a brief analysis as to how the expenditure would affect the approved budget.

Management Response

Management stated the following:

“The District has experienced two consecutive years of decrease to the fund balance deficit. This decrease is the result of the implementation of a Board Policy to develop a plan to decrease the fund balance deficit and the resulting documented plan to reduce the fund balance deficit. As the District continues to implement the fund balance deficit reduction plan, we expect the deficit to continue to be reduced and ultimately eliminated over the next couple of years, and possibly as early as June 30, 2013. Once eliminated, the District will remain focused on the plan to build a positive fund balance.”

Finding No. 2

Inaccurate Reporting of Child Accounting Data Resulted in an Underpayment of \$49,052 in State Subsidy

Criteria relevant to the finding:

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. 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.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) 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.

PDE began calculating the LEA's state subsidy using the data that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our review of the Twin Valley School District's (District) pupil membership data submitted to PDE via PIMS for the 2010-11 school year found resident and nonresident membership reporting errors. The nonresident membership errors resulted in a \$49,052 underpayment of tuition for children placed in private homes (foster children) subsidy. The effect of the resident membership errors cannot be quantified as resident membership, for the 2010-11 school year has not yet been used to calculate relevant state subsidies.

Our review of the District's data submissions found the following errors:

Resident Membership

- Membership days for students enrolled in a part-time area vocational technical school (AVTS) was over reported by 6,281.5 days resulting from improper coding within the District's student information system (SIS). Part-time AVTS students are normally coded as being enrolled 50 percent of the time at the District, as

Additionally, according to the *Federal Information System Controls Audit Manual*, 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.

they are enrolled at the AVTS the other 50 percent of the time. Each entity is responsible to report its share of student membership through PIMS. In this case, the District coded these students as being enrolled at the District 100 percent of the time and reported them as such.

- Membership days for students enrolled in alternative education programs were underreported by 1,911 days. This occurred because a calendar was not created within PIMS to accept those student records. Each PIMS calendar is the identifier that groups student records together for summarization and analysis purposes. If there is no calendar created to accept a set of student records, they will not be uploaded to PIMS.
- Membership days for students was underreported by 1,348.5 days for unknown reasons. These student records had no apparent flaws within the District's SIS, but still did not upload to PIMS.
- Membership days for students was underreported by 815.31 days for minor miscellaneous reasons related to how the data was coded within the District's SIS and how the data was processed by PIMS.

Nonresident Membership

Membership days for foster children were understated by 979.5 days. This was caused by coding errors within the District's SIS that caused the data to be processed incorrectly when uploaded to PIMS. These student records must contain the correct residency status code, district of residence, and funding district to have membership properly processed. In this case, those data fields were not correct.

Recommendations

The *Twin Valley School District* should:

1. Reconcile the printouts from the SIS with the printouts from PIMS to ensure that all student records have been properly uploaded.
2. Develop procedures to ensure that all necessary calendars have been created within PIMS.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to resolve the underpayment of \$49,052.

Management Response

Management stated the following:

“The majority of the issues noted, including the Foster Child Issue which is responsible for the underpayment to the District, related to the 2010-11 fiscal year. This issue and most of the other identified issues were corrected by the District in 2011-12. Awareness of the identified issues as well as policies and procedures set up as a result of this awareness will be carried into subsequent years in effort to avoid similar issues in subsequent years.”

Status of Prior Audit Findings and Observations

Our prior audit of the Twin Valley School District (District) released on December 11, 2009, resulted in one reported finding. The finding pertained to Memoranda of Understanding with local law enforcement agencies that have jurisdiction over school property. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We performed audit procedures and interviewed District personnel regarding the prior finding. As shown below, we found that the District did implement our recommendations related to Memoranda of Understanding with local law enforcement agencies that have jurisdiction over school property.

Auditor General Performance Audit Report Released on December 11, 2009

Finding: **Lack of Memorandum of Understanding and Memorandum Not Updated Timely**

Finding Summary: Our prior audit of the District's records found that the District did not have a signed Memorandum of Understanding (MOU) with one of the two local law enforcement agencies, and the MOU between the District and the other local law enforcement agency had not been updated since March 16, 2001.

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.
2. Review, update, and re-execute the MOU between the District and the other local law enforcement agency.
3. Adopt a policy requiring administration to review and re-execute all MOUs every two years.

Current Status: During our current audit, we found that the District did implement our prior recommendations. MOUs with the two local police departments were executed in June 2011. All current MOUs contain a provision that the MOUs be reviewed and re-executed every two years.

Distribution List

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

The Honorable Tom Corbett
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The Honorable William E. Harner
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