



**HOMER-CENTER SCHOOL DISTRICT
INDIANA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JUNE 2014

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

Mrs. Vicki Smith, Board President
Homer-Center School District
65 Wildcat Lane
Homer City, Pennsylvania 15748

Dear Governor Corbett and Mrs. Smith:

We conducted a performance audit of the Homer-Center 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 September 27, 2011 through November 22, 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, 2011 and June 30, 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, except as detailed in two (2) 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

June 19, 2014

cc: **HOMER-CENTER 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 Homer-Center School District (District) in Indiana 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 September 27, 2011 through November 22, 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 2010-11 and 2011-12 school years.

District Background

The District encompasses approximately 42 square miles. According to 2010 federal census data, it serves a resident population of 6,471. According to District officials, the District provided basic educational services to 942 pupils through the employment of 62 teachers, 56 full-time and part-time support personnel, and six (6) administrators during the 2011-12 school year. The District received \$7.5 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, except for two (2) compliance related matters reported as findings.

Finding No. 1: Error in Reporting Pupil Membership Resulted in an Overpayment of \$9,685.

Our audit of the Homer-Center School District's (District) pupil membership records and reports for the 2011-12 school year found a non-resident pupil membership reporting error caused by District personnel incorrectly reporting a pre-adoptive student as a non-resident student. As a result, the District was overpaid by \$9,685 (see page 5).

Finding No. 2: Certification Deficiency.

Our audit of the Homer-Center School District's (District) professional employees' state certification found the District employed one (1) professional employee for the period of September 1, 2012 through November 1, 2013, with a lapsed certificate (see page 8).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the Homer-Center School District (District) from an audit released on February 24, 2012, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to the errors in pupil transportation reports (see page 10).

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 September 27, 2011 through November 22, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through November 7, 2013.

Regarding state subsidies and reimbursements, our audit covered the 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?
- ✓ 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?

- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security), did it follow applicable laws and procedures?
- ✓ In areas where the District received transportation subsidies, was the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ 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?
- ✓ 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?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ 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 there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

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

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.

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 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 February 24, 2012, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1 →

Error in Reporting Pupil Membership Resulted in an Overpayment of \$9,685

Criteria relevant to the finding:

Section 2503(c) of the Public School Code, 24 P.S. § 25-2503(c), provides for Commonwealth payment of tuition for wards of the state and any nonresident child who is placed in the home of a resident of the school district by order of court when such resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides for reimbursement to be received.

Membership data for nonresident children placed in private homes must be maintained and reported accurately and in accordance with PDE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

Our audit of the Homer-Center School District (District) found that the District's pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2011-12 school year was inaccurate. We found that District personnel reported one (1) pre-adoptive student as a non-resident student placed in a private home. However, pre-adoptive students are considered residents of the district they are attending. Therefore, the District should not have reported the student as a non-resident.

As a result of the inappropriate inclusion of the pre-adoptive student, the District was overpaid \$9,685 in Commonwealth-paid tuition for children placed in private homes.

The error was caused by District personnel not being familiar with the reporting requirements of pre-adoptive students. In addition, if the District had a level of internal review of child accounting data prior to the submission of the data to PDE, the inaccuracy may have been noticed and could have been corrected prior to PDE's final calculation of the District's 2011-12 school year membership reporting totals.

It is the responsibility of District management to have in place the proper internal policies and procedures to ensure that student data is accurate and reported correctly to PDE. Without such internal controls, the District cannot be assured that its student data is accurate or that it is receiving the appropriate state subsidy reimbursement.

We have provided PDE with reports detailing the errors for use in recalculating the District's tuition reimbursement.

Recommendations

The *Homer-Center School District* should:

1. Provide District personnel who are responsible for the submission of child accounting data into PDE with appropriate training on the residency classifications per PDE instructions.
2. Perform an internal review of all pupil membership reports and supporting documentation before submission to PDE.
3. Review subsequent school year's membership reports for accuracy and resubmit if necessary.

The *Pennsylvania Department of Education* should:

4. Adjust the District's future allocations to correct the overpayment of \$9,685.

Management Response

Management stated the following:

“The audited years cover a time span of which the current Superintendent and Business Manager were not present or employed in the Homer-Center School District, creating difficulty to respond with exactness in regards to this finding. The situation deals with the actions that the previous staff had taken during the initial stages of the student's enrollment and the interpretation made at the time of a pre-adoptive foster child placement and how to account for the student in such a classification. Since the category was a foster child placement, it may have been interpreted incorrectly.

Following the information that we expect from the audit, any future occurrences of such specific detail will be recording and accounted for in the correct manner to eliminate such issues. Procedures will be implemented to ascertain the proper child accounting procedure in future cases.”

Auditor Conclusion

We are encouraged that the District is planning to implement internal procedures in the area of child accounting. We will follow up on the status of our recommendations during our next cyclical audit of the District.

Finding No. 2

Certification Deficiency

Criteria relevant to the finding:

Section 1202 of the Public School Code (PSC), 24 P.S. § 12-1202, provides, in part:

“No teacher shall teach, in any public school, any branch which he has not been properly certified to teach.”

Section 1212 of the PSC, 24 P.S. § 12-1212, provides, in part:

“Every district superintendent shall keep an accurate record of valid certificates held by teachers of the school within his jurisdiction.”

Section 2518 of the PSC, 24 P.S. § 25-2518, provides in part:

“[Any] school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Pennsylvania Department of Education but who has not been certified for his position by the Pennsylvania Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district’s market value/income aid ratio . . .”

Our audit of the Homer-Center School District’s professional employees’ certification records, for the period July 1, 2012 through November 7, 2013, found one (1) employee was assigned to a professional position without holding proper certification. The individual was employed with a lapsed certificate as an elementary school counselor.

Certification deficiencies are not determined by our department. Information pertaining to the assignment in question was submitted to the Pennsylvania Department of Education’s (PDE) Bureau of School Leadership and Teacher Quality (BSLTQ) for its review. Subsequent to audit fieldwork, the BSLTQ provided a written determination on January 15, 2014, stating that the employee worked from the period September 1, 2012 through November 1, 2013, with a lapsed Elementary School Counselor certificate.

As a result of the BSLTQ’s determination, the District is subject to a subsidy forfeiture of \$1,955 for the 2012-13 school year. The subsidy forfeiture for the 2013-14 school year could not be determined at the time of the audit because the PDE-generated aid ratio data—required to calculate the subsidy rate—was not yet available.

This deficiency was a result of District personnel believing an Education Specialist Level I certificate for Elementary School Counselor certificate was valid for 99 years instead of only six (6) years.

It is the responsibility of District management to have in place internal policies and procedures to ensure that employees are both properly certified and up-to-date with their certification. A lack of appropriate internal controls can lead to uncertified persons teaching certification-required classes and to a possible loss of state education subsidy.

Recommendations

The *Homer-Center School District* should:

1. Implement internal controls to ensure appropriate tracking of all professional employees who are employed on an Instructional Level I temporary certificate.
2. Put procedures in place to compare employee's certification to the certification requirements of the assignments the District intends to give the employee.

The *Pennsylvania Department of Education* should:

3. Adjust the District's future allocations to recover any subsidy forfeitures.

Management Response

Management stated the following:

“We did not receive any formal finding from the Bureau of School Leadership and Teacher Quality regarding the specific issue of a possible lapsed certificate. Based upon the information verbally shared from the auditors, we immediately acted to correct the certificate which required the teacher to pay the fee and submit to TIMS. Prior to the exit interview, this possible certification deficiency had been rectified.

In addition, procedures are in place to provide advance reminders to certificated personnel so they may address, in a timely manner, any upcoming issues regarding their individual certificates.”

Auditor Conclusion

We are encouraged that the District is taking action on our recommendations. We will follow up on the status of those actions during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Homer-Center School District (District) released on February 24, 2012, resulted in one (1) finding. The finding pertained to errors in pupil transportation. 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 the errors in pupil transportation.

Auditor General Performance Audit Report Released on February 24, 2012

Finding: **Errors in Pupil Transportation Reports Resulted in a Net Overpayment of \$17,587**

Finding Summary: Our prior audit of the pupil transportation records submitted to the Pennsylvania Department of Education (PDE) for the 2008-09 and 2009-10 school years, found that District personnel made reporting errors by incorrectly reporting after school activity route data as regular transportation route data, which is reimbursed at a different rate. In addition, the District underreported the number of non-reimbursable pupils transported for both years of audit and the number of nonpublic pupils transported in the 2009-10 school year. These errors resulted in an overpayment of \$5,429 for the 2008-09 school year and a net overpayment of \$12,158 for the 2009-10 school year.

Recommendations: Our audit finding recommended that the District should:

1. Conduct an internal review to ensure the daily mileage, pupil count, days of service, non-reimbursable pupils, and nonpublic pupils are accurately reported and reported to PDE.
2. Perform a review of subsequent years' data for accuracy and resubmit reports if necessary.

We also recommended that PDE should:

3. Adjust the District's allocations to correct the reimbursement overpayment of \$17,587.

Current Status: During our current audit, we found that the District did implement our prior recommendations. However, insignificant errors were noted in pupil counts and non-reimbursable pupils. As of November 22, 2013, PDE has not adjusted the District's allocation to correct the \$17,587 overpayment.

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:

The Honorable Tom Corbett
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The Honorable Carolyn Dumaesq
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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.