



**JIM THORPE AREA SCHOOL DISTRICT  
CARBON 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

Mr. Dennis McGinley, Board President  
Jim Thorpe Area School District  
410 Center Avenue  
Jim Thorpe, Pennsylvania 18229

Dear Governor Corbett and Mr. McGinley:

We conducted a performance audit of the Jim Thorpe Area 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 March 22, 2012 through December 9, 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 one (1) finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with the District's management, and their response is 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 cursive script, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE  
Auditor General

June 24, 2014

cc: **JIM THORPE AREA SCHOOL DISTRICT** Board of School Directors

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Jim Thorpe Area School District (District) in Carbon 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 March 22, 2012 through December 19, 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 150 square miles. According to 2010 federal census data, it serves a resident population of 17,474. According to District officials, the District provided basic educational services to 2,430 pupils through the employment of 151 teachers, 138 full-time and part-time support personnel, and eleven (11) administrators during the 2011-12 school year. The District received \$7,090,148 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 one (1) compliance related matter reported as a finding.

#### **Finding: Continued Errors in Membership Reporting and a Lack of Internal Controls Resulted in the District Not Receiving Their Entitled**

**Reimbursement.** Our current audit of the Jim Thorpe Area School District (District) found that membership data for the 2010-11 and 2011-12 school years for non-resident foster students and wards of the state were incorrectly reported to the Pennsylvania Department of Education, resulting in a net underpayment to the District of \$43,064 (see page 5).

#### **Status of Prior Audit Findings and**

**Observations.** With regard to the status of our prior audit recommendations to the Jim Thorpe Area School District (District) from an audit released on January 14, 2013, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to our membership finding (see page 9). We found that the District did take corrective action in implementing our recommendations pertaining to our findings regarding conflicts of interest and untimely Memorandums of Understanding (see page 10) and our transportation observation (see page 11).

## Audit Scope, Objectives, and Methodology

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### 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 March 22, 2012 through December 9, 2013, except for the verification of professional employee certification, which was performed for the period August 27, 2013 through October 21, 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 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 current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ 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 reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant

*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.

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 January 14, 2013, we reviewed the District's response to PDE dated March 11, 2013. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Continued Errors in Membership Reporting and a Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Reimbursement

*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 individual student data for each student served by Pennsylvania's Pre-K through Grade Twelve (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 audit of the Jim Thorpe Area School District's (District) pupil membership reports submitted to PDE for the 2010-11 and 2011-12 school years found reporting errors, as well as a lack of internal controls. These errors resulted in a net underpayment to the District of \$43,064. District personnel inaccurately reported the membership for children placed in private homes (foster children) and for wards of the state. The lack of internal controls resulted in the District failing to reconcile preliminary data reports from PDE. Specific deficiencies noted are as follows:

- Membership days in 2010-11 for non-resident foster children were understated by 180 days for elementary students, and membership days for wards of the state were understated by 953 days for secondary students. As a result, the District was underpaid a total of \$55,313.



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.

- Membership days in 2011-12 for wards of the state were overstated by 256 days for secondary students. As a result, the District was overpaid \$12,249.

The errors were due to District personnel failing to enter student data correctly into its student information system for the non-resident students and to reconcile preliminary membership reports issued by PDE to data in its student information system.

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

This is the second consecutive audit of the District that included a finding on deficiencies in its student data reporting. Our previous audit, released on January 14, 2013, found that reporting errors and a lack of internal controls resulted in the District being underpaid a total of \$135,941 for the 2009-10 school year.

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.

### **Recommendations**

The *Jim Thorpe Area School District* should:

1. Establish internal controls that include reconciliations of the data that is uploaded into PIMS to information in the District's student information system.
2. Verify that the preliminary reports from PDE are correct and, if not correct, revise and resubmit child accounting data so that the final reports from PDE are correct.

The *Pennsylvania Department of Education* should:

3. Revise all data that was incorrectly reported and then adjust the District's reimbursement accordingly.

## **Management Response**

Management stated the following:

“The finding with which we agree . . . concerns the reporting of pupil membership [that] was partially due to unfamiliarity with the proper PIMS uploading procedures and confusion over the reporting of a foster student who was legally adopted by his foster parents. Additionally, several students that were initially disclaimed by their home school district were acknowledged at a later date; however the students’ statuses were not updated in [the District’s student information system].

We are still working to become more familiar with the PIMS procedures. We are now aware that before changes are uploaded into PIMS, previous files must be deleted so that information is not doubled in the PIMS system. We have made our PIMS coordinator aware of this procedure and he will follow it going forward.

The child accounting component of this finding will be avoided in the future since additional checks have been added to the procedures for changing a student’s status in [the District’s student information system]. Our Guidance Counselors and Registrar have been updated on those new procedures and the Registrar will confirm all status changes made by the Guidance Counselors.

Lastly, when a student is acknowledged by his/her home district, we will now immediately update the student’s status in [the District’s student information system] upon receipt of the 4605 [residency acknowledgement form].

District staff will continue attending A/CAPA [Attendance/Child Accounting Professional Association] conferences and PIMS seminars to stay current on changes in both areas.

The finding with which we do not agree concerns reporting of Youth Service Agency (YSA) students in PIMS. Due to the lack of records kept by and the inability to acquire necessary PIMS information from YSA, we were unable to upload these students into the PIMS system. Information on these students was forwarded to . . . PDE’s Coordinator of Child Accounting, and she was/is inputting the

information manually into the PIMS system. There were several Wards of the State that were entered incorrectly by [PDE], causing the Jim Thorpe Area School District to be shortened reimbursement. This error was on the part of PDE, not the Jim Thorpe Area School District.”

### **Auditor Conclusion**

As stated in the finding, this is the second consecutive audit that includes a finding in the area of student data reporting. We will again follow up on the status of this finding and our recommendations during our next cyclical audit of the District.

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Jim Thorpe Area School District (District) released on January 14, 2013, resulted in three (3) findings and one (1) observation, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings and observation. As shown below, we found that the District did not implement our recommendations related to our non-resident membership finding. The District did implement our recommendations pertaining to our findings regarding conflicts of interest and untimely Memorandums of Understanding. The District also implemented our recommendations related to our transportation observation.

### **Auditor General Performance Audit Report Released on January 14, 2013**

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**Finding No. 1:**                    **Errors in Reporting Pupil Membership and a Lack of Internal Controls Resulted in a Subsidy and Reimbursement Underpayment**

Finding Summary:            Our prior audit of the District's pupil membership reports submitted to PDE for the 2009-10 school year found reporting errors as well as a lack of internal controls. Membership days for non-resident foster students and orphans were understated. In addition, resident days for intermediate unit students who were mainstreamed in District buildings were understated.

The non-resident errors resulted in the District being underpaid \$135,941 in Commonwealth-paid tuition for foster students and state wards.

Recommendations:        Our audit finding recommended that the District should:

1. Establish internal controls that include reconciliations of the data that is uploaded to the Pennsylvania Information Management System.
2. Verify that the preliminary reports from PDE are correct and, if not correct, revise and resubmit child accounting data so that the final reports from PDE are correct.

We also recommended that PDE should:

3. Revise all reports that have been incorrectly completed and adjust the District's reimbursement affected by the errors.

Current Status: During our current audit, we found that the District did not implement our prior recommendations (see page 5). Also, as of the end of fieldwork, the District had not yet received the underpayment of \$135,941. We again recommend PDE resolve this underpayment.

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**Finding No. 2: Possible Conflict of Interest**

Finding Summary: Our prior audit found that one (1) member of the District's Board of School Directors was employed by one (1) of the District's transportation contractors as a bus driver. Although this is not prohibited, we noted that this member served as the treasurer in 2009 and the board president in 2010. Consequently, the board member, while holding these positions, was an authorized check signer of the District's funds and signed the checks for payment to the contracted bus company in which he was employed.

Recommendations: Our audit finding recommended that the District should:

1. Require that the District strengthen controls regarding the review of the Statements of Financial Interests submitted by Board Members, to help ensure detection of any potential conflicts of interest.
2. Strengthen controls to help ensure compliance with state laws regarding Board Members conducting business with the District, public disclosure of contracts awarded, and abstention from voting on contracts with a potential conflict of interest.

Current Status: During our current audit, we found that the District did implement our prior recommendations. The Board Member in question is no longer President or Treasurer of the Board. All Board Members' Statements of Financial Interests were filed on time and completed correctly.

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**Finding No. 3: Memorandums of Understanding with Local Law Enforcement Not Updated Timely**

Finding Summary: Our audit found that the Memorandums of Understanding (MOU) between the District and two (2) law enforcement agencies having jurisdiction over school property, setting forth agreed upon procedures

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to be followed should an incident involving an act of violence or possession of a weapon occur on school property, were updated July 2011 and July 14, 2011. The MOUs had last been updated February 11, 2009, more than two (2) years before, and was therefore untimely. The Public School Code requires public schools to update and re-execute MOUs with local law enforcement every two (2) years.

Recommendations:

Our audit finding recommended that the District should:

1. In consultation with the District's solicitor, continue to review, update, and re-execute the MOUs between the District and all law enforcement agencies having jurisdiction over school property.
2. In consultation with the District's solicitor, review the requirements for MOUs and other school safety areas under the Public School Code to ensure compliance with amended Safe Schools provisions enacted November 17, 2010.
3. Adopt an official board policy requiring the District's administration to biennially update and re-execute all MOUs with all law enforcement agencies having jurisdiction over school property and file a copy with the PDE's Office of Safe Schools on a biennial basis, as required by law.

Current Status:

During our current audit, we found that the District did implement our prior recommendations. The District's MOUs with the two (2) local law enforcement agencies have been updated on a timely basis and filed with PDE as required.

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**Observation**

**Transportation Contractors Paid Significantly Over State Formula**

Observation Summary:

Our audit of the District's transportation records for the 2008-09 and 2009-10 school years found that the District paid two (2) of its bus contractors significantly more than the state formula allowance calculated by PDE. This action may have resulted in unnecessary expenditure of taxpayer's money.

Recommendations:

Our audit observation recommended that the District should:

1. Consider bidding transportation contracts to determine if taxpayers would benefit from a more favorable contract for the District.
2. Be cognizant of the state's final formula allowance prior to negotiating transportation contracts.

3. Consider contracts of shorter duration and without automatic yearly increases.

Current Status:

During our current audit, we found that the District tried to implement our prior recommendations during the last contract extension. A board committee investigated and obtained prices from outside contractors, but costs were significantly higher than those of the local contractors.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following stakeholders:

The Honorable Tom Corbett  
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Harrisburg, PA 17120

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](http://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](mailto:news@auditorgen.state.pa.us).