

PERFORMANCE AUDIT

Northern Lehigh School District Lehigh County, Pennsylvania

September 2014



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

EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Edward E. Hartman, Board President
Northern Lehigh School District
1201 Shadow Oaks Lane
Slatington, Pennsylvania 18080

Dear Governor Corbett and Mr. Hartman:

We conducted a performance audit of the Northern Lehigh 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 April 13, 2012 through April 15, 2014, 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.

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

Sincerely,

A handwritten signature in dark ink, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale
Auditor General

September 25, 2014

cc: **NORTHERN LEHIGH SCHOOL DISTRICT** Board of School Directors

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	2
Findings and Observations	6
Status of Prior Audit Findings and Observations	7
Distribution List	9

Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Northern Lehigh School District (District) in Lehigh 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 April 13, 2012 through April 15, 2014, 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 27 square miles. According to 2010 federal census data, it serves a resident population of 12,926. According to District officials, the District provided basic educational services to 1,800 pupils through the employment of 137 teachers, 103 full-time and part-time support personnel, and sixteen (16) administrators during the 2011-12 school year. The District received \$10,764,504 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. Our audit resulted in no findings or observations.

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Northern Lehigh School District (District) from an audit released on December 20, 2012, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to inadequate documentation and errors in membership reported for children placed in private homes (see page 7) and possible inaccurate reporting of retirement wages (see page 8).

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 April 13, 2012 through April 15, 2014, except for the verification of professional employee certification, which was performed for the period July 1, 2013 through March 11, 2014.

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 and retirement), did it follow applicable 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 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?
- ✓ 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

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.

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 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 December 20, 2012, we reviewed the District's response to PDE dated February 11, 2013. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Northern Lehigh School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Northern Lehigh School District (District) released on December 20, 2012, resulted in two (2) findings. The first finding pertained to inadequate documentation and errors in membership reported for children placed in private homes (foster children), and the second finding pertained to possible inaccurate reporting of retirement wages. 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. As shown below, we found that the District did implement our recommendations related to membership reported for foster children and the possible inaccurate reporting of retirement wages.

Auditor General Performance Audit Report Released on December 20, 2012

Finding No. 1: **Inadequate Documentation and Errors in Membership Reported for Children Placed in Private Homes Resulted in a Reimbursement Underpayment of \$62,379**

Finding Summary: Our prior audit of the District found that pupil membership reports submitted to PDE for the 2009-10 school year had reporting errors. District personnel did not maintain adequate documentation and inaccurately reported membership for children placed in private homes (foster children). The errors resulted in an underpayment of \$62,379 for the 2009-10 school year in Commonwealth-paid tuition for foster children.

Recommendations: Our audit finding recommended that the District should:

1. Review PDE instructions and compile its nonresident listing accordingly.
2. Review membership data thoroughly for residency classifications prior to submitting reports to PDE.
3. Review reports submitted subsequent to the years audited and submit revised reports to PDE if errors are found.
4. Maintain placement agency letters for all foster children for audit.

We also recommended that PDE should:

5. Adjust the District's membership reports and reimburse the underpayment of \$62,379.

Current Status: During our current audit, we found that the District did implement our prior recommendations. As of our fieldwork completion date, April 15, 2014, PDE had not yet adjusted the District's allocations to resolve the underpayment.

Finding No. 2: Possible Inaccurate reporting of Retirement Wages

Finding Summary: Our prior audit of the District found that retirement wages might have been overstated in reports submitted to the Public School Employees' Retirement System (PSERS) for seven (7) administrators during the 2010-11 school year. The total possible ineligible payments reported for the administrators were \$24,058.

Recommendations: Our audit finding recommended that the District should:

1. Ensure that District personnel report to PSERS only those wages allowable for retirement purposes, as stated in PSERS regulations and guidelines.

We also recommended that PSERS should:

2. Review the 2010-11 compensation reported for the administrators cited in our report and render an opinion on the propriety of the wages reported by the District.
3. Make the necessary corrections to the pension benefits and contributions if the payments are determined to be ineligible for retirement.

Current Status: During our current audit, we found that the District did implement our prior recommendation.

Subsequent to completion of our fieldwork for the current audit, PSERS notified us that it had adjusted the accounts of the cited administrators in accordance with our prior audit finding.

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
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Carolyn Dumaesq
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

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

Ms. Lori Graham
Acting 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. Lin Carpenter
Assistant Executive Director for Member Services
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record and is available online at www.auditor.gen.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@auditor.gen.state.pa.us.