

LIMITED PROCEDURES ENGAGEMENT

Armstrong School District Armstrong County, Pennsylvania

March 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DEPASQUALE
AUDITOR GENERAL

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Joseph Close, Board President
Armstrong School District
181 Heritage Park Drive, Suite 2
Kittanning, Pennsylvania 16201

Dear Governor Wolf and Mr. Close:

We conducted a Limited Procedures Engagement (LPE) of the Armstrong School District (District) to determine its compliance with certain relevant state laws, regulations, policies, and administrative procedures (relevant requirements). The LPE covers the period May 17, 2012 through December 24, 2014, except for any areas of compliance that may have required an alternative to this period. The engagement was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania and the Fiscal Code 72 P.S. § 403, but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our engagement found that the District complied, in all significant respects, with relevant requirements, except as detailed in the one (1) finding noted in this letter. The finding is detailed in the following section of this letter.

The finding and our related recommendations have been discussed with the District's management, and their responses are included in the Findings and Observations section of this letter. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal, administrative requirements, and best practices.

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

Sincerely,

Eugene A. DePasquale
Auditor General

March 12, 2015

cc: **ARMSTRONG SCHOOL DISTRICT** Board of School Directors

Findings and Observations

Finding

Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Overpayments Totaling \$38,129

Finding Condition

Our current review of the Armstrong School District's (District) payroll records found that the Social Security and Medicare wages for the school years ending June 30, 2011 through 2014, were incorrectly reported to the Pennsylvania Department of Education (PDE), resulting in reimbursement overpayments totaling \$38,129.

Criteria

The 1986 Budget Reconciliation Act requires local education agencies (LEA) to deposit Social Security and Medicare tax contributions for wages earned on or after January 1, 1987, directly to authorize depositories or Federal Reserve banks. LEAs were required to pay the full amount of the employer's tax due, including the Commonwealth's share, which is 50 percent of the employer's share of tax due for employees employed by an LEA prior to July 1, 1994 (existing employees). LEAs are subsequently reimbursed for the Commonwealth's matching share based on wages reported to PDE, excluding wages paid with federal funds.

Act 29 of 1994 further changed the way in which LEAs are reimbursed for Social Security and Medicare contributions by providing that employees who had never been employed by an LEA prior to July 1, 1994 (new employee), would have Social Security and Medicare employer shares reimbursed based on the LEA's aid ratio or 50 percent, whichever is greater.

LEAs are subsequently reimbursed for the Commonwealth's matching share based on wages reported to PDE, excluding wages paid with federal funds.

Effect

For the school years ending June 30, 2011 through 2014, the reporting errors resulted in reimbursement overpayments of \$9,932, \$10,628, \$6,931, and \$10,638, respectively, totaling \$38,129.

Cause

The errors were a result of District personnel's failure to correctly reclassify all the existing employees who were incorrectly reported as new employees, as found during our prior audit (see the Status of Prior Findings and Observations section following).

Recommendation

The *Armstrong School District* should:

1. Ensure that District personnel comply with PDE instructions when completing the Reconciliation of Social Security and Medicare Tax Contributions form.
2. Ensure that District personnel accurately identify and report new and existing employees.
3. Perform an internal review of reports submitted in school years subsequent to the audit period, and resubmit reports to PDE if similar errors occurred.

The *Pennsylvania Department of Education* should:

4. Adjust the District's allocations to resolve the reimbursement overpayments totaling \$38,129.

Status of Prior Findings and Observations

Finding No. 1

Certification Deficiency

Finding Condition

Our prior audit of professional employees' certification for the period January 1, 2010 through April 27, 2012, found one (1) professional employee was improperly assigned to a position without holding proper certification.

Recommendations

Our audit finding recommended that the District should:

Implement internal controls to ensure appropriate tracking of all professional employees who are employed on an Instructional Level I temporary certificate.

We also recommended that the Pennsylvania Department of Education (PDE) should:

Adjust the District's allocations to recover the subsidy forfeitures appropriate to the deficiency.

Current Status

During our current review, we found that the employee who had a lapsed certificate received a permanent certificate effective March 1, 2012. As of December 24, 2014, PDE had not yet recovered the appropriate subsidy forfeitures.

Finding No. 2

Errors in Reporting Pupil Membership Resulted in a Net Reimbursement Overpayment of \$40,566

Finding Condition

Our prior audit of pupil membership reports submitted to PDE for the 2008-09 and 2009-10 school years found reporting errors. District personnel variously failed to report or inaccurately reported resident and non-resident pupil membership days. The reporting errors resulted in over and underpayments in tuition for children placed in private homes (foster children) of \$51,930 and \$11,364, respectively, a net overpayment of \$40,566.

Recommendations

Our audit finding recommended that the District should:

1. Reference the Pennsylvania Information Management System (PIMS) manual of reporting for proper instructions in reporting non-resident students' membership days.

2. Strengthen internal controls to ensure adherence to PDE regulations when reporting non-resident students.
3. Review membership reports submitted to PDE for school years subsequent to the audit, and if reporting errors are found, contact the PIMS help desk for guidance in changing coding. If necessary, submit revised reports to PDE.
4. Contact the local technical school to ensure they properly identify the District's non-resident pupils' membership when completing their PIMS child accounting membership reports to PDE.
5. Implement procedures to ensure proper reporting of kindergarten students and to ensure all secondary resident students are reported in the PIMS system.

We also recommended that PDE should:

6. Adjust the District's allocations to resolve the net overpayment of \$40,566.

Current Status

During our current review, we found that the District correctly reported membership to PIMS, except for some insignificant errors.

As of December 24, 2014, PDE had not yet adjusted the District's allocations to resolve the net overpayment of \$40,566.

Finding No. 3

Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Overpayments Totaling \$84,586

Finding Condition

Our prior audit of District payroll records found that the Social Security and Medicare wages for the 2008-09 and 2009-10 school years were incorrectly reported to PDE, resulting in reimbursement overpayments of \$40,325 and \$44,261, respectively, totaling \$84,586.

Recommendations

Our audit finding recommended that the District should:

1. Ensure that District personnel comply with PDE instructions when completing the Reconciliation of Social Security and Medicare tax contributions form, and retain supporting documentation.
2. Ensure that District personnel accurately identify and report new and existing employees.

3. Perform an internal review of reports submitted in school years subsequent to the audit period, and resubmit reports to PDE if similar errors occurred.

We also recommended that PDE should:

4. Adjust the District's allocations to resolve the reimbursement overpayments totaling \$84,586.

Current Status

During our current review, we found that the District did not correct the classifications of all the employees who were reported incorrectly. (See the Findings and Observations section above.)

As of December 24, 2014, PDE had not yet adjusted the District's allocations to resolve the overpayments of \$84,586.

Finding No. 4

Pupil Transportation Reporting Errors and Lack of Supporting Documentation

Finding Condition

Our prior audit of the District's pupil transportation records and reports submitted to PDE for the 2008-09 and 2009-10 school years found reporting errors and a lack of documentation supporting reimbursements of \$4,569,460 and \$4,498,525, respectively. We also found that reporting errors in the 2009-10 school year resulted in a \$13,408 pupil transportation reimbursement overpayment.

Recommendation

Our audit finding recommended that the District should:

1. Conduct an annual internal review to ensure the number of days of service, daily mileage, pupil counts, the number of trips per day, and the amount paid to each contractor are accurately recorded and reported to PDE.
2. Prepare and retain on file, the source data used to report pupil transportation data to PDE.
3. Prepare detailed bus route descriptions for each bus, with board approval, and perform yearly verifications of all bus routes and mileages to ensure all buses are following the board approved bus routes.
4. Prepare and maintain records of odometer readings between all bus stops and pertinent loading zones, as required by regulations.
5. Prepare and retain complete daily mileage rosters identifying miles with and without pupils for each bus run.

6. Provide training for District pupil transportation personnel.
7. Instruct the District's transportation coordinator to develop appropriate written procedures incorporating independent verification and defining appropriate supporting documentation to ensure the accuracy of the District's records.
8. Prepare and retain verifiable supporting documentation to support the number of nonreimbursable pupils and hazardous walking route pupil reported to PDE.
9. Perform a review of subsequent years' data to ensure supporting documentation was prepared and retained and accurate data was reported, and resubmit reports to PDE, if necessary.

We also recommended that PDE should:

10. Recover the \$13,408 overpayment for the 2009-10 school year.

Current Status

During our current review, we found that the District now has proper documentation and is reviewing data from the contractors every month. The District has yearly contracts that state the contractors will follow bus routes approved by the Board of School Directors. We found no errors in data reported for busses we tested. An insignificant error was noted in reporting hazardous walking routes totals. As of December 24, 2014, PDE had not yet adjusted the District's allocations to resolve the overpayment of \$13,408.

Finding No. 5

Internal Control Weaknesses and Lack of Support Documentation for Retirement Contribution Reimbursement Data

Finding Condition

Our prior audit of the District's payroll records for the 2008-09 and 2009-10 school years found a lack of supporting documentation to verify the accuracy of wages reported for existing and new employees relating to retirement contribution reimbursements of \$1,086,441 and \$1,083,766, respectively.

Recommendation

Our audit finding recommended that the District should:

1. Prepare source documentation to separate existing and new employees.
2. Reconcile the retirement reimbursement to source documents to ensure that the reimbursement received is correct.

3. Update payroll software to identify new and existing employees.

We also recommended that PDE should:

4. Consider the appropriateness of the District's retirement reimbursement due to the facts stated above.

Current Status

The District is currently able to provide documentation to support the reporting of retirement wages.

Observation No. 1

Amount Paid to the Pupil Transportation Contractors Greatly Exceeds the Pennsylvania Department of Education Final Formula Allowance

Finding Condition

Our prior audit of the District's contracted pupil transportation costs for the school years ending June 30, 2007 through June 30, 2010, found that the contracted cost of the District's pupil transportation operation had increased substantially more than rate of inflation over the four-year period, based on District data reported for reimbursement purposes. The amount paid to the District's transportation contractor increased more than PDE's inflation-adjusted final formula allowances, which is used to determine the District's reimbursement for transportation services.

Recommendation

Our audit finding recommended that the District should:

1. Prior to negotiating a new contract, be cognizant of the State's final formula allowance cost formula.
2. Prepare pupil transportation contracts to ensure the local effort share is as minimal as possible by establishing the base rate and increases in line with PDE's final formula allowance for all pupil transportation cost.
3. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.

Current Status

The District is currently paying its contractors less than 150 percent of the state formula. This correction was made beginning with the 2010-11 school year.

Observation No. 2

The Armstrong School District Lacks Sufficient Internal Controls Over Its Student Records Data

Finding Condition

Beginning with the 2009-10 school year, PDE began basing all local education agencies' (LEA) state subsidy calculations on the student record data it receives in PIMS. Our review of the LEA's controls over data integrity found that internal controls over student data needed to be improved.

Recommendation

Our audit finding recommended that the District should:

1. Verify PIMS student totals with District membership software totals and make sure they are in agreement.
2. Ensure that an entry/withdrawal form is being filled out for each student.
3. Ensure documented procedures are in place (e.g. procedure manuals, policies, written instructions, etc.) to ensure continuity over its PIMS data submission in the event of a sudden change in personnel.

Current Status

During our current review, we found that the District did have proper entry/withdrawal forms. The District does not yet have written instructions to ensure continuity over its PIMS data submission in the event of a sudden change in personnel. Insignificant errors were noted in comparing PIMS student totals with District membership software totals.

Distribution List

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

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Harrisburg, PA 17120

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