



**CARLISLE AREA SCHOOL DISTRICT
CUMBERLAND COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

SEPTEMBER 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

Mrs. Nancy Fishman, Board President
Carlisle Area School District
623 West Penn Street
Carlisle, Pennsylvania 17013

Dear Governor Corbett and Mrs. Fishman:

We conducted a performance audit of the Carlisle 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 August 10, 2010 through October 25, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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 significant noncompliance with relevant requirements, as detailed in the three audit findings within this report. A summary of the results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District and a number of different government entities, including the Public School Employees' Retirement System and the Pennsylvania Department of Education.

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

September 30, 2013

cc: **CARLISLE AREA 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 Carlisle Area School District (District). 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 August 10, 2010 through August 12, 2012, 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 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 78 square miles. According to 2010 federal census data, it serves a resident population of 37,078. According to District officials, the District provided basic educational services to 4,755 pupils through the employment of 391 teachers, 310 full-time and part-time support personnel, and 38 administrators during the 2009-10 school year. Lastly, the District received \$18.9 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found significant noncompliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, as detailed in the three audit findings within this report.

Finding No. 1: Possible Ineligible Wages Reported to Public School Employees' Retirement System.

Our audit of the Carlisle Area School District's (District) retirement and payroll records for the 2011-12 and 2012-13 school years found that the District may have reported ineligible wages to the Public School Employees' Retirement System for both years (see page 5)

Finding No. 2: Certification Deficiencies.

Our audit of the Carlisle Area School District's professional employees' certifications for the period August 10, 2010 through September 11, 2012, found two individuals with certification deficiencies (see page 9).

Finding No. 3: Internal Control Weaknesses Regarding Pupil Membership Data Reported to the Pennsylvania Department of Education.

Our audit of the Carlisle Area School District's (District) membership reporting for the 2009-10 school year found inaccuracies in the documentation District personnel provided to support the membership data they reported to the Pennsylvania Department of Education (see page 11).

Status of Prior Audit Findings and Observations.

There were no findings or observations included in our prior audit report.

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 August 10, 2010 through October 25, 2012, except for the verification of professional employee certification which was performed for the period August 10, 2010 through September 11, 2012.

Regarding state subsidies and reimbursements, our audit covered the 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 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?

- ✓ 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 state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), 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 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 independent auditors, citizens, or other interested parties?

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 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 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 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, 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.

Findings and Observations

Finding No. 1

Possible Ineligible Wages Reported To Public School Employees' Retirement System

Criteria relevant to the finding:

The Public School Employees' Retirement System Employer's Reference Manual for Reporting, Chapter 5 provides in part that reimbursement for expenses are unqualified payments, not eligible for retirement contributions.

Our audit of the Carlisle Area School District's (District) retirement and payroll records for the 2012-13 and 2011-12 school years found that the District reported payments made to reimburse certain employees, who were required to maintain a personal cellular phone for work use, to the Public School Employees' Retirement System (PSERS) as eligible retirement wages.

During the 2011-12 school year, the District implemented a process in which eight individuals received reimbursement for maintaining a personal cellular phone for business use. This reimbursement amount was added to their base salary. For the 2012-13 school year, the District extended the reimbursement to 40 additional employees. The one-time inclusion to base salary ranged from \$300 to \$800 depending on the individual's position.

The following chart shows the amount processed through payroll as eligible retirement wages:

<u>School Year</u>	<u>Number of Individuals</u>	<u>Total Amount Processed</u>
2011-12	8	\$5,400
2012-13 ¹	40	\$21,100

The Superintendent informed the employees of this reimbursement through a letter dated May 2, 2012.

The Superintendent noted the salary increases were not approved by the Board of School Directors (Board) in a separate motion. Instead, the Board approved the increases through the budget adoption process. Therefore, the individual reimbursement increases had to be obtained from payroll records.

¹ Total amount equals the actual payments made from July 1, 2012 through October 5, 2012. The total questionable anticipated payment for the 40 individuals for 2012-13 school year is \$21,100. The District noted, in their management response, that they identified 52 individuals who were to receive the salary adjustment. However, as of October 5, 2012, only 40 individuals were actually receiving the reimbursement.

Criteria relevant to the finding:

Section 508 (relating to Majority vote required; recording) of the Public School Code of 1949 (PSC), 24 P.S. § 5-508, provides, in part:

“The affirmative vote of a majority of all the members of the board of school directors in every school district, duly recorded, showing how each member voted, shall be required in order to take action on the following subjects:--

Fixing salaries or compensation of officers, teachers, or other appointees of the board of school directors.”

Additionally, Section 1164 (relating to Compensation plans for school administrators) of the PSC, 24 P.S. § 11-1164, commonly referred to as “Act 93”, provides, in part:

“ . . . a means by which compensation matters affecting school administrators can be resolved within the framework of a management team philosophy.”
(See 24 P.S. § 11-1164(b))

The District maintains that this is not a reimbursement for expense, but is instead a salary increase because it is a requirement for the individual to maintain cellular phones. Prior to the 2011-12 school year, the District had provided employees with district-paid cellular phones.

The Superintendent contacted PSERS for a determination as to whether or not the payments qualified as retirement-covered compensation.

We received correspondence from PSERS on October 10, 2012, noting their preliminary determination that the increases in salary were designed to reimburse the employees for the cellular phone, a personal expense, and would not be considered retirement-covered compensation. However, PSERS stated that they were in contact with the District and were waiting for the contracts before making a final determination.

Auditors submitted information to PSERS for the individuals who received the possible ineligible retirement wages for the 2011-12 school year and from July 1, 2012 through October 5, 2012.

It is important to note that if PSERS determines that the personal cellular phone reimbursements do, in fact, constitute an increase in salary, the District would be in violation of the Public School Code’s requirement that all salary or compensation adjustments must be voted on separately by the District’s Board of School Directors.

Recommendations

The *Carlisle Area School District* should:

1. Based on PSERS final determination, report to PSERS any payment determined to be ineligible for retirement from the 2011-12 school year to current for proper resolution.
2. Obtain a PSERS eligibility determination *prior* to enacting any payments, stipends, longevity increases, reimbursements, etc., that are made in addition to employee base salaries.

3. Approve all individual salaries and salary increases through separate motions of the Board to promote transparency and not through the budgeting process.
4. Ensure any wages determined to be ineligible for retirement are properly separated from wages reported to PSERS in the payroll system.

The *Public School Employees' Retirement System* should:

5. Based on their final determination, adjust all payments made by the District which were determined to be ineligible wages from the 2011-12 school year to current.

Management Response

Management stated the following:

“As a cost savings measure, the Carlisle Area School District has stopped paying for District issued cell phones. The District identified 52 specific employees (consisting of employees in administration, security, maintenance, support, technology, and certain positions classified in the teachers bargaining unit) that are required as part of their job to have a personal smart cell phone. The employees are required to have a smart cell phone in order to make and receive phone calls and send and receive e-mails and text messages on an as needed basis at any time day or night seven days a week.

In order to recognize the change in work requirements for the 52 employees, the District either implemented a one time adjustment in salary or issued a supplemental payment of wages depending on the classification of the employee. The amount of the one time salary adjustment ranged from \$800 for three senior District administrators to \$600 and \$300 for others depending on the requirements of the position. The salary adjustment was erroneously characterized in a letter as a reimbursement, which it was not. The salary adjustment was done to recognize a change in the condition of employment for 52 existing employees. As new employees are hired into the positions over time, they will not receive a salary adjustment. The need for the employee to have and use a smart cell phone is a requirement of the position stated in the position description. The new employee accepts the position knowing this requirement.

The salary adjustment was determined by the District to be appropriate compensation for the change in work requirements. It is wages and not a reimbursement and thus has been recorded as wages for retirement reporting purposes. While the increase in salary was included in the District's annual budget approved by the Board of School Directors, in reflection it would have been better to have the Board approve the individual adjustments.

The requirement for specific employees to have smart phones has been implemented and no corrective action is needed.”

Auditor Conclusion

Based on the documentation provided, individuals received a one-time reimbursement payment which was added to base salary and reported to PSERS as eligible retirement wages in order to compensate certain personnel for maintaining a personal smart phone. The PSERS Employer's Reference Manual notes reimbursements for expenses are not eligible for retirement contributions.

As stated in the finding, final determination will need to be issued from PSERS. Since PSERS did not provide the District with a final determination prior to fieldwork completion, the finding will stand as written.

Finding No. 2

Certification Deficiencies

Criteria relevant to the finding:

Section 1202 of the Public School Code (PSC) provides, in part:

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

Section 2518 of the PSC provides, in part:

“[A]ny 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 Department of Education but who has not been certificated 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 Carlisle Area School District’s (District) professional employees’ certifications for the period August 10, 2010 through September 11, 2012, was performed to determine compliance with the Public School Code and the Pennsylvania Department of Education’s (PDE) Bureau of School Leadership and Teacher Qualities (BSLTQ) Certification and Staffing Policies and Guidelines (CSPG). We found two individuals with certification deficiencies as follows:

- One individual with a Secondary Principal Certificate was assigned to the locally titled position of Assistant to the Superintendent. The District did not obtain a determination from the BSLTQ as to the appropriate certificate for this position.
- One individual with a Spanish certificate was assigned to the locally titled position of head teacher of world language and English as a Second Language (ESL). The District did not obtain a determination from the BSLTQ as to the appropriate certificate for this position. In addition, this individual was also assigned to teach one advanced ESL class and did not hold an ESL certificate, as may be required by CSPG No. 68.

It is the responsibility of District management to have internal policies and procedures in place to ensure that employees are properly certified for the positions to which they are assigned. If the District fails to have these internal controls in place, it risks forfeiting a portion of its state reimbursement.

Information pertaining to the deficiencies was submitted to BSLTQ for its review. BSLTQ subsequently confirmed the deficiencies on December 12, 2012. Therefore, the District is subject to subsidy forfeitures of \$495, \$4,974, and \$2,988 for the 2012-13, 2011-12, and 2010-11 school years, respectively.

Recommendations

The *Carlisle Area School District* should:

1. Based on BSLTQ's final determination, take the necessary action required to ensure compliance with CSPG.
2. Submit all locally titled positions to BSLTQ for review and determination of the appropriate certification for the positions.

The *Pennsylvania Department of Education* should:

3. Recover any subsidy forfeitures that may be levied.

Management Response

Management stated the following:

“[First individual] was in class to become certified in ESL. The District believed since she was in the process of obtaining ESL certification she was able to perform assigned duties during the 2011-2012 school year. [First Individual] has completed all necessary course work and is awaiting PDE approval for certification as of August 2012.

[Second individual] was in the position of Assistant to the Superintendent from August 2010 until his retirement in June 2012. The district has had this position off and on over the last twenty years. The District was never informed that the position needed to be reviewed by the PDE at anytime.

[Second individual] holds a secondary principal certificate which allows him to supervise the high school and middle school programs. He also holds a counseling certification which allowed him to be the point of contact for the counseling program K-12. The counselors are evaluated by their building principals. His role was programmatic and organizational in the counseling area.”

Auditor Conclusion

As stated in the body of the finding, BSLTQ made its determination subsequent to completion of fieldwork for the audit, upholding the citations for the individuals noted. Any remaining disagreements on the part of the District must be addressed to PDE.

Finding No. 3

Internal Control Weaknesses Regarding Pupil Membership Data Reported to the Pennsylvania Department of Education

Criteria relevant to the finding:

Section 518 of the Public School Code requires that records be retained for a period of not less than six years.

The Pennsylvania Department of Education guidelines and instructions require the maintenance and retention of adequate documentation to verify the District's entitlement to state payments. Failure to maintain and retain this documentation could result in the loss of state funding.

Pennsylvania Information Management System manual instructions state percent of time enrolled is 100% or 100 for students enrolled in a part-time half-day pre-kindergarten and kindergarten program.

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

Our audit of the Carlisle Area School District's (District) membership reporting for the 2009-10 school year found inaccuracies in the documentation District personnel provided to support the membership data they reported to the Pennsylvania Department of Education (PDE).

Our review of the District membership documents that were provided for audit found discrepancies within the data reported to PDE. District personnel were unable to provide student detail reports from their student information system (SIS) that reconciled to final PDE reports in the Pennsylvania Information Management System (PIMS). Therefore, the District's membership data could not be verified for accuracy. In addition, no audit adjustments could be made to the District's reported membership because of our inability to determine the accuracy of the resident, nonresident, and district-operated vocational membership data. It was further noted that the district operated a half-time kindergarten program during the 2009-10 school year. The membership days for those kindergarten students was reported at 50 percent instead of the 100 percent as required by the PIMS manual.

Furthermore, the District was incorrectly filling in the wrong data field within their SIS for half-time kindergarten days. The District should have been using 1.0 instead of 0.5 as the full-time equivalent (FTE) value. Furthermore, the District manually accounted for out-of-district students instead of entering them in the SIS for child accounting. District personnel were not able to provide a reconciliation of out-of-district membership data. The District noted that they no longer manually account for these students but rather include them in their membership software.

Internal controls are the responsibility of management. Good internal controls provide management with assurance that state funds have been correctly received and expended in accordance with PDE guidelines and instructions. Weak internal controls do not provide management with those assurances. As a result of inadequate record retention procedures, documentation supporting state payments was

*Criteria relevant to the finding
(continued):*

In addition, this guidebook states that an “Internal control is not an event, but a series of actions and activities that occur throughout an entity’s operations and on an ongoing basis . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis.”
U.S. General Accounting Office.
Standards for Internal Control in the Federal Government.
(November 1999), pg 1.

not available for audit. Failure to maintain and retain adequate documentation places the District in jeopardy of having to repay state funding it previously received.

Recommendations

The *Carlisle Area School District* should:

1. Develop and implement procedures to ensure supporting documentation for membership data, which supports membership data reported to PDE, is retained in a manner that it can be retrieved and will be available for audit.
2. Develop and implement written procedures for collecting and maintaining membership data.
3. Develop and implement procedures to reconcile student detail reports to final PDE reports. If errors are noted, adjustments should be submitted to PDE.
4. Ensure that all resident and nonresident membership days are properly reported under the correct classification.
5. Review years subsequent to our audit and ensure data from the District is reconciled to final PDE reports. If adjustments are needed, they should be made.

Management Response

Management stated the following:

“The School District maintains student detail reports contained in the [Vendor] software. The format differs from that which the auditors required for audit. These reports were reconciled against data submitted in PIMS. However, reports could not be provided in the same detail

as requested by state auditors. The School District will coordinate the development of report formats that provide the required information for audit.

The School District files provided did detail student attendance and membership data. However, specific formats did not provide the auditors with the format required to audit in the timeframe allotted. The School District will coordinate the development of report formats that provide the required information for audit.

The School District's child accounting and PIMS format incorrectly pulled from the Calendar FTE file. The correct data should have been uploaded to PIMS from the Calendar File Grade level FTE, which resulted in the error. The School District has corrected the PIMS data file for the 2009-2010, 2010-2011 and 2011-2012 and the correct information has been submitted to the Pennsylvania Department of Education.

The School District has reviewed the process for maintaining attendance on out district students and has developed a system whereby attendance and membership will be tracked through the child accounting software program.”

Auditor Conclusion

We commend the District for taking steps to address the deficiencies in student data reporting. We will evaluate the new internal controls during our next audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Carlisle Area School District resulted in no findings or observations.

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:

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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.