



CLEARFIELD AREA SCHOOL DISTRICT
CLEARFIELD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JULY 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. David Glass, Board President
Clearfield Area School District
438 River Road
Clearfield, Pennsylvania 16830

Dear Governor Corbett and Mr. Glass:

We conducted a performance audit of the Clearfield Area School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period December 10, 2010 through February 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, 2012, 2011, 2010, and 2009. Our audit was conducted pursuant to 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 applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one 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 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,

/s/

EUGENE A. DEPASQUALE
Auditor General

July 10, 2013

cc: **CLEARFIELD 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 Clearfield Area School District (District). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, 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 December 10, 2010 through February 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 2011-12, 2010-11, 2009-10, and 2008-09 school years.

District Background

The District encompasses approximately 345 square miles. According to 2010 federal census data, it serves a resident population of 19,134. According to District officials, the District provided basic educational services to 2,336 pupils through the employment of 181 teachers, 168 full-time and part-time support personnel, and 15 administrators during the 2011-12 school year. Lastly, the District received \$17.4 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 applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: Errors in Student Data Reporting Resulted in an Overpayment to the District of \$21,063.

Our audit of the Clearfield Area School District (District) nonresident pupil membership report for the 2008-09 school year found errors in the report submitted to the Pennsylvania Department of Education. These errors resulted in an overpayment of \$21,063 to the District (see page 5).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the District from an audit released on April 13, 2011, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to Social Security and Medicare reimbursement overpayments (see page 7).

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 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 December 10, 2010 through February 22, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2011-12, 2010-11, 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 applicable state laws, 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:

- ✓ 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?
- ✓ 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?
- ✓ Did the District take appropriate steps to ensure school safety?

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 applicable 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 applicable laws, contracts, grant requirements, and administrative procedures. 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 applicable state laws, regulations, contracts, grant requirements, and administrative procedures 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 bus driver qualifications, 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 operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 13, 2011, we reviewed the District's response to PDE dated June 25, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Errors in Student Data Reporting Resulted in an Overpayment to the District of \$21,063

Criteria relevant to the finding:

22 P.S. § 25-2503 of the Public School Code provides that the Commonwealth will pay tuition to districts providing education to nonresident students placed in private homes. The payments are made based on membership days reported for such children.

24 P.S. § 13-1302 of the Public School Code provides that children living in pre-adoptive situations should be considered residents of the school district in which their pre-adoptive parents reside.

Our audit of Clearfield Area School District's (District) nonresident pupil membership for the 2008-09 school year found errors in reports submitted to the Pennsylvania Department of Education (PDE). These errors resulted in a \$21,063 state subsidy overpayment to the District.

For the 2008-09 school year, District staff reported three resident elementary students as nonresident children placed in private homes (foster students), resulting in an overstatement of the District's elementary nonresident membership for foster children by 474 days.

This reporting error occurred because the District's child accounting specialist did not know that "pre-adoptive" students placed in foster homes within the District should be reported as residents.

It is District management's responsibility to ensure that the student data used to calculate the District's state subsidy is correct. The District did not have the proper internal controls in place to prevent incorrect student data reports from being submitted. Without correct information, the District may not receive the correct amount of state subsidy.

We have provided PDE with a report detailing the errors for use in recalculating the District's tuition for children placed in private homes.

Recommendations

The *Clearfield Area School District* should:

1. Perform an internal audit of pupil membership records prior to submitting them to PDE, to ensure all students are classified correctly.
2. Review membership reports submitted to PDE for years subsequent to the audit and, if errors are found, submit revised reports to PDE.

3. Put into place internal policies and procedures to verify the accuracy of student data prior to its submission to PDE.

The *Pennsylvania Department of Education* should:

4. Adjust the District's allocations to correct the overpayment of \$21,063.

Management Response

Management stated the following:

“District Administration agrees with the finding. The Child Accounting Specialist was not aware that ‘Pre-adoptive’ students should be reported as resident students and not nonresident students. This resulted in an overstatement of Elementary nonresident foster student membership and allowed the District to receive \$21,063 of erroneous reimbursements for Commonwealth paid tuition. After discussion with the State Auditor, Administration and the Child Accounting Specialist were given clarity in regard to the issue. The Child Accounting Specialist has reviewed the current year information to confirm that the error is still not happening and will work diligently to ensure that the error will not occur in future years.”

Status of Prior Audit Findings and Observations

Our prior audit of the Clearfield Area School District (District) released on April 13, 2011, resulted in one reported finding pertaining to Social Security and Medicare reimbursement overpayments. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior 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 finding. As shown below, we found that the District did implement recommendations related to the finding.

Auditor General Performance Audit Report Released on April 13, 2011

Finding: **Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Overpayments of \$11,552**

Finding Summary: Our prior audit of the District's Social Security and Medicare wages for the 2007-08 and 2006-07 school years found that federally-funded wages were incorrectly reported to PDE, resulting in reimbursement overpayments of \$11,552.

Recommendations: Our audit finding recommended that the District:

1. Ensure all employees paid with federal funds are properly coded in the payroll system.
2. Perform a reconciliation of the final federal expenditure reports to payroll reports to ensure accuracy.
3. Review reports filed for years subsequent to the audit period and, if errors are found, submit revised reports to PDE.

We also recommended that PDE:

4. Adjust the District's allocations to resolve the reimbursement overpayments of \$11,552.

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

The District submitted revised reports to PDE for the 2008-09 and 2009-10 school years in February 2012. As a result, PDE deducted \$4,412 from the District's April 5, 2012 subsidy payment.

As of February 22, 2013, PDE had not yet adjusted the District's allocations to resolve the previous reimbursement overpayments of \$11,552 found in our prior audit.

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 William E. Harner
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. Tom Templeton
Assistant Executive Director
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.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.

