



**ELK LAKE SCHOOL DISTRICT
SUSQUEHANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

FEBRUARY 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

Ms. Anne Teel, Board President
Elk Lake School District
2380 Elk Lake School Road
Dimock, Pennsylvania 18816

Dear Governor Corbett and Ms. Teel:

We conducted a performance audit of the Elk Lake 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 4, 2011 through August 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, 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. However, we identified one (1) matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit observation 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

February 4, 2014

cc: **ELK LAKE 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 Elk Lake School District (District) in Susquehanna 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 August 4, 2011 through August 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 and 2010-11 school years.

District Background

The District encompasses approximately 197 square miles. According to 2010 federal census data, it serves a resident population of 7,735. According to District officials, the District provided basic educational services to 1,261 pupils through the employment of 119 teachers, 68 full-time and part-time support personnel, and thirteen (13) administrators during the 2011-12 school year. The District received \$9.7 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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, we identified one (1) matter unrelated to compliance that is reported as an observation.

Observation: Lack of Board Policy and Approval of Tuition Waivers. Our audit of tuition waivers for the 2011-12 and 2010-11 school years found that the Elk Lake School District (District) waived tuition for 26 non-resident students who were children of teachers employed by the District. Although Section 1316 of the Public School Code allows the Board of School Directors (Board) to waive tuition fees, the District had no written board policy, nor was there Board approval in the minutes to substantiate the granting of the tuition waivers. Thus, the action by the District, without the approval of the Board, resulted in a potential loss of tuition revenue of \$190,404. Moreover, without Board approval, board members could be unaware of the cost to the taxpayers for educating these students free of charge (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Elk Lake School District (District) from an audit released on January 20, 2012, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to membership reporting errors and a Pennsylvania Department of Education error (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 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 4, 2011 through August 22, 2013, except for the verification of professional employee certification which was performed for the period July 1, 2012 through August 12, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2011-12 and 2010-11 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. subsidy for children placed in private homes), did it follow applicable laws and procedures?

- ✓ In areas where the District received transportation subsidies, was 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?
- ✓ 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

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

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.

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.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 20, 2012, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

*Public School Code (PSC)
relating to the observation:*

Section 1316 of the PSC provides, in part:

The board of school directors of any school district may permit any nonresident pupils to attend the public schools in its district upon such terms as it may determine, subject to the provisions of this act.

Section 2561(5) of the PSC provides:

A school district shall compute the tuition charges for pupils who are residents of another school district . . . At the end of each school year, the tuition charges shall again be computed and be based on the actual expenses for the school year immediately preceding and the tuition charges for non-resident pupils shall then be adjusted in accordance with this latter computation. The school district, in which the non-resident pupil is a legal resident, shall pay the tuition charges in accordance with the computation based upon these actual expenses.

Lack of Board Policy and Approval of Tuition Waivers

Our audit of tuition waivers for the 2011-12 and 2010-11 school years found that the Elk Lake School District (District) waived tuition for 26 non-resident students who were children of teachers employed by the District. It has been the District's practice to allow non-resident children of District teachers to attend the District free of tuition cost. Although Section 1316 of the Public School Code (PSC) allows the Board of School Directors (Board) to waive tuition rates, the District had no written board policy, nor was there Board approval in the board meeting minutes to substantiate the granting of the tuition waivers. Thus, the action by the District, without the approval of the Board, resulted in a potential loss of tuition revenue of \$190,404. Moreover, without Board approval, Board members could be unaware of the cost to the taxpayers for educating these students free of charge.

Tuition Waivers Granted		
School Year	Students	Tuition Waivers
2011-12	12	\$97,249
2010-11	<u>14</u>	<u>\$93,155</u>
Total	26	\$190,404

A non-resident student is a student educated by the District whose parents or legal guardian resides in another district. Section 2561 of the PSC governs tuition charges for pupils attending classes as a non-resident pupil.

Management has the responsibility for the establishment and maintenance of internal controls in order to provide reasonable assurance that the Board is aware of the cost to educate the non-resident children of District teachers and the effect the waivers have on the District's budget prior to educating that student.

District personnel have been provided a report detailing the cost of the tuition waivers to the District.

Recommendations

The *Elk Lake School District* should:

1. Ensure that all tuition waivers are done in compliance with Section 1316 of the PSC.
2. Implement Board policy to address tuition waivers, specifically, waivers for teachers' children.
3. Receive board approval for each tuition waiver prior to educating that non-resident student.

Management Response

Management stated the following:

“The District is in the process of developing a procedure for this.”

Auditor Conclusion

We are encouraged that the District is taking action to address this lack of procedures. We will follow up on the District's progress during our next cyclical audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Elk Lake School District (District) released on January 20, 2012, resulted in one (1) finding pertaining to membership reporting errors and a Pennsylvania Department of Education (PDE) error. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We performed audit procedures and interviewed District personnel regarding the prior finding. As shown below, we found that the District did implement our recommendations related to membership reporting errors and PDE error.

Auditor General Performance Audit Report Released on January 20, 2012

Finding: **Membership Reporting Errors and Pennsylvania Department of Education Error Resulted in a Net Underpayment of \$45,284**

Finding Summary: Our prior audit found pupil membership reports submitted to PDE for the 2009-10 school year found reporting errors for children placed in private homes. Our prior audit also found a PDE error for the 2008-09 school year.

Recommendations: Our audit finding recommended that the District should:

1. Strengthen controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions.
2. Implement controls to verify actual membership days to computer generated reports.
3. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
4. Review subsequent year reports and if errors are found, submit revised reports to PDE.

We also recommended that PDE should:

5. Adjust the District's allocations to resolve the net underpayment of \$45,284.

Current Status: During our current audit, we found that the District did implement our prior recommendations by adding a system of review. As of our fieldwork completion date of August 22, 2013, PDE has not adjusted the District's allocations to resolve the net underpayment of \$45,284.

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:

The Honorable Tom Corbett
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The Honorable Carolyn Dumaesq
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