

FOREST CITY REGIONAL SCHOOL DISTRICT
SUSQUEHANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JULY 2010

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dr. Henry Nebzydoski, Board President
Forest City Regional School District
100 Susquehanna Street
Forest City, Pennsylvania 18421

Dear Governor Rendell and Dr. Nebzydoski:

We conducted a performance audit of the Forest City Regional School District (FCRSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period November 27, 2007 through November 6, 2009, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. 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 FCRSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the FCRSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

July 1, 2010

cc: **FOREST CITY REGIONAL SCHOOL DISTRICT** Board Members

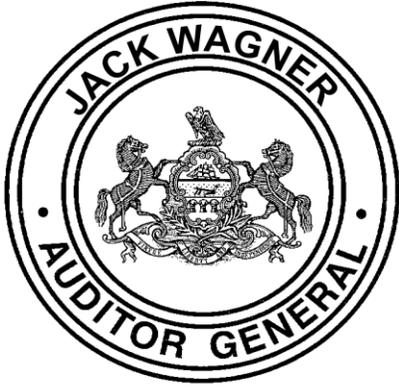
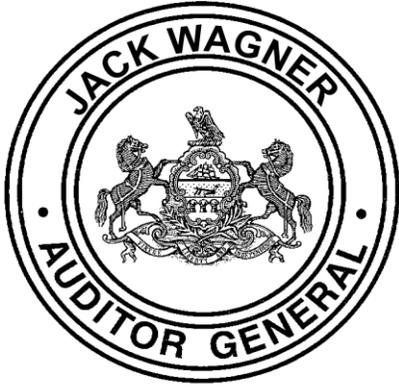


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Forest City Regional School District (FCRSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the FCRSD in response to our prior audit recommendations.

Our audit scope covered the period November 27, 2007 through November 6, 2009, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

District Background

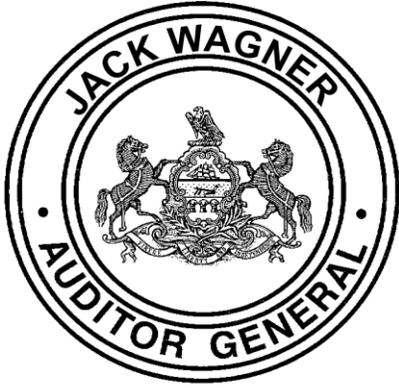
The FCRSD encompasses approximately 95 square miles. According to 2000 federal census data, it serves a resident population of 5,905. According to District officials, in school year 2007-08 the FCRSD provided basic educational services to 972 pupils through the employment of 75 teachers, 55 full-time and part-time support personnel, and 14 administrators. Lastly, the FCRSD received more than \$11.4 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the FCRSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the FCRSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the FCRSD had taken appropriate corrective action in implementing our recommendations pertaining to Statements of Financial Interests (see page 7), nonpublic pupils transported (see page 8) and certification (see page 9).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the 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 PA 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 November 27, 2007 through November 6, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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 Department of Education (DE) 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

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the FCRSD's compliance with applicable 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?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?

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 law, regulation, 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.

- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

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, 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

FCRSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit 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/reimbursement, pupil membership and pupil transportation.

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.

Additionally, we interviewed selected administrators and support personnel associated with FCRSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 3, 2008, we reviewed the Superintendent's response to DE dated April 13, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Forest City Regional School District resulted in no findings or observations.

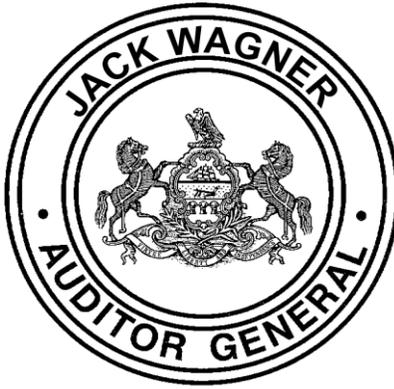
Status of Prior Audit Findings and Observations

Our prior audit of the Forest City Regional School District (FCRSD) for the school years 2005-06 and 2004-05 resulted in three reported findings. The findings pertained to Statements of Financial Interests, nonpublic pupils transported and certification. 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 FCRSD superintendent's, written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the FCRSD did implement recommendations related to Statements of Financial Interests, nonpublic pupils transported and certification.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding 1: Board Member Failed to File Statement of Financial Interests in Violation of the Public Official and Employee Ethics Act</i></u></p> <ol style="list-style-type: none"> 1. Seek the advice of its solicitor in regard to the board's responsibility when an elected board member fails to file Statements of Financial Interests form. 2. Develop and implement procedures to ensure all individuals required to file Statements of Financial Interests forms do so in compliance with the Ethics Act. 	<p>Background:</p> <p>Our prior audit of the 2004-05 and 2005-06 school years records found that one board member did not file their Statement of Financial Interests form for the calendar year ended December 31, 2005.</p>	<p>Current Status:</p> <p>We followed up on the FCRSD's Statements of Financial Interests forms and found that the District did take appropriate corrective action to ensure that all board members filed their Statements of Financial Interests forms.</p>

<p><u>II. Finding 2: Error in Reporting the Number of Nonpublic Pupils Transported Resulted in a Reimbursement Underpayment</u></p> <ol style="list-style-type: none">1. Strengthen controls to ensure accurate reporting of the number of nonpublic pupils transported.2. Review reports submitted subsequent to the audit period and if similar errors are found submit revised reports to DE.3. DE should adjust the District's allocations to correct the reimbursement underpayment of \$2,310.	<p>Background:</p> <p>Our prior audit of the District's pupil transportation reports, as submitted to DE for the 2005-06 and 2004-05 school years, found a reporting error in the number of nonpublic pupils transported for both school years resulting in a \$2,310 reimbursement underpayment.</p>	<p>Current Status:</p> <p>We followed up on the FCRSD's pupil transportation records and found that the District did take appropriate corrective action to ensure that nonpublic transportation was correctly reported.</p> <p>DE had not adjusted the District's allocations to correct the reimbursement underpayment of \$2,310.</p>
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<u>III. Finding 3: Certification Deficiency</u>	Background:	Current Status:
<ol style="list-style-type: none">1. Ensure procedures are in place to compare teacher's certification to the certification requirements of the assignment the District intends to give the teacher.2. DE should adjust the District's allocations and recover any subsidy forfeiture deemed necessary.	<p>Our prior audit of the professional employees' certificates and assignments for the period February 1, 2006 through October 11, 2007, found that in the 2006-07 school year a secondary English teacher was not properly certified for the position.</p>	<p>We followed up on the FCRSD's certification records and found that the District did take appropriate corrective action to ensure that all professional employees are properly certified for their assignment.</p> <p>On June 16, 2009, DE adjusted the District's allocations to recover a subsidy forfeiture of \$2,367.</p>



Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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