MILLCREEK TOWNSHIP SCHOOL DISTRICT

ERIE COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

JULY 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

Mr. Terry Scutella, Board President
Millcreek Township School District
3740 West 26th Street
Erie, Pennsylvania 16506

Dear Governor Corbett and Mr. Scutella:

We conducted a performance audit of the Millcreek Township School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period December 10, 2004 through February 15, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years 2002-03 through 2009-10. 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 significant noncompliance with state laws and administrative procedures, as detailed in the three audit findings and three observations within this report. The District's prior audit included six findings and one observation. Of those prior issues, our current audit determined that the District had taken corrective action to address five of the findings and the observation, but did not take corrective action to address the prior findings on tuition and student activity funds. A summary of the results of the current findings and observations are presented in the Executive Summary section of the audit report. These findings and observations include recommendations aimed at the District and a number of different government entities, including the Pennsylvania Department of Education.

Please note that this audit covered such a large number school years because it was delayed for seven years due to ongoing investigations by the Department of the Auditor General's Office of Special Investigations (OSI) and federal law enforcement. As a result of these investigations, we had to terminate our audit of the District's compliance with specific state subsidies and reimbursements for the 2002-03 and 2003-04 school years, and then commence a new audit covering the subsidy years 2002-03 through 2009-10 and the audit period December 10, 2004 through February 15, 2013. In doing so, we focused on reviewing the most recent information and then expanded our review to earlier years if we identified errors. The subsequent OSI investigative report issued May 2012 and the information from our terminated audit were used as part of our risk assessment for determining what objectives to select in the new audit. The specific time periods covered for each objective are listed under the Scope section of this audit report (see page 3).

Our audit findings, observations, 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 16, 2013

cc: **MILLCREEK TOWNSHIP 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 Millcreek Township 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, 2004 through February 15, 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 2002-03 through 2009-10 school years.

District Background

The District encompasses approximately 29 square miles. According to 2010 federal census data, it serves a resident population of 53,503. According to District officials, the District provided basic educational services to 7,340 pupils through the employment of 494 teachers, 399 full-time and part-time support personnel, and 29 administrators during the 2009-10 school year. Lastly, the District received $24,024,414 in state funding in the 2009-10 school year.

Audit Conclusion and Results

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

Finding No. 1: Ineffective Administrative Management and Poor Board Oversight Lead to Breakdowns in the District's Fiscal Operations. Our audit of the District found that, between July 1, 2008 and June 30, 2012, the district experienced breakdowns in its fiscal operations, including incomplete or missing monthly financial reports, inaccurate budgets, improper fund transfers, improper expenditure and lost revenue. To correct these issues, the District must create a more stable operational environment by establishing a strong system of accountability, commonly referred to as internal controls (see page 7).

Finding No. 2: The District Delayed Its Applications for Commonwealth Reimbursements Totaling $3,105,964, Resulting in Lost Investment Revenue. Our review of the District's lease payments, and its applications for reimbursement for school construction projects, found that the District failed to timely file its applications for reimbursement (see page 13). This delay resulted in denying the District, and its taxpayers, the opportunity to earn potential investment interest on that revenue.

Finding No. 3: Errors and Internal Control Weaknesses Related to Tuition Billings Involving $2,124,278. Our audit of the District's tuition records for the 2009-10 and 2008-09 school years found errors and internal control weaknesses related to tuition billings totaling $2,124,278 (see page 15).

Observation No. 1: Questionable Taxpayer Benefit for Nonresident Tuition Agreement. Beginning in February 26, 2000, the District entered into an agreement (Agreement) with a local hockey club located in Erie, Pennsylvania, which permitted its players to attend school at the District tuition-free, in exchange for various services. However, as nonresident students, these students should have paid nonresident tuition to enroll in the District. Consequently, the District lost this revenue, which calls into question whether the Agreement was in the best interest of the District's taxpayers (see page 19).

Observation No. 2: The District Lacks Sufficient Internal Controls Over Its Student Record Data. Audit test work identified improper reporting of student attendance and membership data to the Pennsylvania Department of Education (see page 24).

Observation No. 3: Unmonitored Vendor System Access and Logical Control Weaknesses. We determined that there is a risk that the District's vendor could make unauthorized changes its child accounting data, without those changes being detected by District staff (see page 27).

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 January 18, 2006, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to nonresident pupil membership, certification, charter school tuition, retirement wages, and the National Student Fitness Foundation. During our current audit procedures, we found that the District had begun to take corrective action, but had not yet completed its implementation. Therefore, we will evaluate these activities during our next regularly scheduled audit (see pages 30 through 34).

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, 2004 through February 15, 2013, except for the following:

- Verification of the professional employee certification, which was performed for the period July 1, 2011 through June 30, 2012.
- Review of state subsidies and reimbursements based on pupil membership was performed for the period June 30, 2009 through July 1, 2010.
- Review of membership data reported to the Pennsylvania Department of Education (PDE) through the Pennsylvania Information Management System was performed for the period June 30, 2009 through July 1, 2010.
- Review of state subsidies and reimbursements based on payroll was performed for the period June 30, 2009 through July 1, 2012.
- Review of transportation state subsidies and reimbursements for transportation was performed for the period June 30, 2009 through July 1, 2010.
- Review of bus driver qualifications was performed for the period June 30, 2012 through February 15, 2013.
- Review of school safety was performed for the period June 30, 2012 through February 15, 2013.
- Review of conflicts of interest was performed for the calendar years 2008 through 2011.
- Review of other areas of concern reported by local auditors, citizens, or other interested parties were performed for the period June 30, 2010 through July 1, 2012.
- Review of corrective action to address recommendations made in our prior audit was performed for the period June 30, 2011 to July 1, 2012.

Please note that this audit covered such a large number of school years because it was delayed for seven years due to ongoing investigations by the Department of the Auditor General's Office of Special Investigations (OSI) and federal law enforcement. As a result of these investigations, we had to terminate our audit of the District's compliance with specific state subsidies and reimbursements for the 2002-03 and 2003-04 school years, and then commence a new audit covering the subsidy years 2002-03 through 2009-10, and the audit period December 10, 2004 through February 15, 2013. In doing so, we focused on reviewing the most recent current information available and then expanded our review to earlier years if we identified errors. The subsequent OSI investigative report issued May 2012 and the information from our terminated audit were used as part of our risk assessment for determining what objectives to select in the new audit.

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 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:

- ✓ 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?

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

- ✓ 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 local 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 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

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.

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 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 18, 2006, we reviewed the District's response to PDE dated January 22, 2007. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Ineffective Administrative Management and Poor Board Oversight Lead to Breakdowns in the District's Fiscal Operations

Criteria relevant to the finding:

The Public School Code addresses the duties of the secretary of the Board of School Directors at 24 P.S. § 4-433, providing, in part:

"The secretary of the boards of school directors shall perform the following duties: . . .

(7) He shall keep correct accounts with each receiver of taxes, school treasurer, or school tax collector of the district, reporting a statement of the same, together with a statement of the finances of the district, at each regular meeting of the board, which statement shall be entered in full upon the minutes."

The Public School Code, 24 P.S. § 4-440, provides, in part:

"The treasurer of each school district shall deposit the funds belonging to the school district in the school depository, if any, as director by the board of school directors, and shall at the end of each month make a report to the school controller, if any, and to the secretary of the board of school directors of the amount of funds received and disbursed by him during the month."

24 P.S. § 4-441 provides:

"The school treasurer shall settle his accounts annually with the board of school directors for each school year."

Our audit of the Millcreek School District (District) found that for the last four years, July 1, 2008 through June 30, 2012, ineffective administrative management and poor oversight by its School Board of Directors (Board) has lead to breakdowns in the District's fiscal operations. The issues are as follows:

Incomplete Monthly Financial Reports: The audit found that although the District's administration does provide the Board with some monthly financial information, it is incomplete. For example, staff does provide the Board with an accounts payable summary at each regularly scheduled public board meeting, which lists the total outstanding vendor invoices payable from the general fund, food service fund, and other funds for the previous month. In addition, the District's administration provides the Board with a monthly check summary by fund, which lists the check number, vendor, description of purchase, and amount of the check.

While this documentation provides the Board with some of the information it needs to understand the District's financial position, and therefore, make accurate operational decisions, it is incomplete. To ensure that the Board has a clear and accurate picture of the District's finances, it needs to receive the following additional financial information on a monthly basis: (1) the level of restricted and unrestricted cash available at the previous month's end, (2) the investment income, (3) the revenues received, (4) the total disbursements made, (5) the cash and equivalents for the current month's end, (6) the balance sheet, (7) the income statement, and (8) the cash flow statement. The administration should also provide the Board with a monthly comparison between the budgeted revenues and expenditures and the actual revenues and expenditures from the previous month.

Criteria relevant to the finding:

24 P.S. § 6-609 provides, in part:

"The amount of funds in any annual estimate by any school district . . . shall not be used for any other purpose, or transferred, except by resolution of the board of school directors receiving the affirmation vote of two-thirds of the members thereof.

No work shall be hired be hired to be done, no materials purchased, and contracts made by any board . . . which will cause the sums appropriated to specific purposes in the budget to be exceeded."

24 P.S. § 6-687(d) provides:

"The board of school directors shall have power to authorize the transfer of any unencumbered balance, or any portion thereof, from one class of expenditure or item, to another, but such action shall be taken only during the last nine (9) months of the fiscal year."

24 P.S. 5-518 provides, in part:

"Every board of school directors shall retain as a permanent record of the district, the minute book, each annual auditor's report, and each annual financial report. All other financial records of the district, including financial account books, orders, bills, contracts, invoices, receipts, and purchase orders shall be retained by the district for a period of not less than six years."

Lack of Treasurer's Summary Reports: Similarly, the audit also found that the District's administration did not provide the Board with complete and timely treasurer's reports. For example, the District held a total of 42 board meetings from the 2008-09 through the 2011-12 school years. Over that time period there were 18 meetings at which no treasurer's reports were presented, and 24 meetings at which the treasurer's reports provided were from 2 to 13 months late. As noted in the text box on the page above, the Public School Code (PSC) (24 P.S. § 4-440) requires that school district treasurers submit a monthly report regarding the districts' finances.

Failure To Develop Accurate Budgets: The District's budgets have repeatedly projected revenues and expenditures inaccurately. Specifically, the audit found that the District's actual expenditures exceeded its actual revenue for all four school years reviewed, although the actual expenditures did not exceed the Board-approved budgetary appropriations for any school year. As a result of the District's expenditures outpacing the revenue, the District's general fund balance declined 52 percent, from $8,909,370 to $4,249,217 over the four years reviewed.

Improper Transfer of Capital Projects Funds: The District's independent auditors report for the 2011-12 school year included a comment under the classification of "Subsequent Event" that indicated that the District had transferred $5,000,000 from its capital projects fund to its general fund. The transfer was made in July 2012 and returned to the capital projects fund in October 2012. Our audit found that this transfer was not documented in the board meeting minutes, which is required by the PSC (Section 24 P.S. § 6-609). The PSC also prohibits the use or transfer of designated funds for any other purpose, except by resolution of the Board through a two-thirds majority vote.

When the auditors questioned the District's administration about why the transfer was not noted in the board meeting minutes, they were told that the transfer was the result of the Superintendent, who is now on medical leave, telling the Business Manager to make the transfer.

The Business Manager stated that the District wanted to cover a cash shortfall without taking a tax anticipation note due to all of the negative publicity the District had received related to a potential building project.

Improper Expenditure of Bond Proceeds: In addition, the Business Manager stated that the $5,000,000 transferred to the general fund was part of the 2010 General Obligation Bond that the District took out in October 2010, and which totaled $26,735,000. The District originally took out this bond to construct and consolidate one of its high schools. However, the auditors' analysis of the expenditures made from the bond proceeds noted that as much as $1,737,557 in expenditures were not covered under the bond's original resolution, which is also prohibited by the PSC (24 P.S. § 6-609).

Failure to Recoup Stolen Activity Funds: During the audit, the District's administrative personnel provided the auditors with a letter disclosing that during the 2007-08 school year the independent audit of a District middle school's student activity account found a deposit shortage of $4,300. A criminal complaint was placed with the local police department on December 23, 2008. Based on the findings of the audit, the secretary who managed the activity fund was placed on unpaid leave, and eventually resigned on March 19, 2009. Although the District's insurance policy, which is still current, included crime coverage for theft, our audit found that the District did not submit a claim for the theft, nor did it receive restitution from the secretary. Moreover, it does not appear that the District's Board knew about the administration's failure to recoup these funds.

These breakdowns in the District's fiscal operations stem from ineffective administrative management and poor Board oversight. The District's management failed to establish a strong system of accountability to ensure that the District was effectively meeting its overall operational mission and complying with the PSC. Likewise, the District's Board failed to establish similar measures for monitoring whether the administration was effectively managing the District's fiscal operations. In addition, the Board did not ensure that it was receiving all of the financial information it needed to make sound operational decisions.

For example, without complete and timely monthly financial information and treasurer's reports, the District's Board cannot make sound decisions about how to use the District's public funds. In addition, this lack of information makes it more difficult for the Board to hold the District's administration accountable for its performance, and for its implementation of the Board's fiscal policies.

Furthermore, inaccurate budgeting prevents the District's management and Board from having a clear understanding of its financial position. Finally, although the revenue that the District failed to collect on the insurance policy over its activity funds was small, the fact that the District was so lax in monitoring its financial operations indicates that larger losses could take place. Moreover, in cases of theft, the District's administration and Board have a fiduciary responsibility to attempt to recoup taxpayer money from the bonding agent.

To improve the District's fiscal operations, it must create a more stable operational environment. This objective requires the District's management to create a strong system of accountability that it can use to maintain consistency and to meet organizational goals. The elements of this system are commonly referred to as internal controls. In addition, the District's Board must develop mechanisms for determining whether management is being effective and for assessing whether its members are receiving the information needed to make sound operational decisions.

Recommendations

The *Millcreek Township School District* should:

1. Ensure the Board secretary, District treasurer, and the District administrative personnel develop and present monthly and annual reconciliation reports as required by the PSC, as well as other financial information necessary for the Board to make accurate and sound financial decisions, including monthly cash and income statements.

2. Revise its budget process to ensure that it develops realistic revenue and expenditure projections.

3. Ensure that bond funds are expended in accordance with the purposes identified in the bond resolution.

4. File all insurance claims in a timely manner to ensure reimbursement for misappropriated funds.

5. Implement the necessary procedures to ensure that budgetary transfers are presented timely and approved by the Board.

6. Develop a process for monitoring whether staff regularly follows established protocols. The District's strategy for implementing a system of accountability should include:

   i. Establishing an organizational reporting structure that clearly defines areas of responsibility and authority, and appropriate lines of reporting.

   ii. Identifying risks, analyzing potential consequences, and determining actions to mitigate the risks.

   iii. Developing policies and procedures, techniques, and mechanisms that ensure goals are met and the risk of error is reduced.

   iv. Keeping proper documentation to show the execution of important activities.

Management Response

Management stated the following:

"Administration concurs that historical treasurer reports were not submitted for board approval in a timely manner. This situation has been addressed and will be altered moving forward. The treasurer report will be submitted for the prior month to the finance committee as the calendar permits. Budget transfers have been consistently submitted for board approval in a timely manner. Upon auditors request we will change the procedure for prior approval as opposed to retroactive approval.

Management recognizes the declining fund balance and the current, new administration is changing the budget process to reflect this concern. . . .

The cause of the [improper transfer of capital projects funds is] the direct result of directives being given by the District's superintendent to the business manger.

This superintendent is no longer with the District. Corrective measures that have been implemented include:

- A reprimand being given to business manager for following the superintendent's directive of transferring the $5,000,000 without board approval.
- The solicitor has reviewed the provisions of bond spending with the business manager and assistant superintendent, who will assume supervision of future bond spending.
- The District will not transfer money from the bond funds in the future.

Variance [in the statement of indebtedness was] due to an error when reporting long term liabilities. The bond premium and discount values were inadvertently omitted from the 2012 annual financial report. This will be corrected and the annual financial report will be submitted to PDE."

Finding No. 2

The District Delayed Its Applications for Commonwealth Reimbursements Totaling $3,105,964, Resulting in Lost Investment Revenue

Criteria relevant to the finding:

The Public School Code, 24 P.S. § 25-257(a), provides, in part:

"The Commonwealth shall pay annually to each school district erecting or sharing in the erection of a building or buildings . . . on account of buildings for which the lease is approved . . . or through the incurring of indebtedness by the issue of general obligation bonds on account of building . . . , an amount to be determined by multiplying the District's capital account reimbursement fraction computed for the year 1967 or aid ratio whichever is larger by the approved reimbursable rental or approved reimbursable sinking fund charge."

Our audit of the Millcreek Township School District's (District) lease payments and applications for reimbursement for school construction projects for the period covering July 1, 2007 through June 30, 2012, found that the District failed to timely apply to the Pennsylvania Department of Education (PDE) for construction project reimbursement. This delay resulted in denying the District and its taxpayers the opportunity to earn potential investment interest on that revenue. For example, a 12 month CD at an interest rate of 1 percent could have earned over $31,000 on $3.1 million. In addition, without realizing that revenue the District's School Board of Directors (Board) did not have a complete picture of the District's finances when making its operational decisions.

Background

The Public School Code states that the Commonwealth will reimburse a school district "erecting or sharing in the erection of a building or buildings." In order to obtain this reimbursement, districts must follow a PDE process comprised of specific forms and procedures known as the Planning and Constructions Workbook, or PlanCon. The PlanCon forms are designed to: (1) document a local school district's planning process, (2) justify the project to the public, (3) ascertain compliance with state laws and regulations, and (4) establish a level of state participation in the cost of the project. The PlanCon Part K "Project Refinancing" form is used if a district's reimbursable bond issue is refunded, refinanced, or restructured. This form must be on file and approved after the bond issue settlement date.

PDE refers to each district construction project as a lease. Each lease is given an individual identification number, which the District must use on all reimbursement applications.

The auditors found during the period covering July 1, 2007 through June 30, 2012, District personnel completed 65 applications for reimbursement for seven leases totaling $6,452,915. Of the 65 applications, we noted that 42 percent, or applications totaling $3,105,964, were remitted to PDE for reimbursement anywhere from one year to four years after the District had made the scheduled lease payments.

When the auditors asked for an explanation for the delay in making a timely application for these funds, District administrators stated that it was a direct result of the District having had five Superintendents and five Business Managers during the period under review.

While the District ultimately obtained the reimbursements it was eligible for, its untimely filing of the applications for the funding denied the District and its taxpayers the opportunity to earn potential investment interest on that revenue. In addition, the untimely applications for reimbursement prevented the Board from having an accurate picture of the District's finances and, in the absence of this information, from making well-informed business decisions related to the District's overall operations.

Recommendations

The *Millcreek Township School District* should:

Establish a formal, written procedure for the filing of sinking fund reimbursement applications. This procedure should include deadlines for taking action, and directions on what happens if the District or PDE misses that deadline.

Management Response

Management stated the following:

"All payment reimbursements have been filed to current. The District currently submits for reimbursements shortly after payments are made.

Historic delinquent submissions were not under the current administration and were corrected when realized."

Finding No. 3

Errors and Internal Control Weaknesses Related to Tuition Billings Involving $2,124,278

> *Criteria relevant to the finding:*
>
> The Public School Code (PSC), 24 P.S. § 25-2561, provides, in part:
>
> "A school district or vocational school district receiving elementary or high school pupils or vocational or other extension education pupils who are residents of another school district or another vocational school district shall compute the tuition charges as follows:"
>
> (There follows a lengthy, detailed formula for determining each district's tuition rates.)
>
> Also, the PSC at 24 P. S. § 25-2562 provides, in pertinent part:
>
> "For each elementary or high school pupil attending a public school of another district, the receiving district shall bill the sending district, and the sending district shall pay the amount of tuition charge per elementary pupil, or the tuition charge per high school pupil, as the case may be."
>
> The PSC at 24 P. S. § 25-2561(7) provides, in part:
>
> "When the receiving district voluntarily receives exceptional children, the receiving district and sending district may agree that the sending district will pay a special education charge in addition to the applicable tuition charge."

Our audit of the Millcreek Township School District's (District) tuition records for the 2009-10 and 2008-09 school years found errors and internal control weaknesses related to tuition it did not bill for ($331,016), tuition it billed at a lower rate ($380,261), and tuition billed late ($1,413,001). In total, the District made billing errors on tuition totaling $2,124,278.

<u>Background</u>

During the 2003-04 and 2004-05 school years the District operated the Pennsylvania Global Academy Charter School (Charter School) out of the District's buildings. On June 29, 2005, the District settled a lawsuit with the City of Erie School District (CESD), which claimed that the Charter School was illegally established and operated. The settlement of the lawsuit stipulated that any students enrolled in the Charter School could stay enrolled at the District, and the CESD would pay the District tuition of $3,065 per student for the 2005-06 school year, with subsequent increases based on the consumer price index.

<u>Failed to Bill for Charter Students</u>

Our audit found that the District failed to bill the CESD for students who were formerly enrolled in the Charter School during the 2009-10 school year, which amounted to $331,016 in lost revenue. According to District personnel, they did not realize that they had failed to send those invoices to CESD until the auditors brought it to their attention on September 27, 2012.

<u>Billed for Special Education Students at a Lower Rate</u>

Additionally, the audit found that the District used the wrong tuition rate when it billed sending districts for special education students enrolled in the Sarah Reed Children's Center for the 2009-10 school year.

Criteria relevant to the finding:

While other sections of the Public School Code address joint actions between political subdivisions, none allow setting different tuition rates than the one outlined in Section 2561.

The District's Board Policy No. 202 states, in part:

"Tuition Students

Tuition rates shall be determined annually by the Board in accordance with the law.

Tuition billings will be made in advance each semester."

Board Policy No. 607 states, in part:

"The district receiving pupils who are residents of another school district shall assess tuition charges in accordance with the Public School Code.

It shall be responsibility of the Director of Business Affairs to invoice the tuition for approved pupils."

On January 12, 2011, the District used the tuition rate approved by the Pennsylvania Department of Education to bill for the students educated in the special education program. However, when billing for special education students, the Public School Code allows districts to bill for the actual costs to operate the program, not the approved tuition rate.

This error resulted in the District undercharging 43 school districts for 3,951 elementary student membership days, and for 1,888 secondary student membership days. The elementary students were billed at the rate of $41.95 per day and secondary students were billed at $44.60 per day, instead of the actual daily cost of $106.15 per day. Total under billing for this program equaled $380,261.

Failed to Bill for Tuition in a Timely Manner

The audit also found that during the 2009-10 school year, the District failed to bill other school districts in a timely manner, for tuition totaling $17,784 for students enrolled in district-operated special education and/or alternative education programs.

In addition, the District did not bill the CESD for $345,786 in tuition that was due for the 2008-09 school year until April 8, 2010, which was almost one year after the end of the school year. Similarly, the District failed to provide sending districts with students at the Sarah Reed Children's Center with timely tuition billings for the 2008-09 school year. In fact, these billings, totaling $1,049,431 were remitted for the period from March 1, 2010 through May 5, 2010, a gap of almost two years after services were provided. All of these delays resulted in a delay in the revenue that the District should have received for these students.

Conclusion

The responsibility for preparing invoices and collecting tuition lies with the business office staff. District personnel stated that the errors in the collection of tuition occurred because of changes in the District's staff.

In order to prevent changes in staff from negatively impacting the District's operational functions, the District must create a strong system of accountability that maintains consistency and ensures that the District meets its organizational goals. The elements of this system are commonly referred to as internal controls.

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."[1] 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."[2]

Without such an accountability system, the District is at greater risk of tuition billing errors and, therefore, more likely to experience a potential loss of revenue. Such a loss is of particular concern, given the recent state and local funding reductions in public education.

Recommendations

The *Millcreek Township School District* should:

1. Establish an internal control review process to ensure business office personnel are properly billing for tuition in a timely manner and using correct tuition rates.

2. Revise tuition billings for the sending school districts.

3. Include on invoices the approved daily tuition rate and the number of days of membership the sending district is being billed for, so the sending districts' personnel can also verify the accuracy of the invoices.

4. Review tuition billings for years' subsequent to our years of audit and revise them, if necessary.

5. Ensure adequate documentation is retained for internal control and audit purposes.

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[1] U.S. General Accounting Office. *Standards For Internal Control In the Federal Government.* (November 1999), pg 1.
[2] Ibid, pgs 5-6.

Management Response

Management stated the following:

"Errors exist due to turnaround and transition of staff within the Business Office. Moving forward, an annual review of all tuition invoicing will be done and corrections, if needed, will be made at the time."

Observation No. 1

Questionable Taxpayer Benefit for Nonresident Tuition Agreement

Criteria relevant to the observation:

The Public School Code,
24 P.S. § 13-1301, provides, in part:

"The board of school directors of any school district may admit to the schools of the district, with or without the payment of tuition, any non-resident child temporarily residing in the district, and may require the attendance of such non-resident child in the same manner and on the same conditions as it requires the attendance of a resident child."

Beginning in February 26, 2000, the Millcreek Township School District entered into an agreement (Agreement) with a local hockey club (Team) located in Erie, Pennsylvania, which permitted its players to attend school at the District tuition-free, in exchange for various services. However, as nonresident students, these students should have paid nonresident tuition to enroll in the District. Consequently, the District lost this revenue, which calls into question whether the Agreement was in the best interest of the District's taxpayers.

The Agreement, which was in effect through our audit period (December 10, 2004 through February 15, 2013), states that "the District wishes to support the efforts of the [Team] to provide for a consistent educational opportunity for the [Team]-students and also recognizes that partnering with the [Team] could result in positive benefits to the District." The Agreement further indicates that Team members "are often school-aged individuals" who are "billeted" with various families in the area, including families who are residents of the District, and that some of these nonresident students "are citizens of the United States, while some . . . are citizens of other nations, primarily Canada."

The terms of the Agreement state that the Team "is willing to provide various in-kind services to the District in exchange for an open admission/tuition-free policy pertaining to all present and future [Team]-students and in lieu of current and past tuition due to the District by the [Team]-students." The in-kind services to be provided by the Team to the District included the following:

- "Seventy-five hundred (7,500) free admission coupons (value of coupons $8.00 per coupon [totaling $60,000]) to regular season games to be used, at the District's sole discretion, for various District programs. . . ."

- "Radio, television and in-arena advertising to the District to further promote the District's . . . marketing campaign[s]. . . ."

- Two platinum tickets (premium seating area) to all the District's 'business partners'[3] "for a regular season [Team] game which is designated as a Millcreek Township School District 'Business Partner Appreciation Night.' The Business Partner Appreciation Night may include, among other things, public address announcements and electronic message board messages honoring the business partners. . . ."

- "Educational service hours from the [Team's] players to support various District programs. . . . To provide any other public service support for the District, such as, but not limited to, participation in public service announcements or advertisements produced by or in cooperation with the District, as agreed to by both parties."

The Agreement estimates the total annual value of the 7,500 free tickets at $60,000, with the expected redemption value of tickets being 50 percent, or $30,000. The approximate annual value for advertising was estimated at $1,150 for radio, $2,499 for television, and $8,250 for in-arena advertising. The "business partners" tickets were valued at $3,000, bringing the total estimated value for the Agreement to $74,899. The Agreement assigned no value to donated educational service hours, noting only that that the dollar value was variable.

Our audit found no documentation to support whether the District or the Team had complied with the terms of the Agreement. For example, there was no information with which to determine the number of students, staff, or business partners that may have benefited from the free tickets provided by the Team. As a result, the auditors could not assess the actual dollar value of the tickets that the District gave out.
In addition, they could not verify whether the tickets given out, at the District's sole discretion, were for various District programs as called for in the agreement. For example, staff indicated that the tickets were given only to

[3] The District's "Partnership Guidelines" define a business partnership as "a partnership where the partner is a business that receives profit through community interaction." Business partnerships are to "provide opportunities for all [District] students" and "provide a value of $75,000 or more" to the District.

the District's students and staff. District personnel also stated that some tickets were used as incentives for programs such as the "Read to Achieve," which was implemented in the elementary school buildings. However, without any documentation to support these claims, the auditors could not verify that this was how the tickets were used.

Finally, there was also no documentation on file at the District to determine the number of educational service hours provided to the District, if any, or of any radio, television, and in-arena advertisements as provided for by the agreement. This lack of documentation also prevented the auditors from determining whether the District had ever actually received anything of monetary value from the Agreement. Likewise, the auditors could not assess whether the District's taxpayers had received any genuine benefit from foregoing the Team members' nonresident tuition payment revenue.

However, even if the District had received the total estimated value of the Agreement, $74,899, it still would have been far lower than the total revenue lost as a result of not requiring the Team to pay nonresident tuition. For example, based on the District's tuition rate, we determined the cost of providing educational services to the nonresident students on the Team. Comparing those costs to the $74,899 estimated value of the Agreement's in-kind services, assuming the best outcome for the District, demonstrates that the cost to the District's taxpayers in lost revenue exceeded the estimated value of the agreement in 5 of the 7 school years for which the tuition rate was available. (*See table on page 22*.)

School Year	Number of Students	Tuition Rate	Educational Cost	Net Cost to Taxpayers
2012-13	9	$ *	$ *	$ *
2011-12	11	9,610	105,710	30,811
2010-11	12	9,245	110,940	36,041
2009-10	10	7,984	79,840	4,941
2008-09	9	7,540	67,860	(7,039)
2007-08	11	7,098	78,078	3,179
2006-07	11	7,014	77,154	2,255
2005-06	6	7,497	44,982	(29,917)
		Total	$564,564	$ 40,271

*The District's tuition rate for the 2012-13 school year was not yet available at the time of the audit.

Specifically, the District's taxpayers would have lost a total of $40,271, which could have been spent on the education of its students. Moreover, if the dollar value of the in-kind services is based on a 50 percent ticket redemption rate, as assumed in the Agreement, the lost revenue to taxpayers climbs to $250,271. Thus, overall the Agreement did not represent a positive investment for the District's students or its taxpayers.

In Summary

The District's failure to maintain proper documentation establishing that it is receiving the benefits outlined in the Agreement prevents it from demonstrating that this Agreement is in the best interests of its taxpayers. In addition, without Board-approved guidelines and parameters to ensure control of the free tickets, the District increases the possibility that these benefits could be abused or misused. Finally, the auditor's comparison between the total potential monetary estimated value of the Agreement, and the total revenue lost as a result of not requiring the Team to pay nonresident tuition, suggests that the District may want to reevaluate whether this decision is financially prudent.

It should be noted that the agreement was updated by both parties on April 17, 2012. The effect of the revisions in the updated agreement for the 2012-13 school year and after will be determined during our next audit of the District.

Recommendations

The *Millcreek Township School District* should:

1. Implement written guidelines and parameters governing the operations of the Agreement to ensure adequate internal control.

2. Prepare and retain documentation of the actual recipients of the free tickets and of the educational service hours that are provided to the District.

3. Review the Agreement to ensure the benefits received and the actual usage of the tickets are in the best interest of the District's taxpayers.

Management Response

Management stated the following:

"The District will develop an "Agreement Reconciliation" report that will be completed each year to include the following:

1. Documentation from the [Team] of the names of all free ticket recipients for the school year.

2. Documentation from the [Team] to account for the service hours completed by players in MTSD schools.

3. The District will meet yearly with [Team] management to review agreement and discuss reconciliation report results."

Observation No. 2

The District Lacks Sufficient Internal Controls Over Its Student Record Data

Criteria relevant to this observation:

According to the Pennsylvania Department of Education's (PDE) *2009-10 PIMS User Manual*, all Pennsylvania local education agencies must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence, Funding District Code, Residence Status Code, and Sending Charter School Code.

In addition, other important fields used in calculating state education subsidies are: Student Status, Gender Code, Ethnic Code Short, Poverty Code, Special Education, Limited English Proficiency Participation, Migrant Status, and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the *Federal Information Systems Control Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner, (2) data input into the application is complete, accurate, and valid, (3) incorrect information is identified, rejected, and corrected for subsequent processing, and (4) the confidentiality of data is adequately protected.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

PDE began calculating the LEA's state subsidy using data that the LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEA's must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Moreover, with a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our review of the Millcreek Township School District's (District) attendance and membership data for the 2009-10 school year found controls over data integrity could be strengthened. Specifically, our review found that the District:

1. Lacked adequate procedures for ensuring the continuity of its PIMS data submissions in the event of a sudden change in personnel or child accounting information systems vendor.

2. Maintained no registration documentation on file at the District for two of five intermediate unit students reviewed that were enrolled in special need classes within the District.

3. Reported incorrect residency codes for two nonresident students who were court-placed in facilities or institutions within the District.

4. Improperly reported the funding school district code for a nonresident parent-paid tuition student. District personnel attempted to make a change in the PIMS child accounting reporting system, but failed to delete the original input, which resulted in the student being double reported.

The District data system manager provided no explanation for the lack of registration documentation and the reporting errors.

The reporting errors described above had no monetary effect on the District's basic education funding. However, they indicate weaknesses in its child accounting department's internal review process. Without a strong system of accountability over this data, the District cannot ensure that it is reporting accurate information to PDE, and consequently, that it is receiving the correct amount of state subsidy.

Recommendations

The *Millcreek Township School District* should:

1. Prepare documented procedures (e.g. procedure manuals, policies, written instructions, etc.) to ensure continuity over PIMS data submission.

2. Cross-train individual(s) to familiarize them with PDE's child accounting reporting requirements and PIMS reporting procedures in the event of a sudden personnel change.

3. Ensure documentation is obtained and retained of the enrollment of students through the intermediate unit programs.

4. Reference the PIMS manual of reporting for proper instructions in reporting nonresident students' membership days.

5. Strengthen internal controls to ensure adherence to PDE regulations when reporting nonresident students.

6. 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 and submit revised reports to PDE.

Management Response

Management stated the following:

"[The District] will develop a flow chart of individuals assigned as back up to essential systems like PIMS, Child Accounting, and Central Registration utilizing the most appropriate personnel available.

The data sampled by the current audit were several years old, and [the District] believes the Central Registration and Child Accounting Processes and procedures recently implemented ha[ve] resolved the issues identified.

[The District] will develop and implement procedures and accountability measures that will ensure the reliability of verifying data that may have changed (due to status, placement, conditions, etc.) in PIMS."

Observation No. 3

Unmonitored Vendor System Access and Logical Access Control Weaknesses

> *What is logical access controls?*
>
> "Logical access" is the ability to access computers and data via remote outside connections.
>
> "Logical access controls" refers to internal control procedures used for identification, authorization, and authentication to access the computer systems.

The Millcreek Township School District (District) uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District's network servers.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the District's data could occur and not be detected because the District was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system. However, since the District has manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated. Attendance and membership reconciliations are performed between manual reports and reports generated from the Student Accounting System.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever experience personnel and/or procedural changes that could reduce the effectiveness of the manual controls. Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the District's membership information and result in the District not receiving the funds to which it was entitled from the state.

During our review, we found that the District had the following weaknesses over its vendor access:

1. Lacked current information technology policies and procedures for controlling vendor activities.

2. Failed to maintain effective logical access controls. We noted that the District's system parameter settings do not require all users, including the vendor, to change passwords every 30 days, to use passwords that are a minimum length of eight characters and include alpha, numeric, and special characters, and to maintain a password history (e.g. approximately ten passwords).

3. Permitted unlimited vendor access (24 hours a day/7 days a week) into the District’s system.

4. Failed to document reconciliation procedures that are performed to allow District personnel to detect significant changes in membership or attendance data.

5. Permitted the outside vendor to use a group userID rather than requiring that each employee has a unique userID and password.

Recommendations

The *Millcreek Township School District* should:

1. Develop and maintain written information technology security policies and procedures to control the activities of the vendor.

2. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (e.g., every 30 days), to use passwords that are a minimum length of eight characters and include alpha, numeric, and special characters, and to maintain a password history (e.g. approximately ten passwords).

3. The District should allow access to its system only when the vendor needs access to make pre-approved changes/updates or to provide requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of the vendor’s changes.

4. Develop necessary written reconciliation procedures performed that would allow District personnel to detect significant changes in membership/attendance data by District personnel, vendor employees, or others.

5. Require the vendor to assign unique userIDs and passwords for each employee accessing the system. Further, the District should obtain a list of the vendor employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.

Management Response

Management stated the following:

"[The District] is in the process of implementing a new student information system . . . which has measures built into the system that guarantee:

a. each [software vendor] employee assigned to our account has a unique user name and password that are changed every forty-five (45) days.

b. each [software vendor] access to [District] data using employee assigned user name and password will be logged by the system 1) identifying user 2) time stamping log in and log out 3) identifying browser used to access data and 4) identifying IP address of computer used to access the data.

c. even with 24/7 access by the vendor (which is necessary) the above controls provide the security necessary to preserve the integrity of the data.

In dealing with educational professionals, we have found that enforcing that they change user names and/or passwords on a regular basis actually promotes weaker security . . . because users tend to 1) write new passwords down on paper as not to forget 2) simply add sequential numerals to the end of existing passwords. We do adhere to password length minimums and the combination of alpha, numeric, and special character configuration as best we can especially when it comes to the higher priority and more sensitive data systems.

[The District] will develop a formalized process of administrative accountability as it applies to the verification of membership and attendance data."

Auditor Conclusion

While we recognize the District's concerns regarding the frequent changing of passwords, we still recommend that the District consider mandating that passwords be changed every 30 days, in line with best practices. In addition, this observation only refers to employees who have access to critical student accounting applications, which make the prospect of requiring periodic password changes more practical.

Status of Prior Audit Findings and Observations

Our prior audit of the Millcreek Township School District (District) released on January 18, 2006, resulted in six findings and one observation, as shown below. 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 findings and observation. As shown below, we found that the District did implement recommendations related to nonresident student membership, certification, charter school tuition, and retirement. **The District did not implement recommendations related to tuition and student activity funds**.

Auditor General Performance Audit Report Released on January 18, 2006

Finding No. 1: **Unrecovered Tuition Totaling $372,906**

Finding Summary: Our prior audit of the District's 2001-02 and 2000-01school years tuition billings found that the District failed to bill the School District of the City of Erie for tuition totaling $362,226, and that two other districts were under billed a total of $11,680.

Recommendations: Our audit finding recommended that the District's Board require District personnel to bill all nonresident students' districts of residence for educational services provided by the District at the approved tuition rate provided for under Section 2561 of the Public School Code (PSC) for the 2001-02 and 2000-01 school years, and for subsequent years if necessary. We further recommended that District personnel familiarize themselves with the PSC regarding nonresident student tuition.

Current Status: During our current audit, we found that **the District did not implement the recommendations**. Tuition is again a subject of Finding No. 2 in our current report (see page 13).

Finding No. 2: **Errors in Reporting Nonresident Pupil Membership Data Resulted in a Reimbursement Net Underpayment of $9,671**

Finding Summary: Our prior audit found that pupil membership reports submitted to PDE for the 2001-02 and 2000-01 school years were inaccurate. The inaccuracies resulted in a net underpayment of $9,671 of Commonwealth-paid tuition for children placed in private homes (foster children).

Recommendations: Our audit finding recommended that the District require District personnel responsible for compiling pupil membership data to strengthen procedures to help ensure that membership for all nonresident students is accurately reported to PDE.

We also recommended that PDE adjust the District's membership reports and adjust the District's allocations to correct the net underpayment.

Current Status: During our current audit, we found that **the District did implement the recommendations**. On June 1, 2008, PDE adjusted the District's allocations to correct the net underpayment.

Finding No. 3: Certification Deficiency

Finding Summary: Our prior audit of the District's professional employees' certification for the period July 1, 2002 through July 31, 2004, found that one employee was assigned to a position outside the area of her certification. The District was consequently subject to a subsidy forfeiture of $3,636 for the 2003-04 school year and $3,805 for the 2002-03 school year.

Recommendations: Our audit finding recommended that the District ensure procedures are in place to compare a teacher's certification requirements to assignments the District intends to give a professional employee.

We also recommended that the Board require the individual to obtain proper certification for the assignment or reassign the individual to an area for which they are properly certified.

We further recommended that PDE adjust the District's future allocations to recover the subsidy forfeitures.

Current Status: During our current audit, we found that **the District did implement the recommendations**. On June 1, 2006, PDE adjusted District allocations to recover the subsidy forfeitures.

Finding No. 4: Internal Control Weaknesses Resulted in Charter School Tuition Overcharges and Overpayment of Charter School Reimbursement

Finding Summary: Our prior audit of PDE's reconciliation payments made and amounts due to charter schools for the 2001-02 school year found that PDE overcharged the District $16,142 in charter school deductions.

Additionally, as a result of the failure to notify the Commonwealth of tuition errors in a timely manner, the District incorrectly received $4,843 in charter school subsidy.

Recommendations: Our audit finding recommended that District personnel establish internal review procedures to ensure the accuracy of tuition charges made by charter and cyber schools, and to ensure that any corrections are made to PDE within 20 days, as required.

We also recommended that PDE adjust the District's reimbursement to correct the subsidy overpayment.

Current Status: During our current audit, we found that **the District did implement the recommendations**. As of February 15, 2013, PDE had not yet adjusted the District's reimbursement to correct the subsidy overpayment.

Finding No. 5: Possible Improper Retirement Contributions

Finding Summary: Our prior audit of the District's administrative personnel payroll records and quarterly contributions for the 2001-02 and 2000-01 school years, found that a $4,800 annual payment to the Superintendent for Transportation's expenses might have been improperly reported to the Public School Employees' Retirement System (PSERS) for retirement purposes.

Recommendations: Our audit finding recommended that, if PSERS determined the amount of compensation was improper, the Board of School Directors should require District personnel responsible for reporting compensation to implement written procedures that will assist in ensuring that only employee compensation eligible for retirement is reported to PSERS. Additionally, we recommended a review be performed of subsequent years' contributions to ensure correct contributions were submitted to PSERS.

We also recommended that PSERS review the total compensation reported for the individual cited and render an opinion on the propriety of the amount of compensation reported for retirement. We recommended PSERS make the necessary corrections to pension benefits and contributions if the payments were determined to be ineligible for retirement.

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

On February 24, 2009, PSERS determined the transportation compensation reported was considered nonretirement compensation, and the member's account was adjusted accordingly.

Finding No. 6: **Internal Control Weaknesses Noted in Student Activity Fund Operations**

Finding Summary: Our prior audit of the District's three middle schools' student activity funds for the 2003-04 school year found weaknesses in the management and control of the funds.

Recommendations: Our audit finding recommended that District personnel:

1. Develop written procedures for the handling of booster organization monies.

2. Close all inactive student activity fund accounts in accordance with board policy.

3. Require all individual activity clubs to have sufficient monies prior to processing disbursement vouchers.

4. Remit to the Pennsylvania Department of Revenue all necessary taxes due on taxable sales from school stores.

5. Require building principals to cease making general fund purchases from the student activity fund.

Current Status: During our current audit, we found that **the District had begun to take corrective action, but had not yet completed its implementation**. Therefore, we will evaluate these activities during our next regularly scheduled audit.

Observation **National School Fitness Foundation**

Observation Summary: The District entered into a voluntary contract for exercise equipment with the National School Fitness Foundation (NSFF), a public, not for profit organization, on November 25, 2002. NSFF had informed the District that the costs would be offset by voluntary contributions from NSFF to the District.

The District borrowed $155,787 from a local financial institution. The District did not obtain competitive bids for the equipment.

In addition, the formal leasing agreement was never officially approved by the board. The voluntary contributions from NSFF to the District ceased after March 2004. These contributions amounted to $63,487. On June 1, 2004, NSFF filed for Chapter 11 bankruptcy. On July 26, 2004, the United States Attorney for the District of Minnesota announced the owner and supplier of major fitness equipment to NSFF pled guilty to bank fraud, mail fraud, and wire fraud in a scheme to defraud Minnesota financial institutions and school districts of more than $1,000,000.

Recommendations: Our audit observation recommended that the District exercise caution and extreme diligence in the future when considering purchases of this nature, particularly when representations are made that the costs would be offset so that acquisition of the program and equipment would be free.

Current Status: During our current audit, we **found that the District did implement the recommendations and no additional issues were noted**.

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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