

OCTORARA AREA SCHOOL DISTRICT

CHESTER COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2006, 2005, 2004 AND 2003,
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2006

WITH FINDING, OBSERVATION, RECOMMENDATIONS AND
STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS

THROUGH JUNE 28, 2007

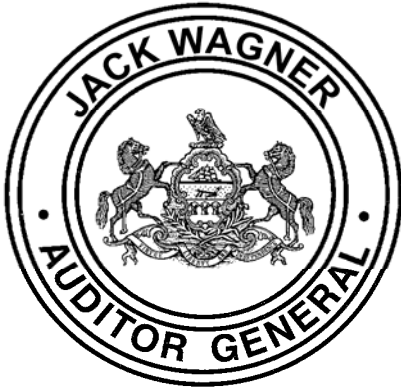


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OCTORARA AREA SCHOOL DISTRICT
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The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Rendell:

We have conducted a performance audit of the Octorara Area School District for the years ended June 30, 2006, 2005, 2004 and 2003, and in certain areas extending beyond June 30, 2006. 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 was limited to the following objectives:

- Objective No. 1 - To determine if the Octorara Area School District complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit; and
- Objective No. 2 - To determine if the Octorara Area School District took appropriate corrective action to address the findings and recommendations contained in our prior audit report.

To plan and perform our audit of the Octorara Area School District, we considered the district's internal controls pertinent to our audit objectives. Based on our consideration of these internal controls we determined audit procedures for the purpose of reporting on our audit objectives, but not to provide assurance on the effectiveness of the district's internal controls. However, any significant internal control deficiencies found during our audit were included in our report.

Independent Auditor's Report (Continued)

The results of our tests indicated that, in all significant respects, the Octorara Area School District was in compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit and took appropriate corrective action to address the findings and recommendations contained in our prior audit report, except as noted in the following finding. We also identified an internal control weakness as discussed in the observation. The finding and observation are further discussed in the Conclusions section of this report:

Objective No. 1

Finding – Certification Irregularity

Observation – Internal Control Weakness Regarding Memorandum of Understanding

We believe that our recommendations, if implemented by the district, will improve the internal control weakness identified and help ensure compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

Sincerely,

June 28, 2007

/s/
JACK WAGNER
Auditor General

OCTORARA AREA SCHOOL DISTRICT
PERFORMANCE AUDIT REPORT
BACKGROUND

Background

The Octorara Area School District is located in Chester County and encompasses an area of approximately 93 square miles. The school district has a population of 16,425, according to the 2000 federal census. The administrative offices are located at 228 Highland Road, Atglen, Pennsylvania.

According to school district administrative officials, during the 2005-06 school year, the district provided basic educational services to 2,881 pupils through the employment of 13 administrators, 251 teachers, and 155 full-time and part-time support personnel. Special education was provided by the district and the Chester County Intermediate Unit #24. Occupational training and adult education in various vocational and technical fields were provided by the district and the Center for Arts and Technology.

Generally, state subsidies and reimbursements are paid in the year subsequent to the year in which the school district incurs the cost that qualifies it for the applicable subsidy or reimbursement. While the Pennsylvania Department of Education (DE) makes partial payments to the school district throughout the year, final payments are normally made in June. Refer to the Supplementary Information on pages 11 through 14 of this report for a listing of the state revenue the district received during the 2005-06, 2004-05, 2003-04 and 2002-03 school years and for descriptions of the state revenue received by category.

In July of each year, the Commonwealth's Labor, Education and Community Services, Comptroller's Office confirms the payments that were made by DE throughout the prior fiscal year. School district annual financial reports and the related certified audits of the payments are not available before October 31st of the following fiscal year.

OCTORARA AREA SCHOOL DISTRICT
PERFORMANCE AUDIT REPORT
OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES AND SCOPE

Our audit objectives were:

- Objective No. 1 - To determine if the Octorara Area School District complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit; and
- Objective No. 2 - To determine if the Octorara Area School District took appropriate corrective action to address the findings and recommendations contained in our prior audit report.

The scope of our audit covered the years ended June 30, 2006, 2005, 2004 and 2003, and in certain areas extending beyond June 30, 2006.

METHODOLOGY

Our audit was conducted under authority of 72 P.S. § 403, and does not supplant the local annual audit as required by the Public School Code of 1949, as amended (Public School Code).

The proper administration of a school district requires school board members to establish and maintain internal controls to provide reasonable assurance that specific school district objectives will be achieved. School board members are responsible for the adoption and use of policies and procedures that promote the economical and efficient conduct of assigned duties and responsibilities. In completing our audit, we obtained an understanding of the school district's internal controls as they relate to the district's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. We evaluated and tested documents, files, reports, agreements, and systems, and performed analytical procedures to the extent necessary to satisfy our audit objectives. Additionally, we interviewed selected administrators and operations personnel.

As noted in the Background section of this report, the Department of Education generally pays state subsidies and reimbursements in the fiscal year subsequent to the fiscal year in which the district incurs the qualifying cost. Because we use the payment confirmations, annual financial reports and certified audit data as supporting documentation of actual payments received in the performance of our audit, we cannot begin the field work of a school district's operations for a given year until after this information becomes available.

OCTORARA AREA SCHOOL DISTRICT
PERFORMANCE AUDIT REPORT

CONCLUSIONS – OBJECTIVE NO. 1

The first objective of our audit was to determine if the Octorara Area School District complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

The results of our tests indicate that with respect to the items tested, the Octorara Area School District complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, except as noted in the finding listed below. Additionally, we identified an internal control weakness as noted in the observation included in this report. The finding, observation, and recommendations were reviewed with representatives of the Octorara Area School District, and their comments have been included in this report.

Finding – Certification Irregularity

Our review of the professional employees' certification for the period July 1, 2003 through March 29, 2007, found that one employee served with a lapsed provisional certificate for part of the 2006-07 school year.

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

No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.¹

Section 2518 of the Public School Code provides, in part:

[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio.²

Information pertaining to the possible irregularity was submitted to the Bureau of Teacher Certification and Preparation (BTCPP), Department of Education (DE), for its review. BTCPP subsequently confirmed the irregularity; the district is therefore subject to a subsidy forfeiture of \$1,056 for the 2006-07 school year.

¹ 24 P.S. § 12-1202.

² 24 P.S. § 25-2518.

OCTORARA AREA SCHOOL DISTRICT
PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

Recommendations

The superintendent should:

- take the necessary action required to ensure compliance with certification regulations; and
- implement procedures to track years of service for all individuals who are not permanently certified.

DE should adjust the district's allocations to recover the subsidy forfeiture of \$1,056.

Response of Management

Management agreed with the finding and provided a written response stating that in the future the district would require a sealed copy of college transcripts from staff applying for permanent certification for the district's records, to ensure all course requirements were met. Management further noted that "As of April 16, 2007 the employee resigned their position with the school district."

Observation – Internal Control Weakness Regarding Memorandum of Understanding

Our audit of the district's records found that the current Memorandum of Understanding (MOU) between the district and the Pennsylvania State Police was signed June 18, 2003, and has not been updated.

Section 1303-A(c) of the Public School Code provides:

All school entities shall develop a memorandum of understanding with local law enforcement that sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.³

³24 P.S. § 13-1303-A(c).

OCTORARA AREA SCHOOL DISTRICT
PERFORMANCE AUDIT REPORT

Observation (Continued)

Additionally, the Basic Education Circular issued by DE entitled Safe Schools and Possession of Weapons, contains a sample MOU to be used by school entities. Section VI, General Provisions item (B) of this sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter. (Emphasis added)

The failure to update MOUs with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between district employees and law enforcement agencies when an incident occurs on school property, at any school sponsored activity, or any public conveyance providing transportation to or from a school or school sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

Recommendations

The district administration, in consultation with the solicitor, should continue to review, update and re-execute the current MOU between the district and its local law enforcement agency.

Additionally, the district should adopt a policy requiring the administration to review and re-execute the MOU every two years.

Response of Management

Management provided the following response agreeing with the observation:

The school district will review the current MOU and make revision to the “General Provisions” to incorporate a review and re-execution every two years.

OCTORARA AREA SCHOOL DISTRICT
PERFORMANCE AUDIT REPORT

CONCLUSIONS - OBJECTIVE NO. 2

The second objective of our audit was to determine if the Octorara Area School District took appropriate corrective action to address the findings and recommendations contained in our prior audit report for the years ended June 30, 2002, 2001, 2000 and 1999, and in certain areas extending beyond June 30, 2002. The status of these findings, along with a description of the school board's disposition of each recommendation, was determined by one or more of the following procedures:

- reviewing the board's written response, dated March 15, 2004, to the Labor, Education and Community Services Comptroller's Office, replying to the Department of the Auditor General's audit report for the years ended June 30, 2002, 2001, 2000 and 1999, and in certain areas extending beyond June 30, 2002;
- performing tests as a part of, or in conjunction with, the current audit; and
- questioning appropriate district personnel regarding specific prior years' findings and recommendations.

Finding No. 1 – Student Activity Fund Deficiencies

Our prior audit of the district's high school student activity fund for the 2001-02 school year found the following deficiencies:

- commingling of student activity fund monies with scholarship/memorial funds;
- accounts unrelated to student activities;
- inactive accounts;
- deficit cash balances;
- graduated class accounts were not purged;
- the activity fund custodian was not adequately bonded; and
- board policy did not address the distribution of interest.

OCTORARA AREA SCHOOL DISTRICT
PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

We recommended that the district's administration:

- . remove the scholarship/memorial accounts and other accounts unrelated to student activities;
- . close out inactive accounts in accordance with board policy;
- . ensure deficit balances are addresses in accordance with board policy;
- . close out graduated class accounts in accordance with board policy; and
- . obtain a bond for the fund's custodian.

We further recommended that the district's board of directors adopt written policies for the distribution of interest.

The board, in its written response, disagreed with the finding, asserting that deficiencies were recognized and were in the process of being corrected prior to the presentation of our finding.

However, our current audit found that the district complied with all of our recommendations beginning with the 2006-07 school year. The scholarship/memorial accounts and other accounts unrelated to student activities were removed; inactive accounts were closed out in accordance with board policy; there were no deficit balances; graduated class accounts were closed out in accordance with board policy; and the fund's custodians are now properly bonded. Based on the results of our current audit, we concluded that the district did take appropriate corrective action to address this finding.

Finding No. 2 – Internal Control Weaknesses

Our prior audit of district procedures and records found internal control weaknesses in certain operational areas. The weaknesses resulted in procedural deficiencies in the following areas:

- . minutes;
- . written procedures for pupil membership; and
- . retention of records.

OCTORARA AREA SCHOOL DISTRICT
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Finding No. 2 (Continued)

We recommended that the district's board of directors ensure that the minutes are signed for all years and that all future actions that require board approval are noted in the official minutes in accordance with Public School Code, Section 508. We also recommended that the board also adopt written policies for child accounting.

We further recommended that the district's administration:

- adopt written procedures for the reporting and tracking of child accounting;
- retain the records of the school district in accordance with Section 508 of the Public School Code; and
- reconcile the accounts of the school district annually, at a minimum, to ensure that the district received the correct amounts and properly recorded reimbursements.

The board, in its written response, disagreed with the finding, asserting that during the audit all required information was provided to the auditor.

Our current audit found that the district followed all of our prior audit recommendations. There were no issues in these areas during the current audit period. Based on the results of our current audit, we concluded that the district did take appropriate corrective action to address this finding.

OCTORARA AREA SCHOOL DISTRICT
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SUPPLEMENTARY INFORMATION
[UNAUDITED]

Schedule of State Revenue Received

The district reported it received state revenue of \$9,117,134, \$8,731,405, \$7,871,755 and \$7,744,811, respectively, for the years ended June 30, 2006, 2005, 2004 and 2003, as detailed in the following schedule:

STATE REVENUE	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Basic Education	\$4,841,516	\$4,719,173	\$4,574,159	\$4,444,108
Read to Succeed	-	-	-	60,430
Charter Schools	137,037	80,305	24,176	17,827
School Performance Incentives	-	-	-	10,675
Tuition for Orphans and Children				
Placed in Private Homes	36,128	44,635	79,259	62,897
Homebound Instruction	1,646	555	1,318	-
Vocational Education	135,385	91,472	10,454	98,819
Alternative Education	8,955	15,184	19,980	8,510
Migratory Children	751	315	640	640
Special Education	1,118,613	1,089,815	1,065,295	1,006,583
Transportation	971,782	954,162	855,784	908,142
Rental and Sinking Fund Payments	417,341	405,018	363,149	356,279
Health Services	58,805	58,003	58,163	57,241
Sewage Treatment Operations	-	-	-	195
Safe Schools	-	-	16,000	4,000
Social Security and Medicare Taxes	616,903	614,777	515,130	558,468
Retirement	356,617	337,564	214,108	59,964
Technology Grants	-	-	-	7,837
Other Program Subsidies/Grants:				
Pennsylvania Accountability	250,409	250,409	-	-
Educational Assistance Program	90,026	-	-	-
Dual Enrollment	16,188	-	-	-
Project 720/High School Reform	25,000	-	-	-
Penn Advocates for Nutrition	1,000	-	-	-
Pennsylvania Commission of Crime and Delinquency: Bully Prevention	33,032	70,018	74,140	82,196
<u>TOTAL STATE REVENUE</u>	<u>\$9,117,134</u>	<u>\$8,731,405</u>	<u>\$7,871,755</u>	<u>\$7,744,811</u>

OCTORARA AREA SCHOOL DISTRICT
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Description of State Revenue Received (Source: Pennsylvania Accounting Manual)

Basic Education

Revenue received from Commonwealth appropriations as subsidy for basic education.

Read to Succeed

Revenue received from the Commonwealth to ensure that all students learn to read and write by the end of the third grade.

Charter Schools

Revenue received from the Commonwealth to fund the Charter Schools initiative. The state subsidy received includes revenue for startup funding, nonpublic transfers, and transitional grants.

School Performance Incentives

Revenue received from Commonwealth appropriations to reward significant educational and school-specific performance improvements as measured by improvements in student attendance and student accomplishments.

Tuition for Orphans and Children Placed in Private Homes

Revenue received from the Commonwealth as tuition for children who are orphans and/or children who are placed in private homes by the court. Payments are made in accordance with Sections 1305 and 1306 of the Public School Code.

Homebound Instruction

Revenue received from the Commonwealth as subsidy for expenses incurred for instruction of homebound pupils. Payments are made in accordance with Section 2510.1 of the Public School Code.

Vocational Education

Revenue received from the Commonwealth as subsidy for vocational education expenditures which are classified as current operating expenditures and also for preliminary expenses in establishing an area vocational education school. Payments are made in accordance with Sections 2504, 2506 and 2507 of the Public School Code.

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[UNAUDITED]

Alternative Education

Revenue received from the Commonwealth as subsidy for alternative education. Alternative education is specialized educational instruction and support services to students that must be removed from regular classrooms because of disruptive behavior.

Migratory Children

Revenue received from the Commonwealth as subsidy for the attendance of migratory children in accordance with Sections 2502 and 2509.2 of the Public School Code.

Special Education

Revenue received from the Commonwealth as subsidy for expenditures incurred for instructing school age special education students.

Transportation

Revenue received from the Commonwealth as subsidy for pupil transportation expenditures and/or board and lodging in lieu of transportation. Payments for pupil transportation are made in accordance with Section 2541 of the Public School Code. Payments for board and lodging in lieu of transportation are made in accordance with Section 2542 of the Public School Code. This revenue also includes subsidy for the transportation of nonpublic and charter school students.

Rental and Sinking Fund Payments

Revenue received from the Commonwealth as a full or partial subsidy payment for approved lease rentals, sinking fund obligations, or any approved district debt obligations for which the Department of Education has assigned a lease number.

Health Services

Revenue received from the Commonwealth as subsidy for health services. Payments are made in accordance with Section 2505.1 of the Public School Code and include revenue for medical, dental, nurse and health services.

Sewage Treatment Operations

Revenue received from the Commonwealth via the Department of Environmental Protection as subsidy for the annual operation costs of a sewage treatment plant. Payments are made in accordance with Act 339 of 1953.

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SUPPLEMENTARY INFORMATION
[UNAUDITED]

Safe Schools

Revenue received from the Commonwealth as subsidy for Safe School programs.

Social Security and Medicare Taxes

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of the Social Security and Medicare taxes for covered employees who are not federally funded.

Retirement

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of retirement contributions for active members of the Public School Employees' Retirement System.

Technology Grants

Revenue received for technology initiatives that allow the schools to develop new information technology projects, such as upgrade of networks or improved computer hardware and software.

Other Program Subsidies/Grants

Revenue received from the Commonwealth not specified elsewhere.

BUREAU OF SCHOOL AUDITS

AUDIT REPORT 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:

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

The Honorable Gerald Zahorchak, D.Ed.
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robin L. Wiessmann
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Mr. John Godlewski
Director, Bureau of Budget and Fiscal Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.