



SOUTH MIDDLETON SCHOOL DISTRICT  
CUMBERLAND COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

OCTOBER 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. Thomas Merlie, Board President  
South Middleton School District  
4 Forge Road  
Boiling Springs, Pennsylvania 17007

Dear Governor Corbett and Mr. Merlie:

We conducted a performance audit of the South Middleton School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period March 24, 2010 through April 4, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2012, 2011, 2010, and 2009. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the District complied, in all significant respects, with relevant requirements, except as detailed in the two findings noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit findings and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements. We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE  
Auditor General

October 2, 2013

cc: **SOUTH MIDDLETON SCHOOL DISTRICT** Board of School Directors

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the South Middleton School District (District). Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period March 24, 2010 through April 4, 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 2011-12, 2010-11, 2009-10 and 2008-09 school years.

### **District Background**

The District encompasses approximately 51 square miles. According to 2010 federal census data, it serves a resident population of 14,500. According to District officials, the District provided basic educational services to 2,172 pupils through the employment of 185 teachers, 117 full-time and part-time support personnel, and 19 administrators during the 2011-12 school year. Lastly, the District received more than \$7.8 million in state funding in 2011-12 school year

### **Audit Conclusion and Results**

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for two compliance related matters reported as findings.

#### **Finding No. 1: Pupil Transportation Reporting Errors Resulted in**

**Overpayments of \$25,002.** Our audit of the South Middleton Area School District's (District) transportation records for the 2011-12, 2010-11, 2009-10, and 2008-09 school years found the District improperly reported transportation routes for extended school year pupils to the Pennsylvania Department of Education. These errors resulted in overpayments of \$25,002 to the District (see page 5).

#### **Finding No. 2: Internal Control Weaknesses Regarding the Reporting of Membership Data.**

Our audit of membership data for the 2011-12, 2010-11, 2009-10 and 2008-09 school years found that South Middleton Area School District (District) personnel failed to reconcile, for all audit years, the student membership data reported to the Pennsylvania Department of Education with the membership reports from the District's student information database. This process is an important internal control that helps to ensure that the District accurately reports its membership data to PDE (see page 7).

#### **Status of Prior Audit Findings and**

**Observations.** There were no findings or observations included in our prior audit report.

## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

School performance audits allow the Pennsylvania Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each local education agency (LEA). The results of these audits are shared with LEA management, the Governor, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period March 24, 2010 through April 4, 2013.

Regarding state subsidies and reimbursements, our audit covered 2011-12, 2010-11, 2009-10 and 2008-09 school years.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education (PDE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

### Objectives

*What is the difference between a finding and an observation?*

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ 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?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?

## **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.

*What are internal controls?*

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with certain laws, contracts, grant requirements, and administrative procedures.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any IT controls, as they relate to the District's compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal 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.

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.

## Findings and Observations

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### Finding No. 1

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### Pupil Transportation Reporting Errors Resulted in Overpayments of \$25,002

*Criteria relevant to the finding:*

Pennsylvania Department of Education instructions for the completion of end-of-year transportation data include in part:

**Number of Days** – Report the number of days (a whole number) this vehicle provided to and from school transportation. Count any part of a day as one day. Depending upon the service this vehicle provided, this number could exceed or be less than the number of days the district was in session; however, summer school or “Extended School Year” (Armstrong v. Kline) transportation may not be included in this number.

Our audit of the South Middleton Area School District’s (District) transportation records for the 2011-12, 2010-11, 2009-10, and 2008-09 school years found that for all four school years the District improperly reported transportation routes for pupils who attended extended school year education to the Pennsylvania Department of Education (PDE).

The District improperly included extended school year mileage data with pupils when calculating weighted averages for several vehicles. Eight, six, five, and four vehicles during the 2011-12, 2010-11, 2009-10, and 2008-09 school years, respectively, were included. These errors resulted in total subsidy overpayments of \$25,002 as follows:

<u>School Year</u>	<u>Subsidy Overpayment</u>
2010-11	\$ 8,382
2009-10	9,555
<u>2008-09</u>	<u>7,065</u>
Total	<u>\$25,002</u>

Although the errors reported for the 2011-12 school year can be determined, the financial effect of the errors cannot be assessed because not all of the payments due to the District had been received as of the end of fieldwork, April 8, 2013. However, if the District receives the amount of entitlement as computed on the 2011-12 preliminary transportation subsidy calculation, the District would receive an additional subsidy overpayment of \$9,458.

District personnel noted that they were unaware that extended school year transportation was not eligible for reimbursement.

**Recommendations**

The *South Middleton School District* should:

1. Review the instructions furnished by PDE to ensure that only eligible transportation data is reported for reimbursement.
2. Review years subsequent to our audit to ensure only eligible transportation data has been submitted to PDE. If ineligible data has been submitted the District should resubmit the correct information to ensure the proper subsidy is received.

The *Pennsylvania Department of Education* should:

3. Recover the overpayments of \$25,002 from the District for the 2010-11, 2009-10, and 2008-09 school years.
4. Recover the overpayment for the 2011-12 school year after the District receives all subsidy payments, based on the data reported by the District to PDE.

**Management Response**

Management stated the following:

“The District disagrees with the findings of the Audit which resulted in pupil transportation reporting errors. The District feels that the finding does not agree with the letter and spirit of the transportation laws and reimbursement.”

**Auditor Conclusion**

PDE end-of-year instructions clearly state that the transportation data for extended school year may not be reported to PDE for reimbursement. Those instructions, which are meant to support the Public School Code (PSC), are the basis for our finding. Therefore, we see no disagreement between our finding and the PSC, so the finding will stand as written.

## Finding No. 2

### Internal Control Weaknesses Regarding the Reporting of Membership Data

*Criteria relevant to the finding:*

Resident and nonresident membership data must be accurately maintained and reported in accordance with the Pennsylvania Department of Education guidelines and instructions, since they are major factors in determining the District's subsidies and reimbursements.

Our audit of membership data for the 2011-12, 2010-11, 2009-10, and 2008-09 school years found that South Middleton Area School District (District) personnel failed to reconcile, for all audit years, the student membership data reported to the Pennsylvania Department of Education (PDE) with the membership reports from the District's student information database. This process is an important internal control that helps to ensure that the District accurately reports its membership data to PDE.

#### Resident and Nonresident Membership

District personnel's failure to reconcile the membership data that the District reported to PDE with the membership reports from the District's student information database, resulted in the District reporting inaccurate information to PDE. Our review of the 2010-11 school year data found that the:

- District understated student membership days by not reporting any membership for students who had withdrawn and did not re-enroll by the end of the school year.
- District overstated part-time area vocational-technical school (AVTS) membership days resulting from improper coding within the District's student information system (SIS). Part-time AVTS students are normally coded as being enrolled 50 percent of the time at the District as they are enrolled at the AVTS the other 50 percent of the time. The membership days were reported for 100 percent of the time.
- District reported the same AVTS students in the wrong term for one day during the school year.
- District failed to reconcile information submitted by the Capital Area Intermediate Unit 16 (CAIU) causing an overstatement of 35 membership days for nonresident children placed in private homes membership.

We expanded our review to the 2011-12 and 2009-10 school years and found the District again overstated AVTS home students' membership days by reporting the students for 100 percent of the time instead of the 50 percent. The other errors that were noted in our review of 2010-11 did not appear in these school years.

The District noted that turnover in staff and the implementation of the new Pennsylvania Information Management System (PIMS) reporting process were the causes for errors in the 2010-11 school year, when written procedures were not available for new staff. Additionally, the wrong drop-down box was selected within the District's student information system (SIS) when submitting membership data for the 2010-11 school year, causing the students' membership for those who withdrew and did not re-enroll with the District by the end of the school year not to be reported through PIMS to PDE. Furthermore, the overstatement in AVTS membership days for the three years was caused by the District entering a 1.0 in the SIS instead of a 0.5. The District failed to reconcile membership data for the 2011-12, 2010-11, and 2009-10 school years to ensure the data reported in PIMS agreed with the membership data in the District's SIS.

Internal controls are the responsibility of management. Weaknesses in child accounting procedures, as detailed in this finding, did not provide management with the assurance that data supporting the District's child accounting was collected, recorded, and reported accurately in accordance with PDE's instructions. If District personnel had reconciled the membership data the District reported to PDE with the membership reports from the District's student information database, many of the errors described in this finding would have been identified.

## **Recommendations**

The *South Middleton School District* should:

1. Develop and implement procedures to reconcile the District's student detail reports to final PDE reports.
2. Ensure all students are properly classified for each school calendar to ensure the proper percentage of time is reported for each student.

3. Request additional training and guidance from PDE regarding the reporting of membership data.
4. Develop written procedures for the collection and reporting of all membership data to ensure future turnover in staff does not prohibit accurate reporting of membership.
5. Review school years subsequent to our audit and, if errors are found, submit revised reports to PDE.

**Management Response**

Management stated the following:

“Management agreed with the finding. Over the past several years, the central data collection, known as PIMS (Pennsylvania Information Management System) has been put into place by the State of Pennsylvania. While the District staff has done an exceptional job of meeting mandates and required time lines, this process has created the need to develop procedures and to reconcile reimbursements as they apply to the reporting of membership data.

The District agrees with the findings and will develop procedures and processes to eliminate internal control weaknesses regarding the reporting of membership data.”

**Auditor Conclusion**

We commend the District for developing internal control policies and procedures to improve the accuracy of its membership data. We will evaluate these new internal controls during our next audit.

## **Status of Prior Audit Findings and Observations**

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**O**ur prior audit of the South Middleton School District resulted in no findings or observations.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following stakeholders:

The Honorable Tom Corbett  
Governor  
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Harrisburg, PA 17120

The Honorable Carolyn Dumaesq  
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The Honorable Robert M. McCord  
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This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).