

TOWANDA AREA SCHOOL DISTRICT  
BRADFORD COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

APRIL 2009



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

Mrs. Margaret Munkittrick, Board President  
Towanda Area School District  
P.O. Box 231  
Towanda, Pennsylvania 18848

Dear Governor Rendell and Mrs. Munkittrick:

We conducted a performance audit of the Towanda Area School District (TASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period September 18, 2006 through September 30, 2008, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2006, and June 30, 2005, as they were the most recent reimbursements subject to audit. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the TASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

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

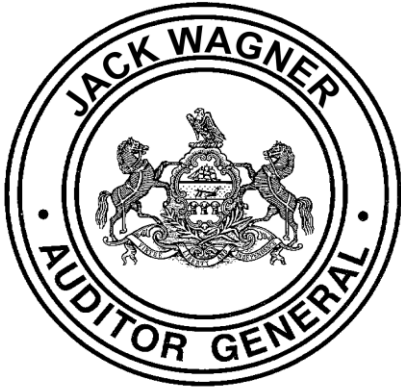
Sincerely,

/s/

JACK WAGNER  
Auditor General

April 3, 2009

cc: **TOWANDA AREA SCHOOL DISTRICT** Board Members

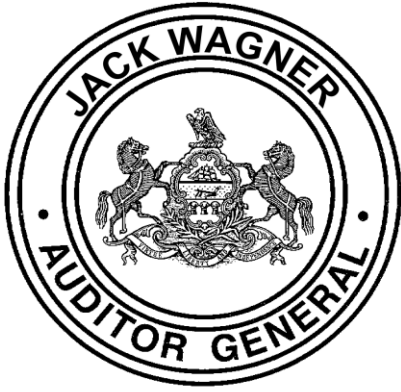


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## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period September 18, 2006 through September 30, 2008, except as otherwise indicated in the audit scope, objectives and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2005-06 and 2004-05 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

### **District Background**

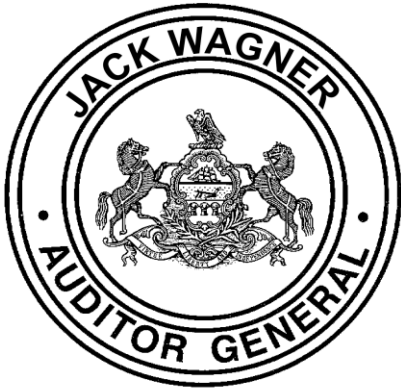
The TASD encompasses approximately 163 square miles. According to 2000 federal census data, it serves a resident population of 8,662. According to District officials, in school year 2005-06, the TASD provided basic educational services to 1,773 pupils through the employment of 126 teachers, 96 full-time and part-time support personnel, and 7 administrators. Lastly, the TASD received more than \$8.9 million in state funding in school year 2005-06.

### **Audit Conclusion and Results**

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

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

**Observations.** With regard to the status of our prior audit of TASD for the school years 2003-04 and 2002-03, we found the TASD had taken appropriate corrective action in implementing our recommendations pertaining to possible inaccurate reporting of retirement wages (see page 8).





## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

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

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

Our audit covered the period September 18, 2006 through September 30, 2008, except for the verification of professional employee certification which was performed for the period July 1, 2006 through June 30, 2008.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 DE reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

### Objectives

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the T ASD's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our objectives:

- ✓ Were professional employees certified for the positions they held?

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

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

- ✓ In areas where the District receives state subsidy reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District receives state subsidy reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

## Methodology

*What are internal controls?*

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

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

*Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

Any significant deficiencies found during the audit are included in this report.

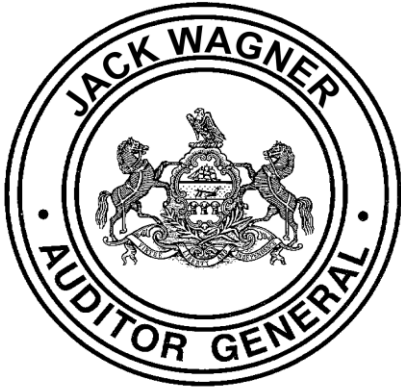
In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as meeting minutes and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 18, 2007, we reviewed the TASD's response to DE. Therefore, we performed additional audit procedures targeting the previously reported matters.



## **Findings and Observations**

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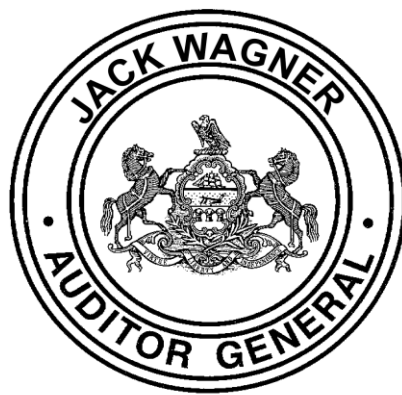
**O**ur current audit of the Towanda Area School District for the 2005-06 and 2004-05 school years resulted in no findings or observations.

## Status of Prior Audit Findings and Observations

Our prior audit of the Towanda Area School District (TASD) for the school years 2003-04 and 2002-03 resulted in one finding. The finding pertained to possible inaccurate reporting of retirement wages. As part of our current audit, we determined the status of corrective action taken by the TASD to implement our prior recommendations. We analyzed the TASD Superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned TASD personnel regarding the prior finding. As shown below, we found that the TASD did implement recommendations related to reporting retirement wages.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><i><u>I. Finding: Possible Inaccurate Reporting of Retirement Wages</u></i></p> <ol style="list-style-type: none"> <li>1. Ensure that District personnel report to Pennsylvania State Employees' Retirement System (PSERS) only those wages allowable for retirement purposes, as stated in PSERS's guidelines.</li> <li>2. PSERS should review the compensation reported for the former administrator for the 2003-04 and 2004-05 school years and render an opinion on the propriety of the wages reported by the District.</li> <li>3. Make the necessary correction to the pension benefits and contributions if any part of the payments is determined to be ineligible for retirement.</li> <li>4. If PSERS's confirms the inaccurate reporting, the board should remove language from contracts allowing these payments to be included as retirement wages.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the District's reported retirement wages found that wages may have been overstated in reports submitted to PSERS in the 2003-04 and 2004-05 school years, which resulted in ineligible wages reported as retirement. Management disagreed with our finding.</p>	<p><b>Current Status:</b></p> <p>We followed up on the TASD retirement wage reports for the 2005-06 school year and found the TASD <u>did</u> take corrective actions to address our prior audit recommendations to improve their retirement reporting.</p> <p>On November 24, 2008, PSERS determined that the wages were considered non-retirement covered compensation. The member's account was adjusted accordingly.</p>

<p>5. Labor, Education and Community Services, Comptrollers Office, in conjunction with PSERS's determination of the propriety of wages reported for retirement, should determine if the District was overpaid retirement subsidy, and make any necessary adjustments.</p>	<p><b>Background:</b></p>	<p><b>Current Status:</b></p>
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## **Distribution List**

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

The Honorable Edward G. Rendell  
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Harrisburg, PA 17120

The Honorable Gerald Zahorchak, D.Ed.  
Secretary of Education  
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Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

Senator Jeffrey Piccola  
Chair  
Senate Education Committee  
173 Main Capitol Building  
Harrisburg, PA 17120

Senator Andrew Dinniman  
Democratic Chair  
Senate Education Committee  
183 Main Capitol Building  
Harrisburg, PA 17120

Representative James Roebuck  
Chair  
House Education Committee  
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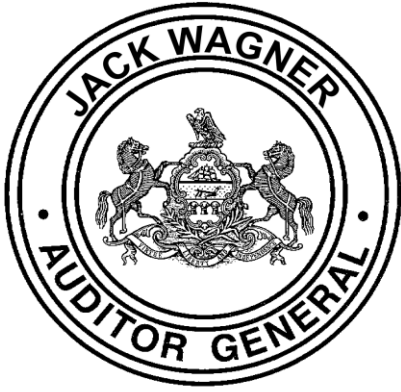
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