

WILMINGTON AREA SCHOOL DISTRICT
LAWRENCE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Ms. Nancy W. Bretz, Board President
Wilmington Area School District
300 Wood Street
New Wilmington, Pennsylvania 16142

Dear Governor Corbett and Ms. Bretz:

We conducted a performance audit of the Wilmington Area School District (WASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period June 24, 2009 through December 2, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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 WASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 31, 2012

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

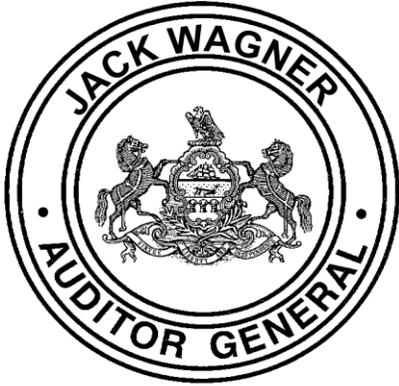
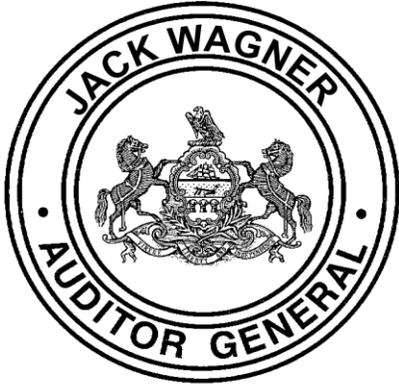


Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding – Errors in Reporting Pupil Membership Resulted in a Net Reimbursement Underpayment of \$43,170	6
Observation – Amount Paid to the Pupil Transportation Contractors Greatly Exceeds Department of Education Final Formula Allowance	10
Status of Prior Audit Findings and Observations	14
Distribution List	15



Executive Summary

Audit Work

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

Our audit scope covered the period June 24, 2009 through December 2, 2011, 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 2009-10 and 2008-09.

District Background

The WASD encompasses approximately 110 square miles. According to 2000 federal census data, it serves a resident population of 11,656. According to District officials, in school year 2009-10 the WASD provided basic educational services to 1,474 pupils through the employment of 111 teachers, 76 full-time and part-time support personnel, and 6 administrators. Lastly, the WASD received more than \$8.4 million in state funding in school year 2009-10.

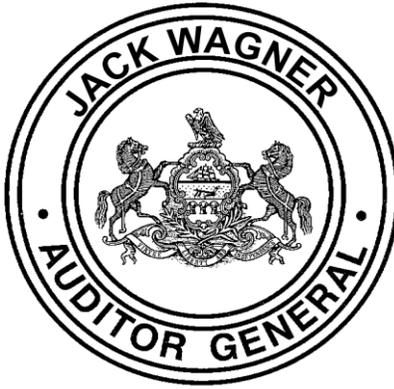
Audit Conclusion and Results

Our audit found that the WASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding. In addition, one matter unrelated to compliance is reported as an observation.

Finding: Errors in Reporting Pupil Membership Resulted in a Net Reimbursement Underpayment of \$43,170. Our audit of pupil membership reports submitted to the Department of Education for the 2009-10 and 2008-09 school years found reporting errors. WASD personnel failed to report or inaccurately reported nonresident pupil membership days (see page 6).

Observation: Amount Paid to the Pupil Transportation Contractors Greatly Exceeds Department of Education Final Formula Allowance. Our audit of the WASD's contracted pupil transportation costs for the school years ending June 30, 2007 through June 30, 2010, found that the contracted cost of the WASD's pupil transportation operation had increased substantially more than the rate of inflation over the four-year period (see page 10).

Status of Prior Audit Findings and Observations. There were no findings or observations included in our prior audit report.



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

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

Our audit covered the period June 24, 2009 through December 2, 2011, except for the verification of professional employee certification which was performed for the period June 1, 2009 through October 11, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education 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 WASD'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 receives state subsidy and 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 and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ 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 use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?

Methodology

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

WASD 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. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

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.

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 pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Findings and Observations

Finding

Errors in Reporting Pupil Membership Resulted in a Net Reimbursement Underpayment of \$43,170

Criteria relevant to the finding:

Section 2503 of the Public School Code provides for the Commonwealth payment of tuition for children placed in private homes.

The Pennsylvania Information Management Systems (PIMS) manual of reporting provides guidelines for the reporting of all residency and nonresident classifications. The guidelines provide a sample of information required to enter in each District Field on the end-of -year membership reports to be filed with DE. The sample provides the Code, Residency Status, District Code, District Code of Residence and the Funding District Code.

Our audit of pupil membership reports submitted to the Department of Education (DE) for the 2009-10 and 2008-09 school years found reporting errors. Wilmington Area School District (WASD) personnel failed to report or inaccurately reported resident and nonresident pupil membership days. These errors resulted in net reimbursement underpayments of \$36,154 and \$7,016 for the 2009-10 and 2008-09 school years, respectively, totaling \$43,170.

Pupil membership reporting errors were as follows:

2009-10 School Year

<u>Classification</u>	<u>Days (Over)/Understated</u>
<u>Resident</u>	
Kindergarten	(199)
Elementary	(476)
Secondary	(266)
Area Vocational-Technical School (AVTS)	(180)

Nonresident

Children Placed in Private Homes:

Kindergarten	199
Elementary	476
Secondary	266
AVTS	180

2008-09 School Year

<u>Classification</u>	<u>Days (Over)/Understated</u>
<u>Resident</u>	
Elementary	(178)
Secondary	(10)
<u>Nonresident</u>	
Children Placed in Private Homes:	
Elementary	178
Secondary	10

The 2009-10 school year pupil membership reporting errors were the result of District personnel inaccurately classifying the nonresident pupils as resident pupil when entering data into the PIMS child accounting system database.

Additionally, one error in the 2009-10 school year was the result of child accounting personnel at a local area vocational-technical school failing to accurately identify one of the District’s students as being in foster placement within WASD.

The 2008-09 school year pupil membership reporting errors were the result of school building personnel failing to properly identify the nonresident status on the District’s child accounting reports, which are used by the District’s pupil membership coordinator to complete the end-of-year child accounting reports submitted to DE.

The errors resulted in the following underpayments:

	<u>(Over)/Underpayments</u>	
<u>Identification</u>	<u>2009-10</u>	<u>2008-09</u>
Basic Education Funding	\$ (711)	\$ -
Tuition for Children Placed in Private Homes	<u>36,865</u>	<u>7,016</u>
Totals	<u>\$36,154</u>	<u>\$7,016</u>

Resident and nonresident membership data must be maintained in accordance with DE guidelines and instructions, since they are major factors in determining the District's subsidies and reimbursements.

We have provided DE with a report detailing the errors for use in recalculating the District’s reimbursements.

Recommendations

The *Wilmington Area School District* should:

1. Reference the PIMS manual of reporting instructions for the proper reporting of nonresident students’ membership days.

2. Strengthen internal controls to ensure adherence to DE regulations when reporting nonresident students.
3. Review membership reports submitted to DE for school years subsequent to the audit, and if reporting errors are found, contact the PIMS help desk for guidance in changing coding and submit revised reports to DE.
4. Contact the Lawrence County Career Center to ensure they properly identify the WASD's nonresident students' membership when completing their PIMS child accounting membership reports to DE.

The *Department of Education* should:

5. Adjust the District's allocations to resolve the net underpayment of \$43,170.

Management Response

Management stated the following:

The error in reporting pupil membership is acknowledged.

Corrective Action includes the following measures:

1. District 1305 [nonresident children placed in private homes] and 1306 [institutionalized children] forms were revised to collect additional information about students upon entry.
2. PDE form 4507 [Individual Data for Nonresident Students in Private Homes] was forwarded to each building secretary and counselor for review.
3. In-service training will be conducted for building secretaries using PDE Power Point on Identifying & Reporting Resident & Nonresident Students. PIMS directions for classification of nonresident students will be distributed during the training. Training will address the need to notify PIMS administrator when there is a change in status for nonresident students.
4. There will be periodic reviews of nonresident information by the PIMS administrator.

5. The Superintendent will send a letter to the superintendent of record of the Career and Technical Center regarding failure to properly identify a foster student.

Observation →

Amount Paid to the Pupil Transportation Contractors Greatly Exceeds Department of Education Final Formula Allowance

Our audit of the WASD’s contracted pupil transportation costs for the school years ending June 30, 2007 through June 30, 2010, found that the contracted cost of the District’s pupil transportation operation had increased substantially more than the rate of inflation over the four-year period, based on data submitted to DE by the District for reimbursement purposes. The amount paid to the District’s transportation contractors increased more than DE’s inflation-adjusted final formula allowance, which is used to determine the District’s reimbursement of transportation services.

DE’s final formula allowance provides for a per vehicle allowance based on the year of manufacture of the vehicle chassis, the approved seating capacity, the number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index. The District receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by the District’s aid ratio.

The following chart details the fluctuation in contracted cost compared to DE’s final formula allowance:

<u>School Year</u>	<u>Contractor Cost</u>	<u>Final Formula Allowance</u>	<u>Contracted Cost Over Formula</u>	<u>Percentage Increase</u>
2009-10	\$1,382,749	\$ 961,047	\$421,702	43.88
2008-09	1,267,913	959,070	308,843	32.20
2007-08	1,305,786	935,517	370,269	39.57
2006-07	1,424,275	1,028,876	395,399	38.43

Our audit of services provided by the pupil transportation contractor found that over the last four years the number of vehicles used to transport pupils had decreased, the District's total number of pupils transported had decreased, and the number of approved annual miles vehicles traveled had decreased, detailed as follows:

<u>School Year</u>	<u>Number of Vehicles</u>	<u>Number of Pupils</u>	<u>Total Approved Annual Miles</u>
2009-10	33	1,553	406,354
2008-09	33	1,545	401,632
2007-08	36	1,562	414,805
2006-07	40	1,606	502,862

The following chart details the percent each contractor was paid over the state's final formula allowance for the 2009-10 and 2008-09 school years pupil transportation services.

<u>School Year</u>	<u>Contractor</u>	<u>Amount Paid Contractor</u>	<u>Final Formula Allowance</u>	<u>Contractor Cost (Over)/Under Formula</u>	<u>(Over)/Under Percent</u>
2009-10	A	\$ 465,834	\$ 281,719	\$(184,115)	(65.35)
	B	896,625	646,021	(250,604)	(38.79)
	C	20,290	33,307	13,017	60.92
2008-09	A	\$ 393,162	\$ 279,622	\$(113,540)	(40.60)
	B	854,555	656,839	(197,716)	(30.10)
	C	20,196	22,610	2,414	89.32

The following chart details the total amount paid all contractors each school year, the maximum cost allowable, the total reimbursement received by the District from DE, and the actual local tax dollars required to operate the District's pupil transportation program.

<u>School Year</u>	<u>Contractor Cost</u>	<u>Maximum Allowable Cost</u>	<u>Reimbursement Received</u>	<u>Local Share</u>
2009-10	\$1,382,749	\$ 948,030	\$ 783,422	\$ 599,327
2008-09	1,267,913	956,656	784,291	483,622
2007-08	1,305,786	935,517	780,204	525,582
2006-07	<u>1,424,275</u>	<u>995,593</u>	<u>834,231</u>	<u>590,044</u>
Total	<u>\$5,380,723</u>	<u>\$3,835,796</u>	<u>\$3,182,148</u>	<u>\$2,198,575</u>

A query summary of DE’s pupil transportation data noted that 486 school districts and area vocational-technical schools in Pennsylvania contracted out their pupil transportation service for the 2009-10 school year. Approximately 32.75 percent of the local education agencies paid their contractors the final formula or less. An additional 13.75 percent paid less than 10 percent over their final formula allowance. For the 2009-10 school year, WASD paid its contractors 43.90 percent over the state formula, compared to 29.88 percent during the 2008-09 school year. Of the 486 LEAs, approximately 75.76 percent of them paid their contractors closer to or less than the state formula than WASD for the 2009-10 school year.

During the audit, the auditors obtained a summary of the District’s pupil transportation tally sheet of the seven transportation contract proposals received for the five-year period beginning with the 2007-08 school year.

District personnel also provided the auditor with two new pupil transportation contracts signed on June 4, 2007, commencing July 1, 2007, and continuing through June 30, 2012, with rate increases as follows:

- Contractor A’s contract provides for a 11 percent increase over the five-year contract.
- Contractor B’s contract provides for a 12 percent increase over the five-year contract.
- No contract was provided for Contractor C.

Our review also noted that the District's contracts provide for a daily rate per bus; as buses are deleted and added the contract amounts change accordingly, both for regular and nonpublic/special needs schools bus routes.

District personnel stated the daily rates per vehicle provided in the bid proposals and contract exhibits were not compared to DE's reimbursable formula allowance.

Recommendations

The *Wilmington Area School District* should:

1. Prior to negotiating a new contract, be cognizant of the state's final formula allowance cost formula.
2. Prepare pupil transportation contracts to ensure the local effort share is as minimal as permitted by establishing the base rate and increases in line with DE's final formula allowance for all pupil transportation costs.
3. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.

Response of Management

Management stated the following:

The observation is acknowledged. The District will incorporate estimated state reimbursements into contract discussions in an effort to reduce local effort. Transportation expenditures will be monitored by the Superintendent on a monthly basis.

Status of Prior Audit Findings and Observations

Our prior audit of the Wilmington Area School District resulted in no findings or observations.

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 Tom Corbett
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Commonwealth of Pennsylvania
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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, PA 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.

