



**WILKES-BARRE AREA SCHOOL DISTRICT
LUZERNE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

APRIL 2014

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. Louis M. Elmy, Board President
Wilkes-Barre Area School District
730 South Main Street
Wilkes-Barre, Pennsylvania 18711

Dear Governor Corbett and Mr. Elmy:

We conducted a performance audit of the Wilkes-Barre Area 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 June 9, 2010 through June 10, 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, 2009, 2010, 2011, and 2012. 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 one (1) finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding 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

April 15, 2014

cc: **WILKES-BARRE AREA 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 Wilkes-Barre Area School District (District) in Luzerne County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, 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 June 9, 2010 through June 10, 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 2008-09, 2009-10, 2010-11, and 2011-12 school years.

District Background

The District encompasses approximately 123 square miles. According to 2010 federal census data, it serves a resident population of 59,879. According to District officials, the District provided basic educational services to 6,991 pupils through the employment of 545 teachers, 258 full-time and part-time support personnel, and 30 administrators during the 2011-12 school year. The District received \$37.1 million in state funding in the 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 one (1) compliance related matter reported as a finding.

Finding: Incorrect Student Data Reporting Errors Resulted in a Subsidy Overpayment of \$164,424. Our review of the Wilkes-Barre Area School District's (District) district-operated vocational education membership data for the 2008-09 and 2010-11 school years found the District incorrectly reported vocational education membership data to the Pennsylvania Department of Education, resulting in an overpayment of vocational education subsidy of \$164,424 (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Wilkes-Barre Area School District (District) from an audit released on November 5, 2010, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting pupil membership (see page 8).

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 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 June 9, 2010 through June 10, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through May 7, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2008-09, 2009-10, 2010-11, and 2011-12 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:

- ✓ 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?

- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. 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 current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ 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?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ 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?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District take 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?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

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 certain relevant state 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 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 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 information technology 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 controls 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.

To determine the status of our audit recommendations made in a prior audit report released on November 5, 2010, we reviewed the District's response to PDE dated July 31, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Incorrect Student Data Reporting Errors Resulted in a Subsidy Overpayment of \$164,424

Criteria relevant to the finding:

Section 2502.8(b) of the Public School Code provides, in part:

“ . . . each school district . . . shall be paid, in addition to any other subsidy to which it is entitled, an amount on account of students enrolled in vocational curriculums.”

22 Pa. Code § 339.1a, lists the definition of a concentrator as a student who is at least fourteen (14) years of age and is enrolled full time in an approved career and technical education program that meets the requirements of this chapter.

22 Pa. Code § 339.22, provides, in part:

“ . . . (9)(i) The school entity may develop vocational education programs for any time length as long as they do not go below the minimums listed in this subsection. Vocational programs may range in duration from one (1) year to four (4) years, and the following represents the minimum total hours required for a program sequence: . . . (C) Three (3) year sequence. A vocational technical education program consisting of three (3) sequential years must provide a minimum total of 1,080 hours of vocational program instruction by the end of the program sequence.”

Our review of the Wilkes-Barre Area School District’s (District) district-operated vocational education membership data found the District incorrectly reported vocational education membership data for the 2008-09 and 2010-11 school years to the Pennsylvania Department of Education (PDE). This incorrect reporting resulted in an overpayment to the District of its vocational education subsidy (VES) totaling \$164,424.

The District did not receive VES for the 2009-10 and 2011-12 school years.

Our review of individual student records, as well as discussions with District and PDE personnel, found that membership was reported for students who had not taken all required courses for the district-operated vocational education programs, as approved by PDE.

Based on our review, we determined that the District incorrectly reported membership on reports submitted to PDE for two (2) vocational education programs as follows:

| School Year | Students | Days Overstated | Dollar Amount |
|---------------|----------|-----------------|----------------|
| 2008-09 | 119 | 6,465 | \$ 20,009 |
| 2010-11 | 268 | 40,681 | <u>144,415</u> |
| Total: | | | \$164,424 |

These errors were caused by the District personnel’s misunderstanding of minimum curriculum requirements that must be met to determine if students’ membership is eligible to be reported for VES.

District personnel stated they did not believe the District met the minimum vocational education requirements to be eligible for VES. Therefore, they did not apply for district-operated vocational education subsidy beginning with the 2011-12 school year.

Criteria relevant to the finding (continued):

“The following requirements, in part, shall be considered in planning vocational education programs based on the minimum time requirements listed in subparagraph (i):

(ii)(B) A minimum of two (2) planned courses shall be operated per year. These two (2) planned courses shall be skilled courses.

(C) Sequences shall be offered in consecutive years and the last year of the program will conclude in twelfth grade.

(D) This section includes the minimum requirements for a program to be eligible for vocational reimbursement. It is recognized that selected vocational programs may require more than the minimum hours to offer an effective education program.”

22 Pa. Code § 339.54, provides:

“Only students who meet the definition of concentrators shall be included in the calculation of vocational average daily membership under the school code.”

Pupil membership must be maintained in accordance with PDE guidelines and instructions, since this data is a major factor in determining the District’s subsidies and reimbursements.

It is the responsibility of District management to have in place proper internal policies and procedures to ensure that student data is accurately collected and timely reported. Without these internal controls, the District is assured that it is reporting its data correctly to PDE or that it is receiving the proper subsidy reimbursement.

PDE has been provided a report detailing the errors for use in recalculating the District’s VES.

Recommendations

The *Wilkes-Barre Area School District* should:

Review program guidelines for any future VES and only apply for subsidy to which it is eligible.

The *Pennsylvania Department of Education* should:

Adjust the District’s allocations to recover the VES overpayment of \$164,424.

Management Response

Management stated the following:

“The excess payments are directly attributable to the submission of certain applications to PDE without the proper substantiation of the information reflected therein. The programs, for which state subsidies had been received, were in existence, but, the District did not adhere to the program requirements of documenting participant information.

The District will take the necessary steps to ensure that all program requirements are met. Prior to the submission of an application for program funding, District personnel will ensure that the data reflected therein is accurately stated, and, is properly documented.”

Auditor Conclusion

We are encouraged that the District is taking steps to address this deficiency. We will follow up on the issue during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Wilkes-Barre Area School District (District) released on November 5, 2010, resulted in one (1) finding pertaining to errors in reporting pupil membership. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit 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 finding. As shown below, we found that the District did implement recommendations related to errors in reporting pupil membership.

Auditor General Performance Audit Report Released on November 5, 2010

Finding: **Continued Errors in Reporting Pupil Membership Resulted in Subsidy and Reimbursement Net Overpayments**

Finding Summary: The District continued to report incorrectly pupil membership to PDE. By not adhering to our recommendations from the previous audit of the 2004-05 and 2005-06 school years, errors again occurred in the reporting of membership for resident and non-resident students resulting in a net overpayment of \$15,005 in the 2006-07 school year.

Recommendations: Our audit finding recommended that the District should:

1. Review membership data thoroughly for non-residency classifications and supporting documentation prior to submitting reports to PDE.
2. Strengthen controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions.
3. Implement controls to verify actual membership days to computer generated reports.
4. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
5. Provide regular in-service training to staff responsible for recording and reporting membership. This training should emphasize the importance of maintaining accurate records and the relationship of membership data to subsidies and reimbursements.

We also recommended that *PDE* should:

6. Adjust the District's allocations to recover the overpayments of \$51,933 for the 2004-05 and 2005-06 school years and \$15,005 for the 2006-07 school year.

Current Status:

During our current audit, we found that the District did implement our prior recommendations.

PDE recalculated the amount overpaid for the 2004-05 and 2005-06 school years. On May 31, 2013, PDE adjusted the District's allocations to recover \$52,741 for overpayments for the 2004-05 and 2005-06 school years.

As of our fieldwork completion date, PDE had not adjusted the District's allocations to recover the \$15,005 overpayment for the 2006-07 school year.

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:

The Honorable Tom Corbett
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The Honorable Carolyn Dumaesq
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1010 Harristown Building #2
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