



**WELLSBORO AREA SCHOOL DISTRICT
TIOGA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

APRIL 2014

COMMONWEALTH OF PENNSYLVANIA
EUGENE A. DEPASQUALE - AUDITOR GENERAL
DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Carl Chambers, Board President
Wellsboro Area School District
227 Nichols Street
Wellsboro, Pennsylvania 16901

Dear Governor Corbett and Mr. Chambers:

We conducted a performance audit of the Wellsboro 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 January 5, 2012 through September 13, 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, 2011 and June 30, 2012. Our audit was conducted pursuant to Section 43 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.

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 24, 2014

cc: **WELLSBORO 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 Wellsboro Area School District (District) in Tioga 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 January 5, 2012 through September 13, 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 2010-11 and 2011-12 school years.

District Background

The District encompasses approximately 330 square miles. According to 2010 federal census data, it serves a resident population of 11,914. According to District officials, the District provided basic educational services to 1,622 pupils through the employment of 122 teachers, 70 full-time and part-time support personnel, and nine (9) administrators during the 2011-12 school year. The District received \$8,864,670 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. 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 recommendations to the Wellsboro Area School District (District) from an audit released on January 14, 2013, and a special audit report released on May 23, 2013, we found that the District had taken appropriate corrective actions in implementing our recommendations pertaining to membership reporting (see page 6) and a Superintendent employment contract buy-out (see page 7).

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 January 5, 2012 through September 13, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through June 30, 2013.

Regarding state subsidies and reimbursements, our audit covered the 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 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?

- ✓ 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?
- ✓ 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 January 14, 2013, as well as a special report released on May 23, 2013, we reviewed the District's response to PDE dated March 21, 2013, and performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Wellsboro Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audits of the Wellsboro Area School District (District) released on January 14, 2013 and May 23, 2013, resulted in one (1) finding and one (1) observation. The finding pertained to membership reporting errors and lack of internal controls, and the observation pertained to a Superintendent employment contract buy-out. 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 and observation. As shown below, we found that the District did implement our recommendations related to membership and the Superintendent employment contract buy-out.

Auditor General Performance Audit Reports Released on January 14, 2013 and May 23, 2013

Finding: **Membership Reporting Errors and a Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Reimbursement**

Finding Summary: Our prior audit of the District's pupil membership reports submitted to PDE for the 2008-09 school year found reporting errors as well as a lack of internal controls. Membership days for secondary students placed in institutions were understated by 272 days. The error resulted in the District being underpaid \$13,893 in Commonwealth-paid tuition for the students.

Recommendations: Our audit finding recommended that the District should:

1. Establish internal controls that include reconciliations of the data that is sent to PDE.
2. Verify that the preliminary reports from PDE are correct and if not correct, revise, and resubmit child accounting data so that the final reports from PDE are correct.

We also recommended that PDE should:

3. Revise all reports that have been incorrectly completed and adjust the District's reimbursements.

Current Status: During our current audit, we found that the District did implement our prior recommendations. The District established internal controls that included reconciliations of the data sent to PDE and verification of preliminary reports from PDE.

As of September 13, 2013, PDE had not yet adjusted the District's reimbursements to correct the underpayment.

Observation: **The Board of School Directors Did Not Include Adequate Provisions in its Former Superintendent's Employment Contract, Leading to a Costly Buy-out and Additional Projected Costs to the School District Totalling \$136,976**

Observation Summary: Our special audit of the District found that the District's Board of School Directors (Board) had entered into a four-year employment contract (Contract) with the former Superintendent, effective July 1, 2008 through June 30, 2012.

On April 20, 2010, the Board held a special meeting and voted to accept the Superintendent's resignation. A subsequent Resignation and Early Buy-out Agreement (Agreement) was signed by the Board and former Superintendent on April 22, 2010. No vote was recorded for the approval of the Agreement.

The Agreement required the District to make payments to the former Superintendent, the projected value of which we calculated to be \$136,976.

Recommendations: Our audit observation recommended that the District should:

1. Enter into employment contracts with prospective superintendents at the three-year (3) minimum term permitted by state law, in order to limit potential financial liability by the District and its taxpayers.
2. Ensure that future employment contracts with prospective superintendents, and other administrators, contain adequate termination provisions sufficient to protect the interests of the District and its taxpayers in the event that the employment ends prematurely for any reason.

Current Status: During our current audit, we found that the District did implement our prior recommendations. The District has ensured adequate termination provisions are contained in the administrators' contracts in order to protect the interests of the District and its taxpayers.

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
Governor
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The Honorable Carolyn Dumaesq
Acting Secretary of Education
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This report is a matter of public record and is available online at 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.