



LAKELAND SCHOOL DISTRICT
LACKAWANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 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

Mrs. Mary Retzbach, Board President
Lakeland School District
1355 Lakeland Drive
Scott Township, Pennsylvania 18433

Dear Governor Corbett and Mrs. Retzbach:

We conducted a performance audit of the Lakeland 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 December 10, 2010 through May 23, 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 two (2) 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

June 5, 2014

cc: **LAKELAND 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 Lakeland School District (District) in Lackawanna 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 December 10, 2010 through May 23, 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 66 square miles. According to 2010 federal census data, it serves a resident population of 12,097. According to District officials, the District provided basic educational services to 1,598 pupils through the employment of 111 teachers, twelve (12) full-time and part-time support personnel, and six (6) administrators during the 2011-12 school year. The District received \$8.9 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 two (2) compliance related matters reported as findings.

Finding No. 1: Pupil Transportation Errors Resulted in an Underpayment in Subsidies and Reimbursements of \$86,183. Our audit of the Lakeland School District's (District) pupil transportation records submitted by the District to the Pennsylvania Department of Education found reporting errors which resulted in an underpayment of transportation reimbursement totaling \$86,183 for the 2008-09 school year (see page 6).

Finding No. 2: Errors in Student Data Reporting Resulted in an Underpayment of \$56,150. Our audit of pupil membership reports submitted by the Lakeland School District to the Pennsylvania Department of Education found reporting errors for children placed in private homes during the 2009-10 and 2011-12 school years. The errors resulted in an underpayment of \$14,833 for the 2009-10 school year and an underpayment of \$41,317 for the 2011-12 school year (see page 8).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the Lakeland School District (District) from an audit released on February 24, 2012, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting Social Security and Medicare wages (see page 11).

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 December 10, 2010 through May 23, 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:

- ✓ 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. Social Security), 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 February 24, 2012, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1 →

Pupil Transportation Errors Resulted in an Underpayment in Subsidies and Reimbursements of \$86,183

Criteria relevant to the finding:

Section 2541 of the Public School Code provides, in part:

School districts shall be paid by the Commonwealth for every school year on account of pupil transportation, which and the means and contracts providing for which, have been approved by the Pennsylvania Department of Education (PDE). . . .

It is essential that service days, mileage, pupil counts, and any additional information required to calculate the district's subsidy, be reported accurately, according to PDE instructions for completion of end-of-year reports. Incorrect data could have an adverse effect on the amount of subsidy a district will receive from the Commonwealth.

Our audit of the Lakeland School District's (District) pupil transportation records submitted by the District to the Pennsylvania Department of Education (PDE) found reporting errors, which resulted in an underpayment of transportation reimbursement totaling \$86,183 for the 2008-09 school year.

Audit testwork revealed that, during the 2008-09 school year, the District did not maintain accurate transportation contracted service data and incorrectly reported the amount paid to PDE for one (1) contractor and failed to report data for reimbursement for one contractor (1) van.

Pupil transportation data must be maintained in accordance with PDE instructions and guidelines, since it is a major factor in determining the District's transportation reimbursement.

The errors were caused by District personnel's failure to review transportation reports prior to submission to PDE, resulting in the partial omission of contracted costs for one (1) contractor and route data for one (1) contracted van.

We have provided PDE with reports detailing the errors to be used in the recalculation of the District's pupil transportation reimbursement.

It is the responsibility of District management to have in place proper internal policies and procedures to ensure that transportation data is accurate and reported correctly to PDE. Without such controls, the District cannot be assured that it is reporting accurate data, or that has received the correct subsidy.

Recommendations

The *Lakeland School District* should:

1. Perform an internal review of transportation reports prior to submission to PDE to ensure the accuracy of the reported data.
2. Review subsequent years' transportation reports, and if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

3. Adjust the District's future allocations to resolve the reimbursement underpayment of \$86,183 for the 2008-09 school year.

Management Response

Management stated the following:

“The error appears to be a clerical under-report. The Director of Transportation has corrected the error and will review all future reports for completeness and accuracy.”

Auditor Conclusion

We are encouraged that the District acknowledges the deficiency. We will follow up on the issue and the status of our recommendations during our next cyclical audit of the District.

Finding No. 2

Errors in Student Data Reporting Resulted in an Underpayment of \$56,150

Criteria relevant to the finding:

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's 2009-10 PIMS [Pennsylvania Information Management System] User Manual, all Pennsylvania local education agencies must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage individual student data for each student served by Pennsylvania's Pre-K through Grade Twelve (12) public education systems.

PDE began calculating the LEA's state subsidy using the data that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our audit of pupil membership reports submitted by the Lakeland School District (District) to the Pennsylvania Department of Education (PDE) for the 2008-09, 2009-10, 2010-11, and 2011-12 school years found reporting errors for children placed in private homes (foster children) during the 2009-10 and 2011-12 school years. The errors resulted in an underpayment of \$14,833 for the 2009-10 school year and an underpayment of \$41,317 for the 2011-12 school year.

District personnel correctly reported membership for foster children during the 2008-09 and 2010-11 school years.

Membership days for foster children during the 2009-10 and 2011-12 school years were correctly reported in Pennsylvania Information Management System (PIMS) as non-resident days, but the funding district and educating district were the same, causing the days to not be reported. The errors in the 2009-10 school years resulted in an understatement of 401 days for elementary students and three (3) days for secondary students. The errors in the 2011-12 school year resulted in an understatement of 105 days for full-time kindergarten, 360 days for elementary students, and 484 days for secondary students.

Additionally, according to the *Federal Information Systems Control Manual (FISCAM)*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

Section 2503(c) provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court when such resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

Membership data for nonresident children placed in private homes must be maintained and reported accurately and in accordance with PDE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

The errors were caused by the child accounting coordinator's misunderstanding of entry procedures detailed in the new PIMS user manual.

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 not 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 reimbursement.

Recommendations

The *Lakeland School District* should:

1. Strengthen controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions.
2. Compare letters for children placed in private homes with District reports to ensure that student membership is properly classified.
3. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
4. Review subsequent year reports and, if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

5. Adjust the District's allocations to resolve the underpayment of \$14,833 for the 2009-10 school year and \$41,317 for the 2011-12 school year.

Management Response

Management stated the following:

“The error appears to be due to clerical input and the transition to the PIMS system. The PIMS coordinator will assume responsibility for the correct data input. Clerical input will be supervised more closely. Changes will require the coordinator’s approval.”

Auditor Conclusion

We are encouraged that the District acknowledges the deficiency we identified in this finding. We will follow up on the issue and the status of our recommendations during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Lakeland School District (District) released on February 24, 2012, resulted in one (1) finding pertaining to errors in reporting Social Security and Medicare wages. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We performed audit procedures and interviewed District personnel regarding the prior finding. As shown below, we found that the District did implement our recommendations related to errors in reporting Social Security and Medicare wages.

Auditor General Performance Audit Report Released on February 24, 2012

Finding: **Continued Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Overpayments**

Finding Summary: Our prior audit of the District's Social Security and Medicare tax contributions, which is used to determine the District's state reimbursement, found that reports submitted to the Pennsylvania Department of Education (PDE) for the 2006-07 school years were inaccurate. This error resulted in reimbursement overpayments of \$6,870.

Recommendations: Our audit finding recommended that the District should:

1. Accurately compile and review reports prior to submission to PDE.
2. Comply with applicable guidelines, regulations, and instructions.
3. Review reports submitted to PDE for subsequent school years and, if errors are found, submit revised reports.

We also recommended that PDE should:

4. Adjust the District's allocations to resolve the reimbursement overpayments of \$18,950, identified in our audit covering the 2004-05 and 2005-06 school years, and the overpayment of \$6,870 for the 2006-07 school year, which was identified in the prior audit of the District.

Current Status:

During our current audit, we found that the District did implement our prior recommendations. However, as of the end of our fieldwork, PDE had not adjusted the District's allocations to resolve the overpayments of \$18,950 for the 2004-05 and 2005-06 school years and \$6,870 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
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Carolyn Dumaesq
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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.