



**PENNCREST SCHOOL DISTRICT
CRAWFORD 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

Mr. Jason Bakus, Board President
Penncrest School District
18741 State Highway 198
Saegertown, Pennsylvania 16433

Dear Governor Corbett and Mr. Bakus:

We conducted a performance audit of the Penncrest 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 March 20, 2012 through February 14, 2014, 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 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

June 19, 2014

cc: **PENNCREST SCHOOL DISTRICT** Board of School Directors

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	2
Findings and Observations	5
Finding – Errors in the Reporting of Health Services Data Resulted in Reimbursement Underpayments of \$6,454	5
Status of Prior Audit Findings and Observations	8
Distribution List	10

Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Penncrest School District (District) in Crawford 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 March 20, 2012 through February 14, 2014, 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 400 square miles. According to 2010 federal census data, it serves a resident population of 24,563. According to District officials, the District provided basic educational services to 3,333 pupils through the employment of 274 teachers, 208 full-time and part-time support personnel, and nineteen (19) administrators during the 2011-12 school year. The District received \$27,925,660 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: Errors in the Reporting of Health Services Data Resulted in Reimbursement Underpayments of \$6,454. Our review of the Penncrest School District's (District) health services reimbursement applications for the 2010-11 and 2011-12 school years found that the District had inaccurately reported its average daily membership to the Pennsylvania Department of Health. These errors resulted in a total reimbursement underpayment of \$6,454 (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Penncrest School District (District) from an audit released on January 14, 2013, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to the certification deficiency and to the recommendations pertaining to the Memorandum of Understanding with local law enforcement not being updated timely and in accordance with Public School Code provisions (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 March 20, 2012 through February 14, 2014, except for the verification of professional employee certification, which was performed for the period July 2013 through June 2014.

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 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?

- ✓ 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 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, we reviewed the District's response to PDE dated May 9, 2013. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

Section 2505.1 of the Public School Code, Section 24 P.S. § 25-2505.1, provides for a reimbursement of the lesser of actual program costs or \$1.60 for medical services and \$7.00 for nurse services for each child enrolled in a school for the entire term, and a proportionate share for each child enrolled for part of a term. In addition, Act 25 of 1991 established that districts would receive an additional reimbursement on account of health services of \$9.70 multiplied by the district's average daily membership (ADM).

The Pennsylvania Department of Health instruction manual *Request For Reimbursement And Report Of School Health Services* states, in part, for the purposes of this report, ADM includes students attending part-time vocational technical schools (count both home and away time), and special education students receiving health services who are attending intermediate unit classes housed within district building.

Errors in the Reporting of Health Services Data Resulted in Reimbursement Underpayments of \$6,454

Our review of the Penncrest School District's (District) health services reimbursement applications filed with the Pennsylvania Department of Health (PDH) for the 2010-11 and 2011-12 school years found that the District inaccurately reported average daily membership (ADM).

These errors resulted in reimbursement underpayments to the District totaling \$6,454 as follows:

School Year	Reported ADM	Audited ADM	Understated ADM	Underpayment
2010-11	3,503.913	3,666.975	163.062	\$2,983
2011-12	3,099.567	3,289.251	189.684	3,471
			Total	\$6,454

The 2011-12 school year's understatement was the result of internal control weaknesses at the District. Specifically, District personnel responsible for the completion of the health services application were unfamiliar with the PDH instructions on which students' ADM are eligible for health services. As a result, the District failed to include students in grades Kindergarten through grade six (6) at the Saegertown Elementary School for reimbursement. Additionally, for both the 2010-11 and 2011-12 school years, the District failed to report students that were provided health services by the District but were educated at the vocational technical school and intermediate unit.

During our audit, the District made revisions to the 2011-12 school year application. However, the revision was still incorrect. The application, which was revised to include the ADMs for the elementary school students, still did not include the ADMs for the vocational technical school students and the students educated at the intermediate unit.

If the District had appropriate training and review processes in place prior to the submission of the health services applications to PDH, the errors could have been noticed and corrected before the District's audit and PDH's finalization of the health services reimbursement.

It is the responsibility of the District's management to have the proper policies and procedures in place to verify that student data that collected and submitted for state reimbursement is accurate. Without these internal controls, the District cannot be assured that it is receiving the appropriate state reimbursement.

Recommendations

The *Penncrest School District* should:

1. Provide training to staff personnel responsible for the reporting of health services ADM. The training should explain how the ADM for health services is to be computed from the child accounting reports.
2. Perform an internal review of the membership and health services data prior to submitting reports to PDH.
3. Review reports for school years subsequent to the audit period and, if similar errors are found, submit revised reports to PDH.

The *Pennsylvania Department of Health* should:

4. Adjust the District's allocations to resolve the reimbursement underpayment of \$6,454.

Management Response

Management stated the following:

“The District failed to report Saegertown Elementary ADMs for K-6

This problem was the result of a formula error in an excel spreadsheet. An employee in the Business Office developed a spreadsheet to summarize ADMs for the District's three (3) elementary and three (3) secondary schools. The employee would manually key ADMs into the spreadsheet from a report that was generated out of the District's Student Information System. Although the data was keyed into the spreadsheet correctly, the formula that was entered to sum the ADMs for the elementary grade levels (K-6) only included two (2) of the three (3) schools.

The District failed to report ADMs for “ungraded” and AVTS students

The employee who prepared the Health Services Reimbursement request did not know that the District could count ADMs for the “ungraded” students (i.e. membership time for out of district students who attend IU [Intermediate Unit] operated classrooms in the District’s buildings). The employee also did not know the District could count membership time for certain district students who spent a half day at the local AVTS.

The District has reviewed these issues with the employees who prepare inputs for the Health Services Reimbursement.”

Auditor Conclusion

We are encouraged that the District is taking action on this issue. We will follow up on 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 Penncrest School District (District) released on January 14, 2013, resulted in two (2) findings. The first finding pertained to professional employees' certification, and the second finding pertained to the Memorandum of Understanding (MOU) with local law enforcement. 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 findings. As shown below, we found that the District did implement our recommendations related to professional employees' certification and MOU findings.

Auditor General Performance Audit Report Released on January 14, 2013

Finding No. 1: **Certification Deficiency**

Finding Summary:

Our audit of professional employees' certification for the period July 1, 2011 through June 30, 2012, found one (1) employee was assigned to a professional position without holding proper certification.

The individual was employed as an elementary principal and was not properly certified.

Recommendations:

Our audit finding recommended that the District should:

1. Put procedures in place to compare employee's certification to the certification requirements of the assignments the District intends to give the employee.
2. Require the employee to obtain proper certification as required for the position or reassign the individual to an area in which proper certification is held.

We also recommended that PDE should:

3. Recover any subsidy forfeiture that may be levied.

Current Status:

During our current audit, we found that the District implemented our recommendations. The employee received the appropriate Administrative I certification on June 1, 2012, and currently is serving as an elementary school principal.

Finding No. 2: Memorandum of Understanding with Local Law Enforcement Not Updated Timely and in Accordance with Public School Code Provisions

Finding Summary: Our audit found that the MOU between the District and local law enforcement with jurisdiction over school property setting forth agreed upon procedures to be followed should an incident involving an act of violence occur was last updated in November 2009. The District was not in compliance with the recently enacted amendments to the safe school provisions of the Public School Code (PSC).

Recommendations: Our audit finding recommended that the District should:

1. In consultation with the District's solicitor, review new requirements for MOUs and other school safety areas under the PSC to ensure compliance with the amended Safe School provisions enacted November 17, 2010.
2. Adopt an official board policy requiring District administration to biennially update and re-execute all MOUs with local law enforcement having jurisdiction over school property and file a copy with PDE's Office of Safe Schools on a biennial basis.

Current Status: During our current audit, we found that the District implemented our prior recommendations. On May 13, 2013, the District updated the MOUs with the local law enforcement. The MOUs complied with the PSC.

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:

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