



**SOUTHEAST DELCO SCHOOL DISTRICT
DELAWARE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JULY 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. Dorothy Gallagher, Board President
Southeast Delco School District
1560 Delmar Drive
Folcroft, Pennsylvania 19032

Dear Governor Corbett and Mrs. Gallagher:

We conducted a performance audit of the Southeast Delco 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 21, 2011 through November 12, 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 the two (2) findings noted in this report. One of the findings—regarding incorrect wage reporting resulting in subsidy overpayments—is a repeat finding from our previous audit report of the District, issued in July 2011. The Pennsylvania Department of Education has not yet taken action to recoup these overpayments, which now total \$693,785. 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 cursive script, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

July 10, 2014

cc: **SOUTHEAST DELCO 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 Southeast Delco School District (District) in Delaware 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 21, 2011 through November 12, 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 four (4) square miles. According to 2010 federal census data, it serves a resident population of 30,369. According to District officials, the District provided basic educational services to 3,972 pupils through the employment of 305 teachers, 269 full-time and part-time support personnel, and 29 administrators during the 2011-12 school year. The District received \$24.2 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: Errors in Reporting Social Security and Medicare Wages Resulted in a Reimbursement Net Overpayment of \$213,679. Our review of the Southeast Delco School District found errors in reporting total taxable Social Security and Medicare wages resulting in a reimbursement net overpayment of \$213,679 (see page 5).

Finding No. 2: The District Lacks Sufficient Internal Controls Over Its Student Record Data. Our review found that the Southeast Delco School District miscoded their foster children and did not correct their Pennsylvania Information Management System Child Accounting Student Calendar Fact Data Revision for School Year 2009-10 until our audit disclosed the failure (see page 8).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Southeast Delco School District (District) from an audit released on July 5, 2011, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to Social Security and Medicare wages reimbursement net overpayment of \$480,106 (see page 10).

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 21, 2011 through November 12, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2008 through October 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., Social Security and 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 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

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

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.

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 July 5, 2011, we reviewed the District's response to PDE dated September 23, 2011. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Errors in Reporting Social Security and Medicare Wages Resulted in a Reimbursement Net Overpayment of \$213,679

Criteria relevant to the finding:

Instructions for completion of the PDE-2105 were provided to local education agencies due to the revisions required by Act 29 of 1994. Those instructions state that total taxable Social Security and Medicare wages for “existing” and “new” employees paid during each quarter of the fiscal years are to be reported for reimbursement.

Our review of the Southeast Delco School District’s (District) Social Security and Medicare wage reimbursement records found that reports submitted to the Pennsylvania Department of Education’s (PDE) Labor, Education, and Community Services (LECS) Comptroller’s Office, Division of School Finance, for the 2008-09 and 2009-10 school years were inaccurate. The inaccuracies resulted in a net overpayment of \$213,679, as follows.

Wages Subject to State Reimbursement						
School Year	Code*	Rate	Wages Reported	Wages Audited	Over/(Under)	Over/(Under) Reimbursement
2009-10	SE	0.031	\$ 7,889,821	\$ 7,889,821	n/a	\$ 0
	ME	0.00725	7,889,821	7,936,156	\$ (46,335)	(336)
	SN	0.041924	20,025,068	20,024,173	895	38
	MN	0.009805	16,372,999	20,129,645	(3,756,646)	(36,833)
						\$ (37,132)
						Adjustment ¹ : (148)
						2009-10 Total: \$ (37,280)
2008-09	SE	0.031	\$ 11,026,744	\$ 8,695,332	\$ 2,331,412	\$ 72,274
	ME	0.00725	11,026,744	8,715,581	2,311,163	16,756
	SN	0.0407278	21,521,520	18,258,868	3,262,652	132,881
	MN	0.00952505	21,521,520	18,437,226	3,084,294	29,378
						\$ 251,288
						Adjustment ² : (329)
						2008-09 Total: \$ 250,959
						Net Overpayment: \$ 213,679
*Codes						
SE – Social Security Wages for Existing Employees						
ME – Medicare Wages for Existing Employees						
SN – Social Security Wages for New Employees						
MN – Medicare Wages for New Employees						

Similar errors were noted in the prior audit of the District (see Status of Prior Year Audit Findings, page 10). District

¹ Effect of state aid ratio change from 0.6761 to 0.6762.

² Effect of state aid ratio change from 0.6567 to 0.6569.

personnel could not provide an adequate explanation for the wage reporting errors occurring in the 2008-09 school year. However, several clerical errors in the 2009-10 school year caused an underpayment, including a \$3,652,100 over reporting in federally funded wages. An over reporting in federal wages creates an underpayment in subsidy due to the calculations applied to those wages. In addition, District personnel failed to reconcile the Internal Revenue Service's *Form 941 – Employer's Quarterly Federal Tax Return* with the District's Social Security reimbursement form. There was also a minor change in the reimbursement amount due to changes in aid ratio for both years.

It is the responsibility of District management to have in place appropriate internal policies and procedures to ensure that wages are accurately reported to proper entity. Good internal control procedures would require the reconciliation of supporting documentation to the District's numbers. Had the reconciliation been completed, these errors might have been disclosed prior to filing.

Recommendations

The *Southeast Delco School District* should:

1. Reconcile total taxable Social Security and Medicare wages with wages reported on the Internal Revenue Service's *Form 941*.
2. Review reports submitted subsequent to the audit period and submit revised reports to the Pennsylvania Department of Education, if errors are found.
3. Consider recognizing the overpayments owed back to PDE as a contingent liability on the District's balance sheet.

The *Pennsylvania Department of Education* should:

4. Adjust the District's allocations to recover the net overpayments of \$213,679.

Management Response

Management stated the following:

“In the 2008-09 school year incorrect wage totals were reported, which resulted in the Social Security and Medicare net overpayment. A corrective plan, which was implemented in the 2009-10 school year alleviated the error. This finding was initially issued in a previous state audit.”

Auditor Conclusion

We are encouraged that the District has taken action to address this deficiency. During our next audit, we will follow up to confirm that the corrective action taken by the District in the 2009-10 school year has fully corrected the issue of incorrect reporting of Social Security and Medicare wages.

We again call on PDE to adjust these overpayments, which now total \$693,785.

Finding No. 2

The District Lacks Sufficient Internal Controls Over Its Student Record Data

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 *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. 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 the Southeast Delco School District's (District) controls over student record data integrity found that internal controls need to be improved.

District personnel in charge of child accounting and PIMS reporting did reconcile the PIMS final report and their Student Information System membership reports to ensure accuracy. However, the *PIMS Child Accounting Student Calendar Fact Data Revision* for School Year 2009-10 that the District submitted to PDE on July 29, 2011, was incorrect. This was not discovered until our audit review on September 11, 2013, when the District then submitted a corrected revision.

The District did not have procedures in place to detect the coding errors and to ensure that personnel were adequately cross-trained in the District's child accounting system.

It is the responsibility of District management to have in place proper internal policies and procedures to ensure that student accounting data is collected, is accurate, and is timely submitted to PDE. Without such internal controls,

Additionally, according to the *Federal Information Systems Control Manual*, 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.

the District cannot be assured that it is submitting accurate information to PDE.

Recommendations

The *Southeast Delco School District* should:

1. Review calendar fact templates for accuracy to ensure that they reflect the correct days in session and days of enrollment.
2. Develop documented procedures (e.g., procedure manuals, policies or other written instructions) to ensure continuity over PIMS data submission if District personnel were to leave the District suddenly or otherwise be unable to upload PIMS data to PDE.
3. Cross-train several of its personnel in the District's child accounting system.

Management Response

Management stated the following:

“The child accounting data issues occurred during the changeover by the Pennsylvania Department of Education to the new PIMS system. This was a data coding error that happened as district staff transitioned to the new system. Corrective Action: Additional training on PIMS data collection and the District's ESchool student information system was provided to appropriate staff. Also, the various PIMS data reports are now reviewed by two different administrators to check for data errors.”

Auditor Conclusion

We are encouraged that the District is taking steps to address this deficiency. 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 Southeast Delco School District (District) released on July 5, 2011, resulted in one (1) finding. The finding pertained to Social Security and Medicare wages net reimbursement overpayment of \$480,106. 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 not implement our recommendations related to Social Security and Medicare wages reimbursement net overpayment of \$480,106.

Auditor General Performance Audit Report Released on July 5, 2011

Finding: **Social Security and Medicare Wages Reimbursement Net Overpayment of \$480,106**

Finding Summary: Our audit of the District's 2007-08 and 2006-07 school years' Reconciliation of Social Security and Medicare Tax Contributions (PDE-2105) found errors in total taxable Social Security and Medicare wages reported to PDE for both years, as well as an overstatement of the reimbursement received for the 2007-08 school year reported to PDE. These errors resulted in a net reimbursement overpayment of \$480,106.

Recommendations: Our audit finding recommended that the District should:

1. Reconcile total taxable Social Security and Medicare wages with wages reported on the Internal Revenue Service's *Form 941 – Employer's Quarterly Federal Tax Return*.
2. Review reports submitted subsequent to the audit period and submit revised reports to PDE, if errors are found.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to recover the net overpayment of \$480,106.

Current Status:

During our current audit, we found that the District did implement some of our prior recommendations, but they did not review all reports submitted subsequent to the audit, which resulted in our current audit finding (see Finding No. 1). Since PDE has not, as of February 12, 2014, recovered the overpayment, we again recommend that PDE adjust the District's allocations to recover the net overpayment of \$480,106.

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
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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.