



**KUTZTOWN AREA SCHOOL DISTRICT
BERKS 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

Mr. Carl Ziegler, Board President
Kutztown Area School District
251 Long Lane
Kutztown, Pennsylvania 19530

Dear Governor Corbett and Mr. Ziegler:

We conducted a performance audit of the Kutztown 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 November 23, 2011 through March 3, 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

July 31, 2014

cc: **KUTZTOWN 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 Kutztown Area School District (District) in Berks 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 November 23, 2011 through March 3, 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 100 square miles. According to 2010 federal census data, it serves a resident population of 19,010. According to District officials, the District provided basic educational services to 1,487 pupils through the employment of 134 teachers, 130 full-time and part-time support personnel, and thirteen (13) administrators during the 2011-12 school year. The District received \$6,773,915 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 Reporting Membership for Non-Resident Children Placed in Private Homes (Foster Children) Resulted in Reimbursement Underpayments of \$41,266.

Our audit found errors in the Kutztown Area School District's (District) pupil membership reports submitted to the Pennsylvania Department of Education for the 2010-11 and 2011-12 school years. The District inaccurately reported membership for non-resident children placed in private homes (foster children), resulting in underpayments in Commonwealth-paid tuition totaling \$41,266 (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Kutztown Area School District (District) from an audit released on May 7, 2012, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to a Memorandum of Understanding that was not updated timely (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 November 23, 2011 through March 3, 2014, except for the verification of professional employee certification, which was performed for the period July 1, 2013 through February 25, 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?

- ✓ 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, was 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 May 7, 2012, we reviewed the District's response to PDE dated September 4, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Errors in Reporting Membership for Non-Resident Children Placed in Private Homes (Foster Children) Resulted in Reimbursement Underpayments of \$41,266

Criteria relevant to the finding:

Section 2503(c) of the Public School Code, 24 P.S. § 25-2503(c), provides that the Commonwealth will pay tuition to districts providing education to nonresident children placed in private homes. The payments are based on the membership days reported for such children.

Non-resident pupil membership data must be maintained and reported in accordance with Pennsylvania Department of Education guidelines and instructions, since it is a major factor in determining the Commonwealth's payments of tuition for children placed in private homes.

Our audit found errors in the Kutztown Area School District's (District) pupil membership reports submitted to the Pennsylvania Department of Education for the 2010-11 and 2011-12 school years. The District inaccurately reported membership for non-resident children placed in private homes (foster children), resulting in underpayments in Commonwealth-paid tuition totaling \$41,266.

The District's membership days for non-resident foster children were understated by 44 days for secondary students during the 2010-11 school year, resulting in a \$3,183 underpayment. Membership days for non-resident foster children were understated by 540 days for elementary students during the 2011-12 school year, resulting in a \$38,083 underpayment.

These deficiencies occurred because District personnel did not have sufficient training and failed to properly classify these students on both the District's child accounting software and in its membership reports through the Pennsylvania Information Management System.

We have provided PDE with a report detailing the errors for use in recalculating the District's reimbursement.

Recommendations

The *Kutztown Area School District* should:

1. Review PDE instructions and compile its non-resident student listing accordingly.
2. Review membership data thoroughly for residency classifications prior to submitting reports to PDE.
3. Review reports submitted subsequent to the years audited, and submit revised reports to PDE, if errors are found.

4. Maintain placement letters for all children placed in private homes (foster children) for audit.

The *Pennsylvania Department of Education* should:

5. Adjust the District's allocations to resolve the underpayments of \$41,266.

Management Response

Management stated the following:

“[T]he cause of the problem was inexperience of the person doing our child accounting at the time. We have reviewed the correct procedures with the person who currently does child accounting and I am confident the error will not happen again.”

Status of Prior Audit Findings and Observations

Our prior audit of the Kutztown Area School District (District) released on May 7, 2012, resulted in one (1) finding. The finding pertained to a Memorandum of Understanding that was not updated timely. 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 our recommendations related to a Memorandum of Understanding that was not updated timely.

Auditor General Performance Audit Report Released on May 7, 2012

Finding: **Memorandum of Understanding with Local Law Enforcement Not Updated Timely**

Finding Summary: Our prior audit of the District's records found that the Memorandum of Understanding (MOU) between the District and one (1) local law enforcement agency had not been updated within two (2) years.

Recommendations: Our audit finding recommended that the District should:

1. In consultation with the District's solicitor, continue to review, update, and re-execute the MOUs between the District and all the local law enforcement agencies having jurisdiction over school property.
2. In consultation with the District's solicitor, review new requirements for MOUs and other school safety areas under the Public School Code to ensure compliance with amended safe schools provisions.
3. Adopt an official board policy requiring the District's administration to biennially update and re-execute all MOUs with local law enforcement agencies having jurisdiction over school property and file copies with PDE's Office of Safe Schools, as required by law.

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

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
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
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The Honorable Robert M. McCord
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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.