

PERFORMANCE AUDIT

Moniteau School District Butler County, Pennsylvania

June 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Ms. Kathy McBride, Board President
Moniteau School District
1810 West Sunbury Road
West Sunbury, Pennsylvania 16061

Dear Governor Wolf and Ms. McBride:

We conducted a performance audit of the Moniteau 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 May 27, 2011 through September 29, 2014, except as otherwise stated 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 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 11, 2015

cc: **MONITEAU 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 District. 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 May 27, 2011 through September 29, 2014, except as otherwise stated 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 152 square miles. According to 2010 federal census data, it serves a resident population of 9,285. According to District officials, the District provided basic educational services to 1,593 pupils through the employment of 109 teachers, 67 full-time and part-time support personnel, and 9 administrators during the 2011-12 school year. The District received \$11,919,509 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 compliance related matter reported as a finding.

Finding: Continued Pupil Membership Reporting Errors for the Last Twelve School Years Audited. Our audit of the District's pupil membership records found continued errors on reports submitted to Pennsylvania Department of Education (PDE) by District personnel. Specifically, we found that for the 2010-11 and 2011-12 school years the District had reported non-resident children placed in private homes (foster children) within the District as resident students. These misclassified students resulted in underpayments totaling \$36,949 for non-resident foster children reimbursement. This is the seventh audit report that outlines child accounting reporting errors (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the District from an audit released on May 22, 2013, we found that the District had taken appropriate corrective action in implementing recommendations pertaining to the premature termination of its former Superintendent (see page 9), pupil transportation (see page 10), and certification deficiencies (see page 11). However, the District had not taken appropriate corrective action in implementing our recommendations pertaining to a pupil membership deficiency (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 May 27, 2011 through September 29, 2014, except for the verification of professional employee certification which was performed for the period August 1, 2013 through August 14, 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 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:

- ü Did the District ensure that bus drivers transporting District children at the time of the audit have the necessary license, physicals, training, background checks, and clearances as outlined in 24 P.S. § 1-111, 24 P.S. § 2070, 67 P.S. § 71.1, 22 PA Code Chapter 8, and 23 PA C.S. § 58-6354, and did they have written policies and procedures governing the hiring of new bus drivers?

To address this objective:

- The auditors selected the five new drivers from the current school year and reviewed their compliance with the requirements of the PA Code listed in the previous paragraph.
- The auditors also requested copies of the written policies and procedures governing the hiring of bus drivers to determine that these processes included requesting background checks and clearances.

Ü Did the District ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable for the most current year available?

To address this objective:

- For the 2011-12 school year, the auditors randomly selected 20 out of 1,546 total registered students (five resident, five non-resident, five intermediate units, and five area vocational-technical schools) from the vendor software listing and verified that each child was appropriately registered with the District.
- In addition, the auditors reviewed both of the school terms reported on the Summary of Child Accounting and verified the school days reported on the Instructional Time Membership Report and matched them to the School Calendar Fact Template.

Ü Did the District take appropriate corrective action to address recommendations made in our prior audit?

To address this objective:

- The auditors interviewed District administrators to determine whether they had taken corrective action.

- The auditors then reviewed documentation to verify that the administration had implemented the prior audit report's recommendations and/or observed these changes in person.

Regarding the status of reporting pupil membership data:

- The auditors reviewed placement information on all five of the District's non-resident students for the 2010-11 school year and both of the non-resident students for the 2011-12 school year.

Regarding the status of the reporting pupil transportation data:

- The auditors reviewed a random selection of 13 of the 50 total District buses for the 2010-11 school year and 12 of the 48 buses for the 2011-12 school year. For each bus in the sample, auditors reviewed various data, including board approval of routes, manufacturer, serial number, year manufactured, and seating capacity as required under 24 P.S. § 25-2541.
- In addition, the auditors reconciled transportation data the District submitted to PDE for the District's final formula allowance and/or contracted costs to ensure accuracy.

Regarding the status of teacher certification:

- The auditors reviewed and evaluated certification documentation for all 20 teachers and administrators that did not have permanent certificates, were newly hired, or changed assignment at the time of our 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, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, financial stability, reimbursement applications, 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 22, 2013, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

Pupil membership classifications must be maintained and reported in accordance with PDE's 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 completed with these data fields.

Continued Pupil Membership Reporting Errors for the Last Twelve School Years Audited

Our current audit found that the District did not properly report the educational services provided to non-resident students to PDE for the 2010-11 and 2011-12 school years. The District's membership reports under-reported the days in which educational services were provided to non-resident foster children, which resulted in an underpayment totaling \$36,949 detailed as follows:

<u>School Year</u>	<u>Days Underreported</u>	<u>Tuition Reimbursement Underpayment</u>
2010-11	550	\$24,581
2011-12	306	<u>12,368</u>
	Total	\$36,949

These errors were due to District personnel not being familiar with PDE's guidelines and instructions. Also, the District's Business Manager failed to ensure that information regarding non-resident students was provided to him. This information was needed to allow the Business Manager to ensure that the funding of non-resident students by the District was accurate.

These deficiencies appear to be systemic at the District, and the District has not addressed our prior recommendations about this issue. We first made the District aware of the membership reporting deficiencies in an audit report released on February 2, 2002. In the five subsequent reports, we have continued to make the District aware of pupil membership reporting problems like the ones cited in this finding.

The District's Board of School Directors communicated an outline of corrective actions to prevent pupil membership reporting errors to the District's Comptroller's Office on May 13, 2002. In addition, District management indicated agreement with our report and outlined specific corrective actions. However, for three of the four subsequent reports, District management has chosen to waive the opportunity

to respond or indicate any corrective actions to this ongoing problem.

On February 4, 2015, our auditors contacted the District’s Business Manager to obtain further explanation about the District’s ongoing pupil membership reporting errors. On February 6, 2015, the District’s Superintendent provided a detailed listing of the corrective actions that the District has put into place regarding controls over the reporting of pupil membership.

The following chart reflects the historic breakdown of the effects of the reporting errors:

<u>Date of Released Audit Report</u>	<u>School Years Reviewed</u>	<u>Net Effect of Reporting Errors Over/(Underpayment)</u>
February 12, 2002	1998-99 1999-00	\$ 52,545
August 26, 2004	2000-01 2001-02	755
August 18, 2006	2003-04	3,015
July 21, 2009	2004-05 2005-06	107,420
August 27, 2010	2006-07 2007-08	216,531
May 23, 2013	2008-09	(29,352)
Current Audit	2010-11 2011-12	(36,949)
	Total	\$313,965

It is the responsibility of District management to have internal policies and procedures in place to ensure that student data is accurately collected and submitted to PDE. Without such internal controls, the District cannot be assured that its student data is accurate or that it is receiving the appropriate subsidy.

We have provided PDE with reports detailing the errors for use in recalculating the District’s reimbursement foster children for the current audit.

Recommendations

The *Moniteau School District* should:

1. Require administrators to establish oversight procedures to ensure that the internal controls put in place are sufficient and that the procedures are written to ensure continuity in the event of personnel changes in key positions.
2. Continue to provide training from PDE to ensure that the personnel tasked with reporting pupil membership thoroughly understand PDE's reporting guidelines and instructions.
3. Review subsequent years' reports for errors and resubmit to PDE, if necessary.

The *Pennsylvania Department of Education* should:

4. Adjust future District allocations to correct the underpayments totaling \$36,949.

Management Response

Management stated agreement with the finding and stated the following:

“A checklist of the needed/required documentation has been developed. Building administration will review and double check necessary registration forms and documentation. Residency form to be completed has been reviewed.”

Auditor Conclusion

We are encouraged that the District's Superintendent has developed corrective actions; however, without administrative oversight, these corrective actions may not be effective. We will determine the effectiveness of the District's corrective actions and oversight during our next audit.

Status of Prior Audit Findings and Observations

Our prior audit of the District released on May 22, 2013, resulted in four findings, as shown below. 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 findings. As shown below, we found that the District did not implement all our recommendations related to premature termination of its former Superintendent employment, transportation, and membership.

Auditor General Performance Audit Report Released on May 22, 2013

Finding No. 1: The District Spent \$128,901 on an Agreement that Prematurely Terminated Its Former Superintendent’s Employment

Finding Summary: Our prior audit found that the District had terminated their contract agreement with the former Superintendent in the fourth year of a five-year contract. The cost of termination included salary, insurance for ten years, acting Superintendent cost, and payment to the new Superintendent totaled \$128,901.

Recommendations: Our audit finding recommended that the District should:

1. Enter into employment contracts with prospective superintendents at the three-year 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 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.
3. Provide as much information as possible to the taxpayers of the District explaining the reasons for the termination of the superintendent and justifying the District’s expenditure of public funds to buy out the contract.

Current Status: During our current audit, we found that the District implemented termination provisions into the new Superintendent’s contract. On September 27, 2010, the District entered into a four-year contract with the new Superintendent. This contract contained termination provisions. However, no further information was provided regarding the termination of the former Superintendent.

Finding No. 2: Errors in Reporting Pupil Transportation Data Resulted in a Subsidy Overpayment of \$32,109

Finding Summary: Our prior audit found reporting errors in days of operation, daily mileages, and daily number of trips, and the District included mileage for tutoring runs when it was paid for with tutoring grant.

Recommendations: Our audit finding recommended that the District should:

1. Provide continued training for District personnel responsible for transportation reporting.
2. Establish and maintain written procedures for verifying days of operation, daily miles with and without pupils, number of trips per day, and any other transportation data that is required by PDE.
3. Review of subsequent years' transportation reports submitted to PDE for accuracy and resubmit, if necessary.

We also recommended that PDE should:

4. Adjust the District's future allocations to correct the overpayment of \$32,109.

Current Status: During our current audit, we found that the District did implement our prior recommendations. Beginning in the 2009-10 school year, the District hired a new transportation coordinator. As a result of that hiring, the reporting of transportation data improved. As of September 29, 2014, PDE has not corrected the overpayment.

Finding No. 3: For the Fifth Consecutive Audit, Errors Were Noted in Reporting of Pupil Membership Data

Finding Summary: Our prior audit of pupil membership found reporting errors in membership of non-resident foster children to PDE. The errors resulted in a \$29,352 underpayment to the District.

Recommendations: Our audit finding recommended that the District should:

1. Implement written procedures for reconciling PDE's reports that would allow the District to detect any significant change in data.
2. Ensure adherence to PDE's regulations when reporting non-resident foster children.

3. Review subsequent school years' membership reports that were submitted to PDE for accuracy and submit revised reports, if necessary.

We also recommended that PDE should:

4. Adjust the District's allocations to correct the underpayment of \$29,352.

Current Status:

During our current audit, we found that the District did not implement our prior recommendations. (See the finding for the current audit on page 6). We also found that, as of September 29, 2014, PDE had not adjusted the District's allocations in the amount of \$29,352.

Finding No. 4:

Continuing Certification Deficiency

Finding Summary:

Our prior audit found that one professional employee continued to have a lapsed supervisory certificate. The individual was serving as Coordinator of Special Education.

Recommendations:

Our audit finding recommended that the District should:

Put procedures in place to ensure all professional employees are properly certified for their assignment.

We also recommended that PDE should:

Adjust the District's future allocations to recover the subsidy forfeitures totaling \$2,685.

Current Status:

During our current audit, we found that the employee in question resigned and the current employee in that position is properly certified. PDE had recovered the subsidy forfeiture on December 26, 2013.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Pedro Rivera
Acting Secretary of Education
1010 Harristown Building #2
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This report is a matter of public record and is available online at www.PaAuditor.gov. 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: www.PaAuditor.gov.