

PERFORMANCE AUDIT

Penns Manor Area School District Indiana County, Pennsylvania

July 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

Mr. Robert Packer, Board President
Penns Manor Area School District
6003 Route 553
Clymer, Pennsylvania 15728

Dear Governor Wolf and Mr. Packer:

We conducted a performance audit of the Penns Manor 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 October 18, 2012 through March 23, 2015, 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 significant noncompliance with relevant requirements, as detailed in the four audit findings within this report. A summary of the results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District and a number of different government entities, including the Pennsylvania Department of Education (PDE).

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

July 8, 2015

cc: **PENNS MANOR 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 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 October 18, 2012 through March 23, 2015, 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 86 square miles. According to 2010 federal census data, it serves a resident population of 6,155. According to District officials, the District provided basic educational services to 943 pupils through the employment of 67 teachers, 48 full-time and part-time support personnel, and 7 administrators during the 2011-12 school year. The District received \$10.5 million in state funding in the 2011-12 school year.

Academic Performance

For purposes of categorization of academic performance, the District is considered a Title 1 non-designated school as demonstrated by its School Performance Profile (SPP) score of 72.8 for the 2012-13 school year. SPP is PDE's current method of providing a quantitative, academic score based upon a 100-point scale for all public schools. A score of 72.8 would be considered a "C-" if using a letter grade system. Weighted data factors included in the SPP score are indicators of academic achievement, indicators of closing the achievement gap, indicators of academic growth, and other academic indicators such as attendance and graduation rates.

Previously, the District did not make Adequate Yearly Progress (AYP) for the 2011-12 school year and was in a school improvement I status for the high school and warning status for the elementary school.

AYP was a key measure of school performance established by the federal No Child Left Behind Act (NCLB) of 2001 requiring that all students reach proficiency in Reading and Math by 2014. For a school to meet AYP measures, students in the school needed to meet goals or targets in three areas: (1) Attendance (for schools that do not have a graduating class) or Graduation (for schools that have a high school graduating class), (2) Academic Performance, which is based on tested student's performance on the Pennsylvania System of School Assessment (PSSA), and (3) Test Participation, which is based on the number of students that participate in the PSSA. Schools were evaluated for test performance and test participation for all

students in the tested grades (3-8 and 11) in the school. AYP measures determined whether a school was making sufficient annual progress towards statewide proficiency goals.

Audit Conclusion and Results

Our audit found significant noncompliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, as detailed in the four audit findings within this report.

Finding No. 1: Error in Reporting Pupil Membership Resulted in an Overpayment of \$11,607. Our audit of the District found that the District's pupil membership reports submitted to PDE for the 2011-12 school year were inaccurate. We found that District personnel incorrectly reported one secondary resident student for 177 days as a non-resident child placed in private home (foster child) instead of a resident student. Since the parent of the student lives within the District, the pupil should have been reported as a resident student (see page 8).

Finding No. 2: Errors in Pupil Transportation Reports Resulted in a Net Underpayment of \$12,253. Our audit of the District's pupil transportation records and reports submitted to PDE for the 2010-11 and 2011-12 school years found reporting errors and lack of documentation supporting pupil counts. These errors resulted in an underpayment of \$14,412 and an overpayment of \$2,159 for the 2010-11 and 2011-12 school years, respectively (see page 11).

Finding No. 3: The District's Administration Failed to Obtain Board Approval for Three Contracts with Outside Education Agencies, Totaling \$384,675. Our audit of the District found that the District's administration violated the Pennsylvania Public School Code (PSC), and its own policy, by failing to ensure that the District's Board of School Directors (Board) approved three contracts with outside education agencies totaling \$384,675 (see page 14).

Finding No. 4: The Board of School Directors Failed to Regularly Update and Review Its Policies and the Administration Lacked Written Administrative Procedures. The Board failed to review and update its policies regularly. As a result, the Board could not ensure that its existing policies remained relevant, nor use those policies to govern the District effectively. In addition, the former Superintendent violated Board Policy No. 003 by failing to develop written administrative procedures (see page 18).

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 June 10, 2013, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to the certification and transportation (see page 22).

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 October 18, 2012 through March 23, 2015, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through May 12, 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 Were professional employees certified for the positions they held?
 - o To address this objective, the auditors reviewed and evaluated certification documentation for all 19 teachers and administrators that did not have permanent certificates, were newly hired, or changed assignment at the time of our audit.

- Ü In areas where the District received state subsidies and reimbursements based on non-resident pupil membership, did it follow applicable laws [24 P.S. § 13-1301, 13-1302, 13-1305, and 13-1306] and procedures [22 PA Code Chapter 11]?
 - To address this objective, the auditors reviewed placement information on all three of the District’s non-resident students.
- Ü In areas where the District received transportation subsidies, was the District, and any contracted vendors, in compliance with applicable laws [24 P.S. § 25-2541] and procedures?

To address this objective:

- The auditors selected 6 buses to review out of a total of 15 total District buses. For each bus in the sample, auditors reviewed various data, including board approval of routes, manufacturer, serial number, year of manufacture, and seating capacity as required
 - In addition, the auditors reconciled the transportation data the District submitted to PDE to the District’s final formula allowance and/or contracted costs to ensure accuracy.
- 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 objectives, the auditors selected the 23 “new drivers” since the last time the Bureau of School Audits audited the District and reviewed bus driver compliance. Auditors ensured that all of the 23 new drivers not reviewed during the

previous audit were selected for review and included both district employed and contractor employed drivers, as appropriate.

Ü 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?

- To address this objective, the auditors reviewed the contract(s), settlement agreement(s), board meeting minutes, board policies, and payroll records for any administrator whose District contract was bought-out.

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:

- To address this objective, the auditors randomly selected 20 out of 943 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.

Ü Were there any declining fund balances that may pose a risk to the District's fiscal viability?

- To address this objective, the auditors reviewed the District's annual financial reports, budget, independent auditor's reports, summary of child accounting, and general ledger for fiscal years 2005-06 through 2012-13.

Ü Did the District take appropriate steps to ensure school safety?

- To address this objective, the auditors reviewed a variety of documentation including safety plans, training schedules, anti-bullying policies, and after action reports to assess whether the District followed best practices in school safety and 24 P.S. Sect. 13-1302, 1302.1A, 13-1303.1, and 13-1303A. Generally, the auditors evaluate the age of the plan, whether it is being practiced through training and whether the school has an after action process for trying to improve on the results of its training exercises.

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.
- We reviewed all three non-resident foster students for the 2010-11 and 2011-12 school years.
- We reviewed all 75 certified employees in the District for the 2013-14 school year.

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, 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 June 10, 2013, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Error in Reporting Pupil Membership Resulted in an Overpayment of \$11,607

Criteria relevant to the finding:

Section 2503(c) of the PSC, 24 P.S. § 25-2503(c), provides for Commonwealth payment of tuition for wards of the state and any non-resident child who is placed in the home of 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 for reimbursement to be received.

Membership data for nonresident foster children 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.

Our audit of the District found that the District's pupil membership reports submitted to PDE for the 2011-12 school year were inaccurate. We found that District personnel incorrectly reported one resident student for 177 days as a non-resident foster child instead of a resident student. Since the parent of the student lives in the District, they should have been reported as a resident student.

As a result of incorrectly reporting the student as a non-resident, the District was overpaid \$11,607 in Commonwealth-paid tuition for foster children.

The error was caused by District personnel not being familiar with the reporting requirements of non-resident foster children because the District does not normally have many foster students to report. However, if the District had a level of internal review of child accounting data prior to the submission of the data to PDE, the inaccuracy may have been noticed and could have been corrected prior to PDE's final calculation of the District's 2011-12 school year membership reporting totals.

It is the responsibility of District management to have in place the proper internal policies, procedures, and training to ensure that student data is accurate and reported correctly to PDE. Without such internal controls and training, the District cannot be assured that its student data is accurate or that it is receiving the appropriate state subsidy reimbursement.

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

Recommendations

The *Penns Manor Area School District* should:

1. Provide District personnel who are responsible for the submission of child accounting data into PDE with appropriate training on the residency classifications per PDE instruction.
2. Perform an internal review of all pupil membership reports and supporting documentation before submission to PDE.
3. Review subsequent school year's membership reports for accuracy and resubmit if necessary.

The *Pennsylvania Department of Education* should:

4. Adjust the District's future allocations to correct the overpayment of \$11,607.

Management Response

Management stated the following:

“Cause: District personnel did not report a student accurately in regards to residency. This particular student was placed in a private home by C.Y.S, [Children Youth Services] but should not have been recorded as a non-resident since parent lived within the school district.

Corrective Action Plan:

1. District personnel will receive training in regards to child accounting practices to include residency classification through PDE and A/CAPA [Attendance/Child Accounting Professional Association of Pennsylvania] organization in order to ensure PDE instructions are followed for accurate child accounting purposes. Administrative procedures will be written, approved by the Board and followed by District personnel.

2. District personnel and administration will meet twice a year to review student member[ship] for the current school year before submitting child accounting records through PIMS to PDE.
3. District personnel and administration will review PIMS [Pennsylvania Information Management System] reports annually to review accuracy of the district's membership reports. Corrections will be made and practices will be adjusted based on any feedback from PDE.”

Auditor Conclusion

We are pleased that District administrators are taking appropriate corrective action to ensure that future child accounting reporting of non-resident students is accurate.

We will review these corrective action steps during our next cyclical audit of the District.

Finding No. 2 →

Errors in Pupil Transportation Reports Resulted in a Net Underpayment of \$12,253

Criteria relevant to the finding:

- Section 518 of the PSC requires retention of these records for a period of not less than six years.
- Section 2541 of the PSC states school districts shall be paid by the Commonwealth for every school year on account of pupil transportation.
- Section 2509.3 of the PSC provides for payments for nonpublic pupil transportation.
- Instructions for completing PDE's End-of-Year Pupil Transportation reports provides that the local education agency (LEA) must maintain records of miles with pupils, miles without pupils, and the largest number of pupils assigned to each vehicle.

Our audit of the District's pupil transportation records and reports submitted to PDE for the 2010-11 and 2011-12 school years found reporting errors and lack of documentation supporting pupil counts. The reporting errors were the result of the District failing to have appropriate internal review procedures in place to ensure that transportation information provided by the contractor was accurate. The reporting errors resulted in an underpayment of \$14,412 and a net overpayment of \$2,159 for the 2010-11 and 2011-12 school years, respectively. Our audit found the following reporting errors for the 2010-11 school year:

- Daily mileage was reported incorrectly for 14 out of 31 buses.
- Daily mileage for late activity runs was reported incorrectly for 8 out of 18 buses.
- The number of days pupils were transported was reported incorrectly for 8 out of 18 late activity buses.
- Daily mileage and days pupils were transported for 2 late activity buses were not reported.

For the 2011-12 school year, our audit found the following reporting errors:

- Daily mileage was reported incorrectly for 1 out of 9 buses tested.
- The greatest number of pupils transported was reported incorrectly for 1 out of 9 buses tested.
- The number of nonpublic pupils transported was underreported by three students.

In addition, we found that for both years audited, the District did not have proper documentation to support pupil counts on the District's main bus runs.

Transportation documentation containing daily miles with and without pupils, the greatest number of pupils transported, and days transported are all integral parts of the transportation reimbursement formula and must be maintained accurately in accordance with the State Board of Education regulations and guidelines.

It is the responsibility of District management to have in place the proper internal policies and procedures to ensure that transportation data is correct and accurately reported to PDE. Without such internal controls, the District cannot be assured that its transportation data is accurate or that it is receiving the appropriate state transportation subsidy payments.

We have provided PDE with reports to assist in correcting the Districts transportation subsidy.

Recommendations

The *Penns Manor Area School District* should:

1. Conduct an annual internal review to ensure the number of days of service, daily mileage, and pupil counts are accurately recorded and reported to PDE.
2. Perform a review of subsequent years' data to ensure supporting documentation was prepared and ensure accurate data was reported and resubmit, if necessary, to PDE.
3. Ensure that all documentation to support transportation data reported to PDE is retained for audit.

The *Pennsylvania Department of Education* should:

4. Adjust the District's future allocations to correct the underpayment of \$12,253.

Management Response

Management stated the following:

“Cause: Lack of District personnel internal review during the 2010-11 and 2011-12.

1. [The Contractor] and district personnel will conduct an annual internal review of all records to ensure accuracy before records are submitted and reported to PDE.
2. District personnel will also review subsequent year’s data at any time an inaccuracy is determined. Reports will be corrected and resubmitted to PDE when an error has been determined.
3. [The Contractor] and district personnel will ensure all supporting documentation is retained to support the reports submitted to PDE.”

Auditor Conclusion

We are pleased that the District’s administration is putting in place corrective action steps to assist in ensuring that the transportation reporting errors are not repeated.

We will verify these corrective action steps during our next cyclical audit of the District.

Finding No. 3 →

The District’s Administration Failed to Obtain Board Approval for Three Contracts with Outside Education Agencies, Totaling \$384,675

Criteria relevant to the finding:

Section 508 of the PSC, 24 P.S. § 5-508, provides, in part:

The affirmative vote of a majority of all the members of the board of school directors in every school district, duly recorded, showing how each member voted, shall be required in order to take action on the following subjects:-

Entering into contracts of any kind, including contracts for the purchase of fuel or any supplies, where the amount involved exceeds one hundred dollars (\$100).

According to the *National Contract Management Association*, “Using performance measures on service contracts is generally accepted as the best way to determine if the contractor is providing the requested service under the contract.” (Olson, Suzette M. “The Best Ways to Define and Implement Performance Metrics.” *Contract Management* (National Contract Management Association), October 2008, page 54.)

Our audit of the District found that the District’s administration violated the PSC, and its own policy, by failing to ensure that the Board approved three contracts with outside education agencies totaling \$384,675. As a result, the Board could not hold the administration accountable for ensuring that the District received the services it paid for and requested. Furthermore, this operational weakness gave the administration the opportunity to incur expenses without the Board’s knowledge. Our audit also found that two of the three contracts without Board approval did not contain adequate information describing the reports that the District would receive in order to monitor the existence and sufficiency of the educational services.

The three contracts without Board approval were for services related to alternative and special education. They covered the 2012-13 school year. The Superintendent signed the contracts on behalf of the District, but the District could not provide information to demonstrate that they received Board approval. The Board did approve the expenses that resulted from these three contracts when it approved the monthly bills at each regular board meeting. However, this information was not sufficiently detailed to allow board members to tie those expenses to a specific District contract.

Entering into contracts without Board approval violated the PSC, which requires that when a school district enters into a contract “of any kind” that “exceeds one hundred dollars (\$100),” (24 P.S. § 5-508) the school board must approve the contract by an affirmative vote of a majority of all its members. We believe that the intent of the PSC is to ensure that *any* school district contract, whether written and formally executed or not, receives such an affirmative vote by the board.

Criteria relevant to the finding (continued):

Board Policy No. 818 states, in part:

“The Superintendent or designee shall prepare procedures to assure compliance with the legal requirements for contracted services.”

“The District provides and receives various services through contractual agreements. These agreements can be with federal, state, as well as local agencies. In all cases where a contractual agreement is entered into or altered by the district, the Board shall authorize these agreements after review by either the district’s labor counsel or solicitor. Any contracts or issues that relate directly to labor matters shall always be reviewed by the district’s labor counsel.”

“Appropriate documentation of transactions and internal control: Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.” U.S. General Accounting Office Standards for Internal Control in the Federal Government. (September 2014), pg. 48.

The District’s Board Policy No. 818 also states that the Board “shall” approve all contracts. Likewise, it specifies that the contracts shall be reviewed by the District’s solicitor and that “the Superintendent or designee shall prepare procedures to assure compliance with the legal requirements for contracted services.” However, the District’s administration could not provide evidence that the three contracts for educational services had been reviewed by its solicitor, and it failed to develop procedures to ensure that the District followed an appropriate contracting process.

In addition, while we found that the District had a process for obtaining progress reports from each of the three educational service vendors, the reporting requirements were only outlined in one of the contracts. Such progress reporting is important because the information provides District staff with a means of monitoring vendor performance and ensuring that the students receive the services they need. By establishing these reporting requirements in the contract, the District can more easily hold the vendor accountable and more effectively protect itself from any possible liability if the vendor provides inadequate services.

The administration did not seek to obtain Board approval or solicitor review for the three outside education contracts because they did not think it was necessary.

Overseeing the District’s finances is part of the Board’s fiduciary responsibility. It cannot execute this responsibility if it is not given the opportunity to approve the District’s entrance into large contracts or written agreements. Likewise, the Board cannot hold the Superintendent accountable for his or her fiscal management at the District if it does not have complete information about expenditures. Approving the aggregate expenses associated with an executed contract is not the same as approving the contract’s implementation because the Board does not have adequate information upon which to base its decision. In addition, properly approved contracts hold both parties accountable, provide transparency about District operations, identify specific costs, and protect the legal interests of the District in the event of a disagreement. Furthermore, having the District’s solicitor review all the District’s contracts ensures that the

District is not taking on excessive or inappropriate legal liability.

By developing written procedures, the District's administration can establish an internal control to ensure that all contracts receive Board approval and solicitor review.

Recommendations

The *Penns Manor Area School District* should:

1. Require that a contract or written agreement be approved by an affirmative vote of the Board and executed prior to engaging in any business with outside vendors.
2. Ensure that any contract entered into is reviewed by the District's solicitor.
3. Prepare written administrative procedures that describe the process that the District follows in order to ensure it complies with the law and the District's contracting policy.
4. Ensure that all service contracts have adequate explanations of the process the District will use to monitor the vendor's performance.

Management Response

Management stated the following:

"Administration lack of knowledge related to Section 508 of the Public School Code, 24 P.S. § 5-508 and District's Board Policy 818. Administration's understanding was that the Board's approval of expense at monthly meeting was sufficient approval for the contracts.

Corrective Action Plan:

1. Administration will gain the Board's affirmative approval prior to engaging in any business with outside vendors. Board secretary and Business Manager will ensure that all outside contracts are placed on the Board's agenda. Monthly administrative meetings will

be conducted prior to establishing any Board meeting agenda. Minutes from the Board meeting will be the communication to administration on whether to move forward or not to move forward in conducting business with outside vendors.

2. The Superintendent and/or Business Manager will ensure the District's solicitor has reviewed any contract or agreement with an outside vendor or business prior to having any contract or agreement listed as motion on the Board agenda.
3. The Superintendent with P.S.B.A. [Pennsylvania School Board Association] assistance will develop written administrative procedures describing the process the District will follow in complying with the law and the District's contracting policy.
4. The Director of Student Services, principals, guidance counselors and case manager will report student progress of outside placement students to the Business Manager and Superintendent quarterly in order for an accurate assessment of vendors' performance can be accurately communicated back to the Board."

Auditor Conclusion

We are pleased that the District's administration is putting in place appropriate action steps that will ensure that Board approval is received for future contracts. We will review this corrective action during our next audit.

Finding No. 4

The Board of School Directors Failed to Regularly Update and Review Its Policies and the Administration Lacked Written Administrative Procedures

Criteria relevant to the finding:

Approved Board Policy No. 003 provides, in part:

Section 1 – Legislative

“The Board considers policy development as one of its chief functions, and it is the intent of the board to develop policies and put them in writing so that they may serve as guidelines and goals for the successful and efficient functioning of the district.”

Pennsylvania School Board Association, *Standards for Effective School Governance*, (standard 3, indicator b), states:

“3. Governs through policy by:

b.) Regularly reviewing and, as necessary, revising and adopting board policy.”

Education Policy and Leadership Center: *Strengthening the Work of School Boards in Pennsylvania* (2004, pg. 10) states:

“School boards should be responsible for planning, policymaking, monitoring, communicating, and advocating, and for hiring the superintendent to whom they should delegate responsibility for the day-to-day management of schools.”

The Board failed to review and update its policies regularly. As a result, the Board could not ensure that its existing policies remained relevant, nor use those policies to govern the District effectively. In addition, the former Superintendent violated Board Policy No. 003 by failing to develop written administrative procedures. (See the text box to the left). Such procedures are important internal controls because they ensure that the District’s operations follow board policy and that the District can maintain consistent operations when its staff changes. Finally, administrative procedures also allow the Board to more easily hold the superintendent accountable for operating the District in line with its wishes and the public’s.

Why Are Board Policies Important?

Incomplete, outdated, or missing policies may appear to be a minor oversight on the part of a school board. However, these documents are very important. The elected school board is responsible for adopting policies for the district. These policies provide direction for the District's administration. By not adopting policies, and/or not periodically reviewing and refining these policies, the board is failing to perform one of its essential functions.¹

What We Found.

The District obtained its board policies from the Pennsylvania School Boards Association (PSBA).² The Board approved these policies in 2008. Although the Board requested that PSBA update all of its existing policies in 2014, our auditors could find no evidence that the Board had substantially reviewed or amended any of its policies in the previous six years. In addition, the Board did not have the District’s solicitor review its policies for compliance with all applicable laws and regulations and for

¹ PSBA’s *Standards for Effective School Governance* states that a school board governs through policy. (Standard 3).

² According to PSBA’s website, policy manual development and review are two services it provides to Commonwealth school districts. (<https://www.psba.org/school-policy/policy-manual-review/>)

Criteria relevant to the finding (continued):

The Key Work of School Boards guidebook also states that “A periodic systematic review of policies to assure consistency with your adopted vision is an affirmative step that signals to the staff, student, and community that the board is committed to its vision.” (pg. 12/13)”

Approved Board Policy No. 003 provides, in part:

Section 2 – Executive

“The Board shall exercise power by the appointment of a district Superintendent, who shall enforce the statutes of the Commonwealth, the regulations of the State Board of Education, the policies of the Board, and all other applicable laws and regulations.

The Superintendent shall be responsible for the preparation of administrative guidelines or regulations for the operation of the school district that are not inconsistent with state and federal statutes or regulations; are dictated by the policies of this Board; are binding *on district employees* and students when issued; and shall be submitted to the Board for review . . .”

specific District circumstances that might create an unexpected liability.

The Board appears to have failed to review and revise its policies regularly because it did not recognize the activity’s importance. However, its members should have recognized the practice’s significance given that the District had adopted the PSBA’s *Standards for Effective Governance*. The standards state that boards should have a regular process for reviewing and updating policies.

To achieve regular policy review, the Board should direct the administration to track policy approval dates and to alert the Board when reviews are necessary. It would also be helpful for the Board to have a standing policy committee that would review the Board’s existing policies on an ongoing basis. In addition, the Board should consider asking PSBA for more training on its responsibilities related to reviewing and making policies.

Why Are Administrative Procedures Important?

Administrative procedures help to ensure a school district’s operations consistently comply with board policy and meet all relevant legal requirements. In addition, writing processes down makes it easier to maintain operations when staff leaves. The board can also use written administrative procedures to ensure that the superintendent is implementing its policies appropriately.

What We Found.

The District’s former Superintendent did not ensure that his administration developed any written administrative procedures, even though it was part of his job description and it was required by Board Policy (No. 003). Our auditors also found no evidence that the Board followed-up to find out why it had not reviewed any processes, which was also a requirement of board policy.

The current Superintendent indicated that he is now using PSBA’s Administrative Manual to demonstrate the development of administrative guidelines. While that manual is a good place to start, the current Superintendent should direct his staff to prepare written procedures for all of the District’s critical functions. Those procedures

should then be submitted to the Board for review in compliance with policy. Again, the Board could consider assigning the review to a standing policy committee.

Recommendations

The *Penns Manor Area School District* should:

1. The Board and the administration should receive additional training regarding best practices in developing, adopting, and tracking board policy.
2. The Board should adopt a policy for regularly updating and revising its existing policies. This policy should also indicate that all policies must be reviewed by the District's solicitor.
3. The Board and the administration should review all of the District's Board updated policies to ensure that they are in alignment with District goals, priorities, resources, and practices. The Board should consider establishing a standing policy committee to perform this task.
4. The Board and the administration should develop a process for recording the date when a policy is adopted and when it next needs to be reviewed and revised. Then a staff member should be assigned to monitor this information on an ongoing basis.
5. The Board should require the Superintendent to provide it with administrative procedures that indicate appropriate implementation of key board policies in areas such as budget and finance, curriculum, and community engagement.

Management Response

Management stated the following:

“Administration and Board did not keep up with Board policy and administrative regulations review, revisions, and adoptions.

Corrective Action Plan:

1. The Board has contracted with P.S.B.A. to obtain services in review, revising, and writing Board policies for the entire Board Policy Manual. The Board also contracted with P.S.B.A to develop and write Administrative Regulations to coincide with all district policies.
2. The District will draft and approve a policy indicating the update of all policies to include the District's solicitor reviewing all policies before adopting.
3. The District will establish a standing policy committee consisting of Board members and administrators to ensure policies coincide with the District's goals, resources and practices.
4. The Board and administration will develop a process with P.S.B.A for recording the date when a policy is adopted, reviewed and revised.
5. The Superintendent will be required to develop and communicate administrative procedure in order to ensure board policies are implemented."

Auditor Conclusion

We are pleased that the District's administration is developing a process to have the policies of the District updated on a regular basis. We will confirm the effectiveness of this process during our next cyclical audit.

Status of Prior Audit Findings and Observations

Our prior audit of the District released on June 10, 2013, resulted in two findings. The first finding pertained to transportation, and the second pertained to certification. 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 described below, we found that the District did not implement our recommendations related to transportation. Regarding the recommendations related to certification, while the District did not implement our recommendations, we consider the issue to be resolved due to the insignificance of the monetary effect of the noncompliance.

Auditor General Performance Audit Report Released on June 10, 2013

Finding No. 1: Internal Control Weaknesses and Errors in Pupil Transportation Reports Resulted in a Net Underpayment of \$38,496

Finding Summary: Our prior audit of the District's pupil transportation records found reporting errors and internal control weaknesses, which resulted in a net underpayment of \$38,496.

Recommendations: Our audit finding recommended that the District should:

1. Conduct an annual internal review to ensure the number of days of service, daily mileage, pupil counts, and the amount paid to the contractor are accurately recorded and reported to PDE.
2. Instruct the District's Transportation Coordinator to develop appropriate written procedures incorporating independent verification and defining appropriate supporting documentation to ensure the accuracy of the District's records.
3. Perform a review of subsequent years' data to ensure supporting documentation was prepared and retained, and ensure accurate data was reported and resubmit to PDE, if necessary.

We also recommended that PDE should:

4. Adjust the District's future allocations to correct the net underpayment of \$38,496.

Current Status: During our current audit, we found that the District did not implement our prior recommendations (see Finding No. 2 in our current report).

As of March 23, 2015, PDE has not adjusted the District's allocations to correct the underpayment.

Finding No. 2: Certification Deficiency

Finding Summary: Our prior audit of the District's professional employees' certification found one teacher was not properly certified for the 2009-10 through 2011-12 school years.

Recommendations: Our audit finding recommended that the District should:

Put procedures in place to compare employees' certification to the certification requirements of the assignments the District intends to give the employees.

We also recommended that PDE should:

Adjust the District's future allocations to recover the appropriate subsidy forfeitures.

Current Status: During our current audit, we found that while the District did not implement our prior audit recommendations (the same individual was not properly certified for the 2012-13 and 2013-14 school years), the individual in question was incorrectly assigned to one period out of nine periods on the schedule, and the overall monetary effect was considered insignificant. Therefore, we consider this issue to be resolved. Documentation was provided to the Bureau of School Leadership and Teacher Quality, and they confirmed on June 4, 2014, that the individual was still inappropriately assigned. We stressed, during a meeting with the Board, the importance of having this individual appropriately certified for the position being assigned.

PDE withheld \$525 from the District's December 2013 allocations to recover the forfeiture.

Distribution List

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

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