

PERFORMANCE AUDIT

Old Forge School District Lackawanna County, Pennsylvania

September 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. John Rushefski, Superintendent
Old Forge School District
300 Marion Street
Old Forge, Pennsylvania 18518

Ms. Deborah DeSando, Board President
Old Forge School District
300 Marion Street
Old Forge, Pennsylvania 18518

Dear Mr. Rushefski and Ms. DeSando:

We conducted a performance audit of the Old Forge School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). We also evaluated the application of best practices in the area of school safety. Our audit covered the period June 1, 2011 through June 2, 2015, 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, and effectively applied best practices in the area stated above, except as detailed the 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 cursive script, reading "Eugene A. DePasquale".

Eugene A. DePasquale
Auditor General

September 24, 2015

cc: **OLD FORGE 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 application of best practices and 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 June 1, 2011 through June 2, 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 three square miles. According to 2010 federal census data, it serves a resident population of 8,509. According to District officials, the District provided basic educational services to 970 pupils through the employment of 72 teachers, 33 full-time and part-time support personnel, and 7 administrators during the 2011-12 school year. The District received \$4.6 million in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the District applied best practices and 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: The District had a General Fund Deficit of \$264,582 as of June 30, 2014, and Should Monitor Key Financial Indicators to Try to Prevent Further Fiscal Challenges. Our review of the District's annual financial reports, independent auditor's reports, and general fund budgets for fiscal years ended June 30, 2010, 2011, 2012, 2013, and 2014, found a deteriorating financial condition and various factors that may have potentially contributed to the District's financially declining position and general fund deficit of \$264,582 (see page 7).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the District from an audit, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to the lack of internal controls over the student activity fund (see page 13). We found that the District had taken appropriate corrective action in implementing our recommendations which pertained to the Memorandum of Understanding (MOU) not being updated timely (see page 18).

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 (PSC) 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 June 1, 2011 through June 2, 2015, except for the verification of professional employee certification which was performed for the period July 1, 2013 through September 18, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 school years.

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, auditors reviewed and evaluated certification documentation for all 108 teachers and administrators employed for the 2013-14 school year as of September 18, 2013.

- ü In areas where the District received state subsidies and reimbursements based on payroll, did it follow applicable laws¹ and procedures?

¹ 24 P.S. §§ 8326, 8535.

- To address this objective, auditors verified total Social Security wages paid for the 2010-11 school year.

ü In areas where the District received transportation subsidies, was the District, and any contracted vendors, in compliance with applicable laws² and procedures?

To address this objective, auditors reviewed a random selection of 9 of the 49 total contracted service buses. For each bus selected, auditors reviewed various data, including board approval of routes, approved daily mileage, manufacturer, serial number, year of manufacture, and seating capacity as required under the PSC.³

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 various provisions of Pennsylvania law and regulations,⁴ and did they have written policies and procedures governing the hiring of new bus drivers?

To address this objective:

- Auditors selected the 18 new drivers hired since the last time the Pennsylvania Department of the Auditor General audited the District and determined whether the drivers had the necessary licenses, physicals, training, background checks, and clearances.
- 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.

² 24 P.S. § 25-2541.

³ Ibid.

⁴ 24 P.S. § 1-111, 23 Pa.C.S. § 6344(a.1), 24 P.S. § 2070.1a *et seq.*, 75 Pa.C.S. §§ 1508.1 and 1509, and 22 *Pa. Code Chapter 8*.

- 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:

- Auditors randomly selected 15 out of 970 total registered students from the 2011-12 school year (5 resident, 5 intermediate units, and 5 area vocational-technical schools) from the vendor software listing and verified that each child was appropriately registered with the District.
 - In addition, auditors selected both school terms from the 2011-12 school year 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 Were there any declining fund balances that may pose a risk to the District's fiscal viability?
 - To address this objective, auditors reviewed the District's annual financial reports, budget, independent auditor's reports, summary of child accounting, and general ledger for fiscal years 2010 through 2014.
 - Ü Did the District take appropriate steps to ensure school safety?
 - To address this objective, 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.⁵ Generally, auditors evaluate the age of the plan, whether it is being practiced through training and

⁵ 24 P.S. §§ 13-1302-A, 13-1302.1-A, 13-1303-A, and 13-1303.1-A.

- 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:

- Auditors interviewed District administrators to determine whether they had taken corrective action.
- Auditors then reviewed documentation to verify that the administration had implemented the prior audit report's recommendations and/or observed these changes in person.
- Auditors reviewed all student activity club balances for the 2012-13 and 2013-14 school years and randomly selected transactions conducted by all clubs that had concerns noted in the prior audit report.

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, and reimbursement applications.
- ÿ 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 October 25, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

The District had a General Fund Deficit of \$264,582 as of June 30, 2014, and Should Monitor Key Financial Indicators to Try to Prevent Further Fiscal Challenges

Criteria relevant to the finding:

Section 609 of the PSC, 24 P.S. § 6-609, provides, in part:

“No work shall be hired to be done, no materials purchased, and no contracts made by any board of the school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.”

The Pennsylvania School Boards Association in its Annual Overview of Fiscal Health for the 2009-10 school year provided the following information relevant to the following fiscal benchmarks:

- “Operating position is the difference between actual revenue and actual expenditures. Financial industry guidelines recommend that the district operating position always be positive (greater than zero).”

Best business practices and/or general financial statement analysis tools provided by PASBO, the Colorado State Auditor, and the National Forum on Education Statistics, require the following:

“A school district should maintain a trend of stable or increasing fund balances.”

During the current audit of the District, we reviewed several financial indicators in an effort to assess the District’s financial stability. Our review found various factors that contributed to the District’s financially declining position and general fund deficit of \$264,582 as of June 30, 2014.

We reviewed 22 financial benchmarks based on best business practices established by several entities/agencies, including the Pennsylvania Association of School Business Officials (PASBO), the Colorado State Auditor, and the National Forum on Education Statistics. The following were among the general areas we evaluated: (1) the level of the general fund – fund balance (assigned and unassigned), (2) the amount of total debt service, (3) the current ratio (current assets ÷ current liabilities) of all governmental funds, and (4) the trend of annual changes in financial position for all governmental funds.

Our audit found the District has been in a deteriorating financial position for the previous five fiscal years leading to a general fund deficit of \$264,582 at June 30, 2014.

Fiscal Year Ending June 30	Fund Balance/ (Deficit)
2010	\$ 574,677
2011	\$ 395,361
2012	\$ 57,631
2013	(\$ 22,308)
2014	(\$264,582)

One factor causing the deterioration of the general fund balance was the failure to control expenditures in accordance with the general fund budgets. The

Criteria relevant to the finding (continued):

- “A trend of current ratios should be at least two to one or increasing. Anything less calls into question the school district’s ability to meet its current financial obligations with existing resources.
- A quick asset ratio or trend of ratios approaching one or less indicates a declining ability to cover obligations with the most liquid assets.
- A debt-to-asset ratio or trend of ratios increasing towards one to one or greater is an indication that the school district’s liabilities are approaching the level of the district’s assets. This indicates the district has a debt level that may be too great for the district to adequately function.”

following schedule details actual expenditures in excess of budgeted expenditures:

<u>Fiscal Year</u>	<u>Budgeted</u>	<u>Actual</u>	<u>(Over)</u>
<u>Ending June 30</u>	<u>Expenditures</u>	<u>Expenditures</u>	<u>Expenditures</u>
2010	\$10,850,620	\$11,193,662	(\$343,042)
2011	\$11,012,160	\$10,808,453	\$203,707
2012	\$10,477,163	\$10,661,237	(\$184,074)
2013	\$10,425,306	\$10,949,971	(\$524,665)
2014	\$10,776,358	\$11,181,488	(\$405,130)

Review of the District’s annual financial reports for the years ended June 30, 2013 and June 30, 2014, found that the greatest amounts expended over budget were in special education programs, business services, student activities, operations and maintenance of plant services, and student transportation services.

Over expending budgeted expenses in these areas created the District’s deficit and results in the District being out of compliance with Section 609 of the PSC. A negative general fund balance will not allow the District to maintain past levels of operations and force the District to make structural changes to the way the District generates revenue and pays expenses. Therefore, the District’s Board of School Directors (Board) and administration may be forced to cut educational services and increase property taxes. Furthermore, depending on the ongoing severity of the deficit, the District may be subject to PDE intervention as permitted by Act 141 of 2012 pertaining to financially distressed school districts.

The District’s Business Manager noted the major cause of the deficit was increased special education costs, as the District’s special education subsidy decreased over the last four years while special education costs increased. The District also mentioned that charter school reimbursements were cut from the District’s subsidy.

The increased costs and increased expenditures have caused a deteriorated fund balance. The District has eroded the entire \$574,677 fund balance that existed as of June 30, 2010 and, as of June 30, 2014, the fund balance was negative \$264,582, for a net decrease of \$839,259 over the four year period.

The annual financial report noted actual special education costs exceeded budget costs for the 2012-13 and 2013-14 by \$277,719 and \$473,863, respectively.

Additionally, our testing found the District scored negatively on the following benchmarks:

- Decreasing General Fund Current Ratio:** For the period 2010 to 2014, the general fund current ratio (current assets ÷ current liabilities) was decreasing. A decreasing trend towards one-to-one or even lower indicates that the District's financial solvency is decreasing toward a point where the District may not be able to pay its current debts without an infusion of cash. Potential creditors use this ratio to measure a District's ability to pay its short-term debts. A declining trend may also prevent the District from obtaining any new debt, such as loans, or increase the interest rate on the debt it can obtain, thereby costing the District more money.

The following chart documents the District's decreasing general fund current ratio:

Decreasing General Fund Current Ratio				
<u>(Current Assets ÷ Current Liabilities)</u>				
Year Ended June 30	Current Assets	÷	Current Liabilities	= Current Ratio
2010	\$1,744,771		\$1,170,096	1.49 to 1
2011	\$1,565,803		\$1,170,442	1.34 to 1
2012	\$954,455		\$896,824	1.06 to 1
2013	\$927,311		\$949,619	0.98 to 1
2014	\$1,022,975		\$1,287,557	0.79 to 1

- Increasing Debt-To-Asset Ratio:** For the period 2010 to 2014, the general fund debt-to-asset ratio (current liabilities ÷ current assets) was increasing. An increasing trend towards one-to-one or more is an indication that the District may not be able to pay its current liabilities with current assets on hand. This trend could require the District to liquidate non-current assets or wait for an inflow of revenues. As a result, the District might have to increase the time it holds invoices prior to making payment. This action could impede the District's ability to obtain a loan or other

debt instrument. It could also result in a higher cost for any new debt that is obtained.

The following chart documents the District’s increasing debt-to-asset ratio:

Increasing Debt-to-Asset Ratio			
<u>(Current Liabilities ÷ Current Assets)</u>			
Year Ended <u>June 30</u>	Current <u>Liabilities</u>	÷	Current <u>Assets</u> = Current <u>Ratio</u>
2010	\$1,170,096		\$1,744,771 = 0.67 to 1
2011	\$1,170,442		\$1,565,803 = 0.75 to 1
2012	\$896,824		\$954,455 = 0.94 to 1
2013	\$949,619		\$927,311 = 1.02 to 1
2014	\$1,287,557		\$1,022,975 = 1.26 to 1

Our discussions with the District’s Business Manager disclosed that the negative benchmarks enumerated above were caused by the following:

- “The decline in assets is caused by the decline in state and federal revenue initiated by decreases in basic education subsidies and the reduction in federal funds available to school districts. Meanwhile, benefit costs continued to rise driving current liabilities.”
- “The decline in subsidies available to the District is compounded by the District’s previously unrealistic estimated real estate tax collection percentage, resulting in less than anticipated actual tax collections.”

Recommendations

The *Old Forge School District* should:

1. Continue the process of monitoring and evaluating expenditures on a monthly basis and ensure that actual expenditures are kept within budgetary limits, as well as not exceed total revenue at year-end.
2. Ensure historical data continues to be used when preparing annual budgets as well as reviewing and adjusting its multi-year financial plan to help reduce large unanticipated expenditure increases.

3. Ensure that the multi-year plan is evaluated annually and adjusted accordingly to the most current actual revenue and expenditure data.
4. Ensure the real estate tax collection percentage estimated rates are realistic based on prior years' actual tax collections.

Management Response

Management stated the following:

“The Business Office continuously monitors District-wide expenditures in comparison to budgeted amounts. Monthly regular meetings with Board of Education members and administrators are held to discuss the monthly Treasurer’s report and the areas of potential budgetary issues. These meetings are open to the public. When areas of concern are exposed, a plan to alleviate concerns is discussed and implemented and action is taken.

The Old Forge School District Board of Education has taken action and raised the real estate tax millage a total of 8.5 mills in the last two school years (2013-14 and 2014-15). The tax collection rate estimate was reduced to reflect a more realistic collection percentage. Additional internal efforts have been made to control expenditures and reduce spending.

The District is currently making efforts to reduce liabilities by trying to control fringe benefit costs, primarily health insurance. However, this effort is increasingly difficult in the midst of contract negotiations with all of our collective bargaining units when maintaining the status quo. The focus during contract negotiations is cost reducing efforts in District-wide healthcare.

The District has taken a more active role across all administrators to better understand and control our special education needs. We are actively seeking ways to be more efficient in this area by sharing services with neighboring districts and looking for ways to provide relevant special education services within the District.”

Auditor Conclusion

We are pleased the administration understands the need to improve their financial status by monitoring district-wide expenditures, conducting monthly budget meetings, and better estimating tax collection rates.

We will determine the effectiveness of the District's actions during the next audit.

Status of Prior Audit Findings and Observations

Our prior audit of the District released on October 25, 2011, resulted in one finding and one observation. The finding pertained to a lack of internal controls over student activity funds (SAF), and the observation pertained to a MOU 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 performed audit procedures and interviewed District personnel regarding the prior finding and observation. As shown below, we found that the District did not implement our recommendations related to a lack of internal controls over SAF. The District did implement our recommendations related to the MOU not updated timely.

Auditor General Performance Audit Report Released on October 25, 2011

Finding: **Lack of Internal Controls Over Student Activity Funds**

Prior Finding Summary: Our prior audit of District's SAF records for the 2009-10 school year found the District personnel failed to adhere to the SAF policy established by the Board. The lack of internal control resulted in the following deficiencies:

- Lack of student participation.
- Non-student related activities.
- Lack of SAF board meeting minutes.
- Lack of fund balances.
- Lack of post-fundraising reconciliations.
- Interest not prorated.
- Lack of board approval and oversight.

Prior Recommendations: Our audit finding recommended that the District should:

1. Enforce the written policies and procedures for the accountability of student activity accounts in accordance with the provisions of the PASBO Activity Fund Guidelines and Section 511 of the PSC.
2. Ensure all club monitors receive training on policies, acceptable procedures, and record-keeping.
3. Require that all purchases be initiated by purchase orders with required signatures including student signatures evidencing participation.
4. Cease the practice of club monitors signing for student.

5. Ensure that all receipts are obtained and maintained for audit.
6. Ensure general fund transactions are operated through the general fund.
7. Ensure only related accounts are included in the SAF.
Non-student related accounts should not be co-mingled with SAF.
8. Ensure current balances in non-student related accounts are transferred to an authorized SAF club to be designated by the Board.
9. Require the SAF organizations to adopt by-laws to maintain accountability and require students and monitors to maintain meeting minutes that document student participation in fundraiser and disbursement decisions.
10. Require adequate reports be maintained to evidence ongoing club balances and submit these reports to the Board at least quarterly.
11. Require that adequate control be maintained to ensure clubs do not have deficit balances.
12. Establish procedures to ensure fund-raising activities and post-fundraising reconciliations are adequately documented and maintained for audit.
13. Establish procedures to prorate interest to various clubs or transfer interest to a Board designated club.
14. Obtain adequate bonding for the activity fund custodian in accordance with the PSC.

Current Status:

During our current audit, we found that the District did implement three of our prior recommendations (numbers 5, 10, and 14 listed above) but did not implement recommendation numbers 1, 2, 3, 4, 6, 7, 8, 9, 11, 12, and 13, which has resulted in the conditions not being resolved as discussed in the current finding and a contributing cause to the District's financial troubles.

Our audit of the District's SAF records for the 2012-13 and 2013-14 school years again found that District personnel failed to adhere to Board Policy No. 618 which addresses SAFs established by the Board. The District's administration noted the absence of proper administrative oversight resulted in the lack of internal controls needed to resolve the following continued deficiencies:

1. A Lack of Student Participation.

The disbursement request forms used for student account disbursements did not always include the required student treasurer's signature which would authorize the payment. Furthermore, we found certain invoices that did not have evidence that the invoices had been reviewed by a student officer for accuracy or approval for payment. In one instance, the club advisor signed for the student treasurer on an activity fund deposit form. A lack of student participation goes against the very nature of the purpose of the accounts and calls into question the accountability and transparency of the account when it is being run by an adult advisor and not the students.

2. Lack of Student Activity Fund By-laws and Board Meeting Minutes.

Our review of the SAF accounts found that District personnel continued to be unable to provide any written by-laws or board meeting minutes to govern the individual student accounts. Written by-laws and meeting minutes force accountability and many by-laws can be found under national student activities associations and tailored to a specific District's needs. By-laws help with the election of officers, officers terms, and provide guidance on carrying balances and how best to generate revenue.

3. Deficit Student Activity Accounts.

Carrying Student Activity Accounts with deficit balances is against District and PASBO policy and ultimately requires a transfer from the District's General Fund. This was one of the causes cited in the current finding regarding the District's financial troubles.

4. Inactive Student Activity Accounts.

As of June 30, 2014, there were six classes that graduated between June 2004 and June 2011 that had accumulated unused balances totaling \$12,240. Furthermore, the graduated Class of 2007 continued to carry a negative balance of \$10,065. This is against the District's policy requiring that SAF must be spent within one year and then transferred to Student Council. The District's lack of adherence to their own policy has created multiple accounts with balances that require financial resolution. The District's lack of action in this area adds to these accounts as classes graduate.

5. Non-Student Related Activities.

The District continued to use the SAF for non-student related activity accounts like: general income, miscellaneous revenue, and miscellaneous expense. General income, miscellaneous revenue, and miscellaneous expenses should be run through the District's general fund for the greater accountability, transparency, and budgeting projections.

6. Lack of Post-Fundraising Reconciliations.

There continues to be a lack of invoices to document all purchases of fundraising supplies. In addition, the District could not provide any evidence that a profit analysis was done for fundraising activities. During our review of deposits, we were unable to trace these amounts back to invoices. This is another example of the lack of transparency and accountability that are pervasive in the District's SAFs.

7. Interest was Not Prorated.

District personnel continued to maintain interest earned from SAF balances in the SAF under an "interest" account without being pro-rated or allocate the interest to an approved student activity club within the SAF. It is important that individual accounts are operated independently and prorating interest between accounts is an example of this independence.

We continue to recommend that the District:

1. Establish procedures to ensure evidence exists that student officers reviewed all invoices for accuracy prior to payment.
2. Establish procedures to ensure the student treasurer of every SAF account signs the disbursement request form for all approved disbursements.
3. Immediately require all current student activity clubs to obtain by-laws and record minutes of their meetings. Furthermore, before the Board approves any new student activity club, it should require by-laws to be present before approval.
4. Immediately close out all non-student related accounts that currently exist in the SAF.
5. Immediately resolve, and close out if necessary, all SAF accounts

with negative account balances.

6. Close out all SAF accounts for graduated classes that exist beyond one year after the date of their graduation.
7. Establish procedures to ensure invoices exist for all purchases.
8. Require all fundraising activities to have a profit/loss analysis to ensure the fund raising activity was profitable.
9. Establish a procedure to prorate interest earned by the SAF to the individual clubs or allocate the interest to an approved student activity club within the SAF.

Due to the continued issues in the District's SAFs and these issues affecting the overall financial environment and stability of the District, we had ongoing conversations with the District about these issues, and they submitted the following corrective action plan:

“The initial cause of the lack of adequate controls of SAF was the absence of proper administrative oversight in this area. Moving forward, the Old Forge School District will enforce policy number 618 and operate according to the PASBO Student Activity Funds Guide and in accordance with Pennsylvania School Code Section 511.

All Student Activity advisors and student officers will review the policy with the principal and sign an acknowledgment confirming their understanding.

The principal and student activity custodian will ensure that required signatures, including student officers, are present prior to the disbursement of activity funds. Activity advisor signing for student officers will no longer be accepted.

Excess funds in unused accounts will be distributed to accounts with negative balances and all unused accounts will be closed.

Use of even exchange will be terminated, balances will be transferred and all such transactions will run through the general fund.”

Observation: Memorandum of Understanding Not Updated Timely

Prior Observation

Summary:

Our prior audit of the District's records found that the MOU between the District and the local law enforcement agency was signed February 18, 2009, and was not updated until May 24, 2011, after they were notified during our audit.

Prior Recommendations: Our audit observation recommended that the District should:

1. In consultation with the solicitor, continue to review, update, and re-execute the current MOU between the District and the local law enforcement agency to ensure the MOU remains current.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status:

During our current audit, we found that the District did implement our prior recommendations and maintains a current MOU between the District and the local law enforcement agency.

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
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Harrisburg, PA 17120

The Honorable Pedro A. Rivera

Secretary of Education
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The Honorable Timothy Reese

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