

ALTOONA AREA SCHOOL DISTRICT
BLAIR COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MAY 2011

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. James Walstrom, Board President
Altoona Area School District
1415 Sixth Avenue
Altoona, Pennsylvania 16602

Dear Governor Corbett and Mr. Walstrom:

We conducted a performance audit of the Altoona Area School District (AASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period December 7, 2007 through October 12, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. Our audit was conducted pursuant to 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 AASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with AASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve AASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the AASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

May 9, 2011

cc: **ALTOONA AREA SCHOOL DISTRICT** Board Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Altoona Area School District (AASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the AASD in response to our prior audit recommendations.

Our audit scope covered the period December 7, 2007 through October 12, 2010, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

District Background

The AASD encompasses approximately 60 square miles. According to 2000 federal census data, it serves a resident population of 63,248. According to District officials, in school year 2007-08 the AASD provided basic educational services to 7,946 pupils through the employment of 569 teachers, 557 full-time and part-time support personnel, and 36 administrators. Lastly, the AASD received more than \$51.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the AASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: Errors in Reporting Health Services Reimbursement Data Resulting in Underpayments of \$13,736. Our current audit of the AASD's health services reimbursement data for the 2007-08 and 2006-07 school years found AASD personnel incorrectly reported average daily membership to the Department of Health (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the AASD, we found that the AASD had not taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting health services reimbursement data (see page 8).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the 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 PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 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 December 7, 2007 through October 12, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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 Department of Education (DE) 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 law, regulation, 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, regulations, and defined business practices. Our audit focused on assessing the AASD's compliance with applicable 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:

- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?

- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

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 applicable 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 findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit 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/reimbursement, pupil membership, and pupil transportation.

Our audit examined the following:

- Records pertaining to bus driver qualifications and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

Additionally, we interviewed selected administrators and support personnel associated with AASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 24, 2008, we reviewed the AASD's response to DE dated May 12, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Errors in Reporting Health Services Reimbursement Data Resulting in Underpayments of \$13,736

Criteria relevant to the finding:

Section 2505.1 of the Public School Code provides that Districts are to be reimbursed for the actual costs of medical and nurse services as certified to the Secretary of Health, but that reimbursement shall not exceed \$1.60 per ADM for medical and \$7.00 per ADM for nurse services.

Act 25 of 1991 amended Section 2505.1 of the Public School Code by adding an uncategorized reimbursement of \$9.70 multiplied by the District's total ADM for 1991-92 and each school year of operations thereafter.

Our current audit of the District's health services reimbursement data for the 2007-08 and 2006-07 school years found District personnel incorrectly reported average daily membership (ADM) to the Department of Health (DH). This is a continuation of a finding in our prior audit report (see page 8).

The errors resulted in a net underpayment of \$13,736, detailed as follows:

<u>School Year</u>	<u>ADM</u>		
	<u>Reported</u>	<u>Audited</u>	<u>Understated</u>
2007-08	8824.34	9054.54	230.20
2006-07	8696.00	9216.41	520.41

<u>School Year</u>	<u>Underpayments</u>			
	<u>Medical</u>	<u>Nurse</u>	<u>Act 25</u>	<u>Totals</u>
2007-08	\$ 368	\$1,611	\$ 2,233	\$ 4,212
2006-07	<u>833</u>	<u>3,643</u>	<u>5,048</u>	<u>9,524</u>
Totals	<u>\$1,201</u>	<u>\$5,254</u>	<u>\$7,281</u>	<u>\$13,736</u>

For the 2007-08 school year, District personnel failed to report the ADM for the AM kindergarten session and the District's portion of the ADM for students who attended the career and technology center (CTC). Additionally, District personnel incorrectly rounded the ADM for the private schools to the nearest whole number.

For the 2006-07 school year, District personnel incorrectly rounded all ADM to the nearest whole number. Personnel also failed to report the ADM for the time students attended the CTC.

DH will be provided with a copy of this finding by the Department of Education for use in making the necessary reimbursement adjustments.

Recommendations

The *Altoona Area School District* should:

1. Include ADM for all students who are provided health services by the District.
2. Carry ADM totals for all grades, including the private schools, to the proper number of decimal places.
3. Review applications submitted subsequent to the current audit years and, if errors are noted, send revised reports to DH.

The *Department of Health* should:

4. Adjust the District's allocations to correct the underpayments of \$13,736.

Management Response

Management stated the following:

Lack of understanding by the attendance clerk on the different reports needed to calculate the total ADM for the AVTS home portion. Business Manager met with attendance clerk and auditor to review all reports related to the ADM calculation. Business Manager and attendance clerk will work with Information Management Coordinator to develop a formal ISO procedure. Business Manager or Assistant Business Manager will review final ADM's prior to submission to the Assistant Superintendent for Elementary.

Status of Prior Audit Findings and Observations

Our prior audit of the Altoona Area School District (AASD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in one reported finding. The finding pertained to errors in reporting health services reimbursement data. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the AASD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the AASD did not implement recommendations related to errors in reporting health services reimbursement data.

School Years 2005-06, 2004-05, 2003-04 and 2002-03 Auditor General Performance Audit Report

Finding: **Errors in Reporting Health Services Reimbursement Data**

Finding Summary: Our prior audit of the District's health services reimbursement applications submitted to the Department of Health (DH) for the 2005-06, 2004-05 and 2003-04 school years found that District personnel failed to report the correct total average daily membership (ADM) for students receiving health services, resulting in underpayments of \$13,429.

Recommendations: Our audit finding recommended that the AASD:

1. Adopt procedures to ensure that the ADM is reported for the time that District students attend the career and technology center.
2. DH should adjust the District's allocations to resolve the underpayments of \$13,429.

Current Status: Additional errors in reporting health services reimbursement data were found during our current audit (see the finding on page 6). District personnel did not take corrective action to address the prior audit finding.

On February 4, 2009, DH made an adjustment in the amount of \$13,429 to correct the underpayments.

Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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The Honorable Ronald J. Tomalis
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