

BALD EAGLE AREA SCHOOL DISTRICT
CENTRE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2011

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

Mrs. Shirley Dudish, Board President
Bald Eagle Area School District
751 South Eagle Valley Road
Wingate, Pennsylvania 16823

Dear Governor Corbett and Mrs. Dudish:

We conducted a performance audit of the Bald Eagle Area School District (BEASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period May 3, 2009 through October 4, 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 BEASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in three findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

April 13, 2011

cc: **BALD EAGLE AREA SCHOOL DISTRICT** Board Members

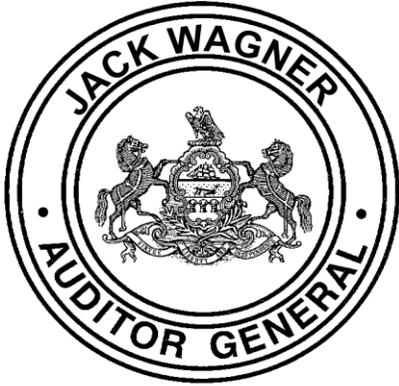
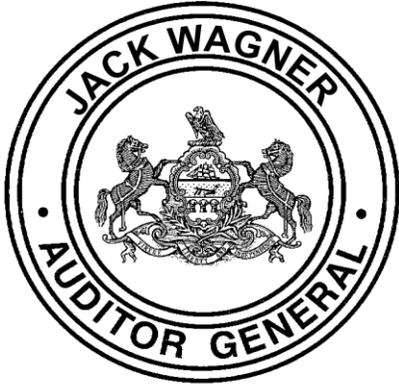


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Bald Eagle Area School District (BEASD). 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 BEASD in response to our prior audit recommendations.

Our audit scope covered the period May 3, 2009 through October 4, 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 BEASD encompasses approximately 345 square miles. According to 2000 federal census data, it serves a resident population of 12,882. According to District officials, in school year 2007-08 the BEASD provided basic educational services to 1,916 pupils through the employment of 165 teachers, 114 full-time and part-time support personnel, and 13 administrators. Lastly, the BEASD received more than \$12.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the BEASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for three compliance-related matters reported as findings.

Finding No. 1: Errors in Reporting Pupil Transportation Data Resulted in a Net Underpayment of \$100,425. Our audit of pupil transportation data for the 2007-08 and 2006-07 school years found errors in reporting daily mileage, the greatest number of pupils transported, days of service, contractor cost, the number of nonpublic pupils transported, and the number of charter school pupils transported. Also, the BEASD failed to report all bus runs to the Department of Education (DE) (see page 6).

Finding No. 2: Errors in Reporting Vocational Education Membership Resulted in an Underpayment of \$16,828. Our audit of the BEASD's district-operated vocational educational data for the 2007-08 and 2006-07 school years found that the reports submitted to DE were inaccurate (see page 9).

Finding No. 3: Certification Deficiency. Our audit of professional employees' certificates and assignments for the period of February 1, 2009 through July 22, 2010, found that one administrator was assigned to a position during the 2009-10 school year without possessing proper certification (see page 11).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the BEASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the BEASD had not taken appropriate corrective action in implementing our recommendations pertaining to pupil transportation (see page 12) and teacher certification (see page 13).

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 May 3, 2009 through October 4, 2010, except for the verification of professional employee certification which was performed for the period February 1, 2009 to July 22, 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 BEASD'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:

- ✓ Were professional employees certified for the positions they held?
- ✓ 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?

- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), 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?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ 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

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.

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.

BEASD 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, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, 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 BEASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 19, 2010, we reviewed the BEASD's response to DE dated March 11, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Errors in Reporting Pupil Transportation Data Resulted in a Net Underpayment of \$100,425

Criteria relevant to the finding:

Section 2541 of the Public School Code states school districts shall be paid by the Commonwealth for every school year on account of pupil transportation.

Daily miles traveled, the greatest number of pupils transported, days of service, and contractor cost are integral part of the transportation reimbursement calculation. These factors must be reported accurately to DE in order to receive the correct reimbursement.

Section 2509.3 of the Public School Code states school districts shall be paid by the Commonwealth for each nonpublic and charter school pupil transported.

Our audit of pupil transportation data for the 2007-08 and 2006-07 school years found errors in reporting daily mileage, the greatest number of pupils transported, days of service, contractor cost, number of nonpublic pupils transported, and number of charter school pupils transported. Also, the District failed to report all bus runs to the Department of Education (DE).

Inaccuracies for the 2007-08 school year were as follows:

- Contractor cost was incorrectly reported for eight contractors, resulting in a \$60,691 overstatement of contractor cost;
- The number of days pupils were transported was incorrectly reported for two vehicles;
- Miles with pupils were incorrectly reported for 13 vehicles, resulting in a net overstatement of 10.4 daily miles;
- Miles without pupils were incorrectly reported for 13 vehicles, resulting in a net understatement of 49.7 daily miles;
- The greatest number of pupils transported was incorrectly reported for 43 vehicles, resulting in a net understatement in ridership of 115.7 pupils; and
- The number of nonpublic pupils was over reported by 11 pupils.

These errors resulted in an overpayment of \$3,163 in regular transportation reimbursement and an overpayment of \$4,235 in nonpublic transportation reimbursement for the 2007-08 school year.

Inaccuracies for the 2006-07 school year were as follows:

- Contractor cost was incorrectly reported for nine contractors, resulting in a \$44,686 net overstatement of contractor cost;
- Eleven bus runs were not reported for reimbursement;
- The number of days pupils were transported was incorrectly reported for one vehicle;
- Miles with pupils were incorrectly reported for 23 vehicles, resulting in a net understatement of 414.1 daily miles;
- Miles without pupils were incorrectly reported for 23 vehicles, resulting in a net understatement of 438.4 daily miles;
- The greatest number of pupils transported was incorrectly reported for 50 vehicles, resulting in a net understatement of 69.3 pupils; and
- The number of nonpublic and charter school pupils was over reported by six pupils.

These errors resulted in an underpayment of \$110,133 in regular transportation reimbursement and an overpayment of \$2,310 in nonpublic and charter school transportation reimbursement for the 2006-07 school year.

These errors were the result of District personnel's lack of familiarity with the transportation reporting requirements, as well as various clerical errors.

We have provided DE with reports to be used for the recalculation of the District's pupil transportation reimbursement.

Recommendations

The *Bald Eagle Area School District* should:

1. Accurately report all data elements in the calculation of pupil transportation reimbursement.
2. Accurately report all runs eligible for reimbursement.

3. Perform an internal review of data before submission to DE.
4. Review subsequent school years' transportation reports for accuracy, and resubmit if necessary

The *Department of Education* should:

5. Adjust future District allocations to correct the net underpayment of \$100,425.

Management Response

Management stated the following:

In an effort to more accurately report District pupil transportation data elements, the Business Office has recently re-assigned this responsibility to another person. With the assistance of an automated Pupil Transportation system, the 2009-2010 pupil transportation data (contractor, vehicle and pupil) was entered, verified and the subsequent result was the generation of the appropriate transportation reports successfully forwarded to the Pennsylvania Department of Education (PDE).

Upon the completion of the submission of the 2009-2010 pupil transportation reports to PDE, the person currently responsible for District Pupil Transportation reporting is entering the current school year's data into the automated system so that information is captured in an accurate and timely basis. At the end of the current school year, subsequent to data verification, the appropriate state reports will be produced and submitted to the PDE via the automated pupil transportation system.

In addition, the Business Manager will assist this person in the review of the data capture and submission procedures as applicable to past and present pupil transportation records.

Finding No. 2

Errors in Reporting Vocational Education Membership Resulted in an Underpayment of \$16,828

Criteria relevant to the finding:

Section 2502.8(a) of the Public School Code provides for reimbursement for vocational programs approved by the Secretary of Education.

DE guidelines require District's to report membership only for students who are enrolled in approved District-operated programs.

Our audit of the district-operated vocational educational data for the 2007-08 and 2006-07 school years found that the reports submitted to DE were inaccurate. The errors resulted in a \$17,781 subsidy underpayment for the 2007-08 school year and a \$953 subsidy overpayment for the 2006-07 school year, a net subsidy underpayment of \$16,828.

District-operated vocational education membership was understated by 6,312 days for the 2007-08 school year and overstated by 354 days for the 2006-07 school year.

The errors noted for the 2007-08 school year were caused by:

- District personnel reporting membership days for students who were enrolled in classes not on the District's approved vocational education plan;
- Failing to report membership for the students that were enrolled in the District's approved programs; and
- Failing to report membership for the students enrolled in the District's approved Construction Technology program.

The errors noted for the 2006-07 school year were caused by District personnel reporting membership days for students who were enrolled in classes not on the District's approved vocational education plan, and failing to report membership for all students that were enrolled in the District's approved programs.

Recommendations

The *Bald Eagle Area School District* should:

1. Strengthen controls to ensure that membership days are only reported for pupils enrolled in approved vocational education classes.

2. Verify that all membership for students enrolled in the District's approved programs is reported to DE for reimbursement.
3. Review subsequent years' vocational education membership reports and resubmit them to DE, if necessary.

The *Department of Education* should:

4. Adjust the District's allocations to resolve the net reimbursement underpayment of \$16,828.

Management Response

Management stated the following:

The Bald Eagle Area School District, in an effort to ensure that membership days are accurately reported, has retained a consultant to train a District employee so that they are conversant in the area of vocational education program identification, development and reporting. This same consultant is assisting District pupil accounting personnel to accurately identify and report students enrolled in vocational education programs.

Finding No. 3

Certification Deficiency

Criteria relevant to the finding:

Section 1202 of the Public School Code provides, in part:

No teacher shall teach, in any public school, any branch for which he has not been certified to teach.

Section 2518 of the Public School Code provides, in part:

[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio.

Our audit of professional employees' certificates and assignments for the period of February 1, 2009 through July 22, 2010, found that one administrator was assigned to a position during the 2009-10 school year without possessing proper certification.

This is a continuation of a citation in our prior audit (see page 14).

Information pertaining to the assignment was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), DE, for its review. On October 30, 2010, BSLTQ determined the administrator was assigned to the position without proper certification, as it had for our prior audit. The District is therefore subject to a subsidy forfeiture of \$1,005 for the 2009-10 school year.

Recommendations

The *Bald Eagle Area School District* should:

1. Take the necessary action required to ensure compliance with certification regulations.
2. Ensure only properly certified administrators, holding current and valid certificates, are permitted to work in the District.

The *Department of Education* should:

3. Take action to adjust the District's allocations to recover the subsidy forfeiture of \$1,005.

Management Response

Management stated the following:

The employee has the requisite certification to perform her duties and responsibilities and is in compliance with certification regulations.

Auditor Conclusion

As previously stated, BSLTQ has again determined that the individual was not properly certified for the position. Any disagreement on the part of the District must be addressed to DE.

Status of Prior Audit Findings and Observations

Our prior audit of the Bald Eagle Area School District (BEASD) for the school years 2005-06 and 2004-05 resulted in two reported findings, as shown in the following table. 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 BEASD Board’s written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the BEASD did not implement recommendations related to pupil transportation and teacher certification.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Errors in Reporting Pupil Transportation Data Resulted in a Net Underpayment of \$166,281</i></u></p> <ol style="list-style-type: none"> 1. Accurately report all data elements in the calculation of pupil transportation reimbursement. 2. Accurately report all runs eligible for reimbursement. 3. Review subsequent school years’ transportation reports for accuracy, and resubmit them, if necessary. 4. Perform an internal review of data before submission to DE. 5. DE should take action to adjust the District’s allocations to correct the net underpayment of \$166,281. 	<p>Background:</p> <p>Our prior audit found that pupil transportation reports submitted to DE for the 2005-06 and 2004-05 school years were inaccurate. Errors were noted in contractor cost, year of manufacture, seating capacity, number of days students transported, miles pupils were transported, number of trips, greatest number of pupils transported, and the number of nonpublic and charter school pupils transported. The inaccuracies resulted in a net subsidy underpayment of \$166,281.</p>	<p>Current Status:</p> <p>Our current audit of the 2007-08 and 2006-07 school years again found errors in reporting pupil transportation data (see page 6). Based on our current audit, we concluded the District did not take appropriate corrective action.</p> <p>As of October 4, 2010, DE had not adjusted the District’s allocations. Therefore, we again recommend that DE correct the net underpayment of \$166,281.</p>

<p><u>II. Finding No. 2:</u> <u>Certification Deficiencies</u></p> <ol style="list-style-type: none">1. Take the necessary action required to ensure compliance with certification regulations.2. Ensure only properly certified administrators, holding current and valid certificates, are allowed to work in the District.3. DE should take action to recover the subsidy forfeiture resulting from the deficiencies.	<p>Background:</p> <p>Our audit of professional employees' certificates and assignments for the period of January 1, 2007 through January 31, 2009, found three administrators were not certified for their assignments.</p>	<p>Current Status:</p> <p>Our current audit of professional employees' certificates and assignments found that two of the prior certification deficiencies had been corrected. However, one prior certification deficiency had not been corrected (see page 11). Based on our current audit we concluded the District did not take appropriate action with regard to certification deficiencies.</p> <p>On June 1, 2010, DE deducted a subsidy forfeiture of \$3,637 for the prior audit deficiencies.</p>
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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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