

BEAVER AREA SCHOOL DISTRICT
BEAVER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dr. Terri Williams, Board President
Beaver Area School District
855 Second Street
Beaver, Pennsylvania 15009

Dear Governor Rendell and Dr. Williams:

We conducted a performance audit of the Beaver Area School District (BASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period November 30, 2006 through May 29, 2009, 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, 2007, 2006 and 2005. 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 BASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the BASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 29, 2010

cc: **BEAVER 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 Beaver Area School District (BASD). 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 BASD in response to our prior audit recommendations.

Our audit scope covered the period November 30, 2006 through May 29, 2009, 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, 2006-07, 2005-06 and 2004-05.

District Background

The BASD encompasses approximately 21 square miles. According to 2000 federal census data, it serves a resident population of 14,989. According to District officials, in school year 2007-08 the BASD provided basic educational services to 2,090 pupils through the employment of 138 teachers, 91 full-time and part-time support personnel, and 12 administrators. Lastly, the BASD received more than \$8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the BASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. For the audited period, our audit of the BASD resulted in no findings or observations.

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the BASD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the BASD had taken appropriate corrective action in implementing our recommendations pertaining to unverifiable pupil membership (see page 7), errors in reporting Social Security and Medicare wages (see page 8), and tuition billing errors (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 November 30, 2006 through May 29, 2006.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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 BASD'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?
- ✓ 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?

- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ 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.

BASD 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 financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on May 18, 2007, we reviewed the BASD's response to DE dated May 29, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Beaver Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Beaver Area School District (BASD) for the school years 2003-04 and 2002-03 resulted in three reported findings. The first finding pertained to pupil membership, the second pertained to Social Security and Medicare Wages, and the third pertained to tuition billings. 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 BASD 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 BASD did implement our recommendations related to pupil membership, Social Security and Medicare wages, and tuition billing.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding 1: Pupil Membership and Associated Funding was Unverifiable</i></u></p> <ol style="list-style-type: none"> 1. Retain homeroom rosters which include pupil membership withdrawal and re-entry information. 2. Utilize an all inclusive form which would track the multiple withdrawal and re-entry information for each student. 3. Perform an internal audit of the reports submitted and substantiating documentation for the years subsequent to audit and, if necessary, submit amended reports. 4. Perform an internal audit on all reports prior to submitting them to DE for reimbursement. 	<p>Background:</p> <p>Our prior audit of the 2003-04 school year pupil membership reports submitted to DE found that supporting documentation necessary to verify the pupil membership reports was inaccurate, erroneous and misclassified.</p>	<p>Current Status:</p> <p>Our current audit found that the District has implemented our recommendations. No significant errors were noted and pupils were correctly classified.</p>

<p><u>II. Finding 2: Errors in Reporting Social Security and Medicare Wages Resulted in Underpayments of \$33,438</u></p> <ol style="list-style-type: none"> 1. Ensure District personnel responsible for compiling Social Security/Medicare reimbursement data are aware of the proper procedures for correctly compiling the Social Security/Medicare reimbursement forms. 2. Review reports filed for years subsequent to the audit period and, if errors are found, submit revised reports to DE. 3. DE should adjust the District's allocations to resolve the reimbursement underpayments. 	<p>Background:</p> <p>Our prior audit of Social Security and Medicare wages for the 2003-04 and 2002-03 school years found that the reports submitted to DE were inaccurate, resulting in reimbursement underpayments \$33,438.</p>	<p>Current Status:</p> <p>Our current audit found that Social Security and Medicare wages were properly reported to DE, with only insignificant errors being noted.</p> <p>As of August 7, 2009, DE had not corrected the underpayments. We therefore again recommend that DE correct the underpayments of \$33,438.</p>
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<p><u>III. Finding 3: Tuition Billing Errors</u></p> <ol style="list-style-type: none"> 1. Require District personnel to issue revised tuition bills to the affected districts. 2. Review tuition billing records for years subsequent to the audit period to ensure all tuition has been properly billed. 3. Establish procedures to ensure tuition is charged and collected in accordance with the Public School Code. 	<p>Background:</p> <p>Our prior audit of the 2003-04 and 2002-03 tuition billings for nonresident students found the sending districts were billed tuition for educational services incorrectly. The incorrect charges resulted from District personnel using incorrect tuition rates when billing districts for students referred to an institution and a women's center.</p>	<p>Current Status:</p> <p>Our current audit found that the District revised the prior tuition bills. The District received payments or made refunds to sending districts that were incorrectly billed. Furthermore, the District billed tuition correctly for the current audit period.</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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