



**BETHLEHEM AREA SCHOOL DISTRICT
NORTHAMPTON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JANUARY 2014

COMMONWEALTH OF PENNSYLVANIA
EUGENE A. DEPASQUALE - AUDITOR GENERAL
DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Michael E. Faccinetto, Board President
Bethlehem Area School District
1516 Sycamore Street
Bethlehem, Pennsylvania 18017

Dear Governor Corbett and Mr. Faccinetto:

We conducted a performance audit of the Bethlehem 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 July 14, 2010 through July 1, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2012, 2011, 2010, and 2009. 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.

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

January 2, 2014

cc: **BETHLEHEM 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 Bethlehem Area School District (District) in Northampton County. 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 July 14, 2010 through July 1, 2013, 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 2011-12, 2010-11, 2009-10, and 2008-09 school years.

District Background

The District encompasses approximately 43 square miles. According to 2010 federal census data, it serves a resident population of 116,811. According to District officials, the District provided basic educational services to 14,271 pupils through the employment of 960 teachers, 831 full-time and part-time support personnel, and 51 administrators during the 2011-12 school year. Lastly, the District received \$52.8 million in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the Bethlehem Area School District (District) from an audit released on August 13, 2012, we found that the District eliminated the alternative education program that was the subject of our first finding after the 2007-08 school year (see page 6). We also determined the District did take corrective action in implementing our recommendations regarding a general fund deficit (see page 7), and the improper transfer and expense of monies from the capital reserve fund to cover general operating expenditures (see page 8).

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 July 14, 2010 through July 1, 2013, except for the verification of professional employee certification, which was performed for the period February 1, 2010 through June 30, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2011-12, 2010-11, 2009-10, and 2008-09 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 Pennsylvania Department of Education (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:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ 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?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

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

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.

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, pupil membership, and comparative financial information.

Our audit examined the following:

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on August 13, 2012, we reviewed the District's response to PDE dated September 24, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Bethlehem Area School District (District) released on August 13, 2012, resulted in three (3) findings, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings. As shown below, we found that the District eliminated the alternative education program that was the subject of our first finding. We also found that the District did implement our recommendations related to a general fund deficit and improper transference of monies.

Auditor General Performance Audit Report Released on August 13, 2012

Finding No. 1: District Was Overpaid \$77,122 in Alternative Education Subsidy

Finding Summary: Our prior audit of data related to the District's alternative education subsidies for the 2007-08 and 2006-07 school years found that District personnel incorrectly reported the number of weeks that pupils were in an alternative education program, and inappropriately reported pupils who attended programs that PDE had not approved under its alternative education grant program. These errors resulted in state subsidy overpayments of \$48,052 and \$29,070, respectively.

Recommendations: Our audit finding recommended that the District should:

1. Review alternative education subsidy applications prior to submission to PDE to ensure accurate reporting.
2. Maintain attendance documentation for students participating in the Pathways Program alternative education program for audit.
3. Review curriculum provided in alternative education programs for compliance with PDE requirements prior to applying for subsidy.
4. Review subsequent reports submitted to PDE and revise, if necessary.

We also recommended that PDE should:

5. Adjust the District's allocations to recover the \$77,122 in overpayments.

Current Status:

During our current audit, we found that the District eliminated its alternative education program after the 2007-08 school year.

As of July 1, 2013, PDE had not yet adjusted the District's allocations to recover the \$77,122 in overpayments. We again recommend that PDE resolve the overpayments.

Finding No. 2:

General Fund Deficit

Finding Summary:

Our prior review of the District's annual financial reports, independent auditor's reports, and general fund budgets for the fiscal years ended June 30, 2007, 2008, and 2009 found that although the District had a \$7,418,821 general fund surplus as of June 30, 2006, its balance decreased to a general fund deficit of \$1,119,232 as of June 30, 2009. However, the District achieved a general fund surplus of \$8,940,090 as of June 30, 2010.

Recommendations:

Our audit finding recommended that the District should:

1. Use actual historical data and projections when budgeting for revenues and expenditures.
2. Establish a process to monitor all future District expenditures to ensure that actual expenditures are kept within budgetary limits.
3. Review grant requirements and allocate funds based on need, to ensure limited money is spent in the taxpayers' best interest.
4. Review future investments to adequately evaluate the potential risk to the District and taxpayer funds.
5. Consider altering future employee contract obligations, such as life insurance policies, to bring them in line with current financial trends and to ensure tax dollars are spent prudently.
6. Review the appropriateness of the purchased whole-life insurance policies and determine if they were in line with the understanding of the Board of School Directors (Board) when administrator contracts were approved.
7. Develop procedures to ensure the general ledger account is properly reconciled with bank statements to ensure the District's financial position is correctly stated.

8. Maintain all original invoices relating to state reimbursements for audit.
9. Develop reconciliation procedures to ensure the accounts payable and the general fund balances are correctly stated.
10. Reorganize all matching contributions received during the year as revenue.
11. Develop and adopt a policy to establish a self-insured medical reserve balance.

Current Status: During our current audit, we found that the District did implement our prior recommendations. The District's fund balance had grown to a healthy \$21,884,383 as of June 30, 2012.

Finding No. 3: District Improperly Transferred and Expended Moneys from the Capital Reserve Fund to Cover General Operating Expenditures

Finding Summary: Our review of the District's financial records and the Board's approved meeting minutes found that the Board and District administration violated state law on September 17, 2007, by improperly transferring \$2,500,000 from the capital reserve fund to the general fund. Once general fund surpluses are transferred to the capital reserve fund, the District has no authority to transfer the funds back to the general fund to cover general operating expenses.

In addition, the District improperly paid \$122,664 for monthly computer maintenance payments from the capital reserve fund.

Recommendations: Our audit finding recommended that the District should:

1. Adhere to the provisions of Section 1434 of the Pennsylvania Statutes and Section 690 of the Public School Code (PSC) pertaining to the usage of capital reserve funds.
2. Transfer all, or a portion of the \$2,622,644 back to the capital reserve fund for all reimbursed general operating expenses noted in the finding, in compliance with Section 690 of the PSC.

We also recommended that PDE should:

3. Review the finding and determine what further action, if any, should be taken due to the improper transfer.

Current Status:

During our current audit, we found that the District did implement our prior recommendations. The District transferred the \$2,500,000 back to the capital reserve fund on June 30, 2012. Also, the \$122,644 was properly recorded to the general fund by local audit, correcting the entries in March 2010.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following stakeholders:

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

The Honorable Carolyn Dumaesq
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Lori Graham
Acting Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Lin Carpenter
Assistant Executive Director for Member Services
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.