

CENTRAL COLUMBIA SCHOOL DISTRICT  
COLUMBIA COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2012



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

Mr. Charles Chyko, Board President  
Central Columbia School District  
4777 Old Berwick Road  
Bloomsburg, Pennsylvania 17815

Dear Governor Corbett and Mr. Chyko:

We conducted a performance audit of the Central Columbia School District (CCSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period August 13, 2009 through September 2, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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 CCSD complied, in all significant respects, with applicable state laws, 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 CCSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CCSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CCSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

January 20, 2012

cc: **CENTRAL COLUMBIA SCHOOL DISTRICT** Board Members



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## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period August 13, 2009 through September 2, 2011, 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 2009-10 and 2008-09.

### **District Background**

The CCSD encompasses approximately 77 square miles. According to 2000 federal census data, it serves a resident population of 14,107. According to District officials, in school year 2009-10 the CCSD provided basic educational services to 1,993 pupils through the employment of 156 teachers, 112 full-time and part-time support personnel, and 13 administrators. Lastly, the CCSD received more than \$9.5 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the CCSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

**Finding: Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Underpayments of \$14,650.** The CCSD incorrectly reported total taxable Social Security and Medicare wages resulting in reimbursement underpayments of \$8,495 for the 2009-10 school year and \$6,155 for the 2008-09 school year for a total underpayment of \$14,650 (see page 6).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the CCSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the CCSD had taken appropriate corrective action in implementing one of our three recommendations pertaining to their unmonitored vendor system access and logical access control weaknesses (see page 9).





## Audit Scope, Objectives, and Methodology

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### 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 August 13, 2009 through September 2, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 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 CCSD's compliance with applicable state laws, 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?
- ✓ 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, 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

CCSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, 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, 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 CCSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 21, 2010, we then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding →

### **Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Underpayments of \$14,650**

*Criteria relevant to the finding:*

The 1986 Budget Reconciliation Act required local education agencies (LEAs) to deposit social security tax contributions for wages earned on, or after, January 1, 1987 directly to their authorized depositories or federal reserve banks. LEAs were required to pay the full amount of the employer's tax due, including the Commonwealth's matching share, which was 50 percent of the employer's share of the tax due for employees employed by the LEA prior to July 1, 1994, (existing employees). LEAs are subsequently reimbursed the Commonwealth's matching share, based on wages reported to the LECS, excluding wages paid with federal funds.

Act 29 of 1994 further changed the way in which LEAs are reimbursed for social security contributions. A part of the law provides that employees who have never been employed by an LEA prior to July 1, 1994, (new employees). Would have social security employer shares reimbursed on the LEAs aid ratio, or 50 percent, whichever is greater.

Our review of the Central Columbia School District's (CCSD) Social Security and Medicare wages reimbursement records found that reports submitted to the Department of Education (DE) were inaccurate, resulting in underpayments of \$14,650.

For the 2009-10 and 2008-2009 school years, the CCSD erroneously reported numerous employees as "existing employees" instead of "new employees". Therefore "new" wages were underreported and "existing" wages were overreported. The errors resulted in reimbursement underpayments of \$8,495 for the 2009-10 school year and \$6,155 for the 2008-09 school year.

The errors were caused by CCSD personnel not accurately identifying "new" and "existing" employees.

Wages eligible for Social Security and Medicare reimbursement were understated in reports submitted to DE, as follows:

<u>Wages Subject to State Reimbursement</u>					
<u>Total Wages</u>		<u>Wages Understated (Overstated)</u>	<u>Rate</u>	<u>Reimbursement Underpayments (Overpayments)</u>	
<u>Audited</u>	<u>Reported</u>				
2009-10					
SE	\$4,604,115	\$8,778,993	(\$4,174,878)	.031000	(\$129,421)
ME	4,605,998	8,780,875	(4,174,877)	.007250	(30,268)
SN	6,794,078	2,620,776	4,173,302	.032661	136,304
MN	6,794,078	2,620,776	4,173,302	.007639	<u>31,880</u>
				Total	<u>\$ 8,495</u>
2008-09					
SE	\$5,296,786	\$8,844,794	(\$3,548,008)	.031000	(109,988)
ME	5,310,338	8,858,346	(3,548,008)	.007250	(25,723)
SN	6,036,286	2,490,508	3,545,778	.032426	114,975
MN	6,036,286	2,490,508	3,545,778	.007584	<u>26,891</u>
				Total	<u>\$ 6,155</u>
				Grand Total	<u>\$ 14,650</u>
(SE) Social Security wages for existing employees (ME) Medicare wages for existing employees (SN) Social Security wages for new employees (MN) Medicare wages for new employees					

**Recommendations**

The *Central Columbia School District* should:

1. Establish controls to ensure that personnel hired by the CCSD are correctly reported as “new” or “existing” employees for computation of Social Security and Medicare wages reported to DE for reimbursement.
2. Review reports submitted after the audit period for accuracy and resubmit to DE, if necessary.

The *Department of Education* should:

3. Adjust the CCSD’s allocations to resolve the underpayments.

**Management Response**

Management stated the following:

Upon review, the district discovered that we were recording the hire dates of employees in an incorrect manner. Social Security reimbursement was affected. The district is requesting to be made whole beginning with 2008-09 fiscal year. Subsequent to this discovery, the calculation has been corrected.

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Central Columbia School District (CCSD) for the school years 2007-08 and 2006-07 resulted in one observation. The observation pertained to their unmonitored vendor system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the CCSD had taken appropriate corrective action in implementing one of our three recommendations pertaining to their unmonitored vendor system access and logical access control weaknesses.

### **School Years 2007-08 and 2006-07 Auditor General Performance Audit Report**

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**Observation:**            **Unmonitored Intermediate Unit System Access and Logical Access Control Weaknesses**

Observation  
Summary:

Our prior audit noted that CCSD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over intermediate unit access to the student accounting applications.

Recommendations:    Our audit observation recommended that the CCSD:

1. Require District employees to sign the District's Acceptable Use Policy.
2. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days).
3. Require CSIU to assign unique user IDs and passwords to Central Susquehanna Intermediate Unit #16 (CSIU) employees authorized to access the District system. Further, the District should obtain a list of CSIU's employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.

Current Status: During our current audit procedures we found that the CCSD had taken appropriate corrective action in implementing one of our three recommendations. The District did not implement our recommendations for numbers 1 and 2. We once again urge the District to implement the two remaining recommendations.



## **Distribution List**

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

The Honorable Tom Corbett  
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