

CLEARFIELD AREA SCHOOL DISTRICT
CLEARFIELD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2011

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

Mr. David S. Glass, Board President
Clearfield Area School District
438 River Road
Clearfield, Pennsylvania 16830

Dear Governor Corbett and Mr. Glass:

We conducted a performance audit of the Clearfield Area School District (CASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period February 27, 2009 through December 10, 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 CASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the 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 CASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

April 13, 2011

cc: **CLEARFIELD 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 Clearfield Area School District (CASD). 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 CASD in response to our prior audit recommendations.

Our audit scope covered the period February 27, 2009 through December 10, 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 CASD encompasses approximately 345 square miles. According to 2000 federal census data, it serves a resident population of 20,215. According to District officials, in school year 2007-08 the CASD provided basic educational services to 2,614 pupils through the employment of 209 teachers, 163 full-time and part-time support personnel, and 15 administrators. Lastly, the CASD received more than \$16.9 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the CASD 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 Social Security and Medicare Wages Resulted in Reimbursement Overpayments of \$11,552. Our audit of Social Security and Medicare wages for the 2007-08 and 2006-07 school years found that the CASD did not accurately report federally funded wages to the Department of Education (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the CASD, we found the CASD had taken appropriate corrective action in implementing our recommendations pertaining to nonresident pupil membership (see page 9), vocational education membership (see page 10), tuition billings (see page 10), retirement (see page 11) and certification (see page 12). We found the CASD had not taken appropriate corrective action in implementing our recommendations pertaining to Social Security and Medicare wages (see page 11).



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 February 27, 2009 through December 10, 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 CASD'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.

CASD 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.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 17, 2010, we reviewed the CASD's response to DE dated September 27, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Overpayments of \$11,552

Criteria relevant to the finding:

The 1986 Budget Reconciliation Act required local education agencies (LEA's) to deposit Social Security and Medicare 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 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 DE, excluding wages paid with the federal funds.

Act 29 of 1994 further changed the way in which LEAs are reimbursed for Social Security and Medicare 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 and Medicare employer shares reimbursed based on the LEA's aid ratio or 50 percent, whichever is greater.

Our audit of Social Security and Medicare wages for the 2007-08 and 2006-07 school years found that federally funded wages were incorrectly reported to the Department of Education (DE), resulting in reimbursement overpayments of \$11,552. This is a continuation of a finding in our prior audit report (see page 11).

The errors were due to a lack of communication between the federal program directors and the payroll clerk.

Wages paid with federal funds are not subject to reimbursement from the Commonwealth. Reported federal wages are deducted from total wages when reimbursement is calculated.

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

<u>Reporting Period</u>		<u>Federal Wages Audited</u>	<u>Federal Wages Reported</u>	<u>Federal Wages Understated</u>	<u>Reimbursement Rate</u>	<u>Reimbursement Overpayment</u>
<u>Existing Employees:</u>						
7/06 – 6/07	*	\$839,460	\$818,429	\$ 21,031	.03100	\$ 652
7/06 – 6/07	**	839,460	818,429	21,031	.00725	152
<u>New Employees</u>						
7/07 – 6/08	*	563,111	395,788	167,323	.04112	6,880
7/07 – 6/08	**	563,111	395,788	167,323	.00962	1,610
7/06 – 6/07	*	369,187	324,827	44,360	.04125	1,830
7/06 – 6/07	**	369,187	324,827	44,360	.00965	<u>428</u>
Total Overpayments						<u>\$11,552</u>
		* Social Security Wages		** Medicare Wages		

Recommendations

The *Clearfield Area School District* should:

1. Ensure all employees paid with federal funds are properly coded in the payroll system.
2. Perform a reconciliation of the final federal expenditure reports to payroll reports to ensure accuracy.
3. Review reports filed for years subsequent to the audit period and, if errors are found, submit revised reports to DE.

The *Department of Education* should:

4. Adjust the District's allocations to resolve the reimbursement overpayments of \$11,552.

Management Response

Management stated the following:

Wages claimed for federal projects were also claimed in error for social security reimbursement. Administration, payroll, and those in charge of the federal programs were made aware of the situation in the past; however, the problem still exists. Additional measures are being taken to ensure this discrepancy is corrected in the future. Additional communication between the payroll clerk and the federal program coordinators will be conducted. Rosters of district personnel charged to federal programs will be provided to the payroll clerk at the beginning of each school year. The payroll clerk will trace each employee to the payroll system to ensure proper classification. The Business Administrator will oversee these steps to ensure their completion. The district is also taking proactive steps to review the years ended June 30, 2009 and June 30, 2010 and correct any discrepancies discovered to avoid similar future findings.

Status of Prior Audit Findings and Observations

Our prior audit of the Clearfield Area School District (CASD) for the school years 2005-06 and 2004-05 resulted in six 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 CASD 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 CASD did implement recommendations related to nonresident pupil membership, vocational education membership, tuition billings, retirement and certification. However, CASD did not implement recommendations related to Social Security and Medicare wages.

<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 Nonresident Pupil Membership Resulted in Reimbursement Overpayments of \$35,078</i></u></p> <ol style="list-style-type: none"> 1. Strengthen controls to help ensure pupil membership is reported in accordance with DE guidelines and instructions. 2. Review reports submitted to DE subsequent to the audit period and, if errors are found, submit revised reports. 3. DE should adjust the District's future allocations to correct the total overpayments of \$35,078. 	<p>Background:</p> <p>Our prior audit of the District's nonresident pupil membership reports for the 2005-06 and 2004-05 school years, as submitted to DE, found reporting errors.</p> <p>The errors were caused by District personnel reporting resident foster children as nonresident children placed in private homes. District personnel also misclassified state ward students.</p>	<p>Current Status:</p> <p>Our current audit of the District's nonresident pupil membership did not find any significant errors.</p> <p>Based on the results of our current review, we concluded the District did take appropriate corrective action.</p> <p>As of December 10, 2010, DE had not resolved the overpayments; we again recommend that they do so.</p>

<p><u>II. Finding No. 2: Continued Errors in Reporting Vocational Education Pupil Membership Resulted in a Subsidy Overpayment of \$22,451</u></p> <ol style="list-style-type: none"> 1. Strengthen controls to ensure that membership days are reported only for pupils enrolled in approved vocational education classes. 2. Revise the District’s vocational plan to reflect any change in titles or courses that are not included in the District’s current approved plan. 3. DE should adjust the District’s allocations to recover the subsidy overpayment of \$22,451. 	<p>Background:</p> <p>Our prior audit of district-operated vocational educational data for the 2004-05 school year found that the reports submitted to DE were inaccurate. District-operated vocational education membership was overstated by 7,876 days, resulting in a \$22,451 subsidy overpayment.</p> <p>The overpayment was caused by District personnel reporting membership days for students who were enrolled in classes not on the District’s approved vocational education plan. There were no district-operated vocational membership errors found in reporting for the 2005-06 school year.</p>	<p>Current Status:</p> <p>Our current audit of the District’s vocational education membership did not find any significant errors.</p> <p>Based on the result of our current review, we concluded the District did take appropriate corrective action.</p> <p>As of December 10, 2010, DE had not resolved the overpayment; we again recommend that they do so.</p>
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<p><u>III. Finding No. 3: Failure to Recover Tuition Totaling \$28,669</u></p> <ol style="list-style-type: none"> 1. Strengthen controls to ensure tuition is billed in accordance with the requirements of the Public School Code. 2. Bill the affected school districts to recover the tuition due. 	<p>Background:</p> <p>Our prior audit of the District’s 2005-06 and 2004-05 pupil membership records and tuition billings found that District personnel under-billed several districts for nonresident students. Clerical miscalculations and the misclassification of nonresident students led to the errors. Additionally, the District incorrectly billed the Phillipsburg-Osceola Area School District according to days of attendance instead of days of membership. As a result of the mistakes, the District failed to recover tuition totaling \$28,669.</p>	<p>Current Status:</p> <p>Our current audit of the District’s tuition billings did not find any errors.</p> <p>The District did bill the affected school districts to recover the tuition due.</p> <p>Based on the results of our current review, we concluded the District did take appropriate corrective action.</p>
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<p><u>VI. Finding No. 4: Errors in Reporting Social Security and Medicare Wages Resulted in a Net Reimbursement Overpayment of \$12,398</u></p> <ol style="list-style-type: none"> 1. Ensure all employees paid with federal funds are properly coded in the payroll system. 2. Perform a reconciliation of the final federal expenditure reports to the payroll reports to ensure accuracy. 3. Review reports filed for years subsequent to the audit period and, if errors are found, submit revised reports to DE. 4. DE should adjust the District's allocations to resolve the net reimbursement overpayment. 	<p>Background:</p> <p>Our prior audit of Social Security and Medicare wages for the 2005-06 and 2004-05 school years found that wages were incorrectly reported to the DE, resulting in a net reimbursement overpayment of \$12,398.</p> <p>The errors were due to District personnel's failure to accurately report federally funded wages.</p> <p>Reimbursement from the Commonwealth is not paid for taxes paid with federal funds. Reported federal wages are deducted from total wages when reimbursement is calculated.</p>	<p>Current Status:</p> <p>Our current audit of the District's Social Security and Medicare wages again found errors, as noted in the finding in the current report (see page 6).</p> <p>Based on our current review we concluded the District did not take appropriate corrective action.</p> <p>As of December 10, 2010, DE had not resolved the net overpayment; we again recommend that they do so.</p>
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<p><u>V. Finding No. 5: Possible Inaccurate Reporting of Retirement Wages</u></p> <ol style="list-style-type: none"> 1. Review Public School Employees' Retirement System (PSERS) reference manual for determination of wages eligible for retirement and contact PSERS for determination of any payments that the payroll clerk is unsure how to report. 2. PSERS should review the compensation reported for the administrator for the 2004-05 and 2005-06 school years and render an opinion on the 	<p>Background:</p> <p>Our prior audit of District payroll and retirement records found retirement wages may have been overstated for one administrator during the 2005-06 and 2004-05 school years. The administrator's retirement wages reported to PSERS for the 2005-06 and 2004-05 school years included \$3,454 and \$98, respectively, in unqualified salary paid in lieu of unused vacation days.</p>	<p>Current Status:</p> <p>Our current audit of retirement wages did not find any reporting of inappropriate wages.</p> <p>Based on our current review, we concluded the District did take appropriate corrective action.</p> <p>As of December 10, 2010, PSERS had not yet rendered an opinion on the eligibility of the wages questioned in our prior audit.</p>
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<p>propriety of the retirement wages reported by the District for the individual.</p> <p>3. If any parts of the payments are determined to be ineligible for retirement, make necessary corrections to pension benefits and contributions.</p> <p>4. In conjunction with PSERS opinion on the propriety of the wages reported for retirement, determine if the District was overpaid retirement subsidy and make any necessary adjustments.</p>		
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<p><u>VI. Finding No. 6:</u> <u>Certification Deficiency</u></p> <p>1. Ensure that all professional personnel are properly certified for their assignments.</p> <p>2. DE should adjust the District's allocations to recover the subsidy forfeiture resulting from the deficiency.</p>	<p>Background:</p> <p>Our prior audit of the professional employees' certificates and assignments for the period November 24, 2005 through November 18, 2008, found one individual was assigned to a teaching position without possessing proper certification from the beginning of the second semester of the 2006-07 school year, when the individual's Instructional I certificate lapsed, until the end of the 2006-07 school year; this resulted in a subsidy forfeiture. The individual received proper certification prior to the 2007-08 school year.</p>	<p>Current Status:</p> <p>Our current audit of the District's certification found no deficiencies.</p> <p>Based on the results of our current review, we concluded the District did take appropriate corrective action.</p> <p>DE informed us they would recover the subsidy forfeiture of \$1,010 in December 2010.</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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