

CORNWALL-LEBANON SCHOOL DISTRICT
LEBANON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Mr. Harry Mathis, Board President
Cornwall-Lebanon School District
105 East Evergreen Road
Lebanon, Pennsylvania 17042

Dear Governor Corbett and Mr. Mathis:

We conducted a performance audit of the Cornwall-Lebanon School District (CLSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period October 30, 2009 through August 5, 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 CLSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two 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 CLSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CLSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CLSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 20, 2012

cc: **CORNWALL-LEBANON 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 Cornwall-Lebanon School District (CLSD). 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 CLSD in response to our prior audit recommendations.

Our audit scope covered the period October 30, 2009 through August 5, 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 CLSD encompasses approximately 70 square miles. According to 2007 local census data, it serves a resident population of 32,095. According to District officials, in school year 2009-10 the CLSD provided basic educational services to 4,620 pupils through the employment of 344 teachers, 274 full-time and part-time support personnel, and 24 administrators. Lastly, the CLSD received more than \$16.9 million in state funding in school year 2009-10.

Audit Conclusion and Results

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

Finding No. 1: Membership Reporting Errors Resulted in a Subsidy

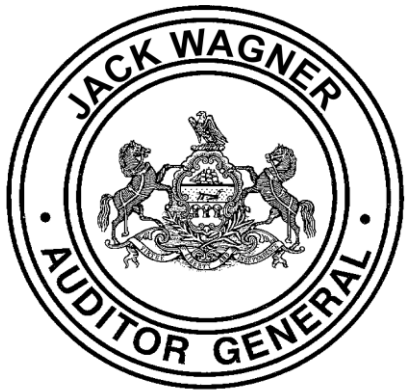
Overpayment of \$16,852. Our audit of nonresident and resident membership found reporting errors in the 2008-09 school year which resulted in an overpayment of \$16,852 in Commonwealth-paid tuition for orphans and children placed in private homes (see page 6).

Finding No. 2: Transportation Reporting Errors Resulted in Underpayments of

\$9,793. Our audit of pupil transportation data for the 2009-10 and 2008-09 school years found the CLSD did not report all eligible contractor costs for both years (see page 10).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the CLSD from an audit we conducted of the 2007-08, 2006-07, 2005-06 and 2004-05 school years, we found the CLSD has taken appropriate corrective action in implementing our recommendations pertaining to its Memoranda of Understanding (see page 12).



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 October 30, 2009 through August 5, 2011, except for the verification of professional employee certification which was performed for the period September 1, 2008 to May 20, 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 CLSD'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

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, observations 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, contracts, grant requirements and administrative procedures.

CLSD 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, 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 CLSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on May 4, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Membership Reporting Errors Resulted in a Subsidy Overpayment of \$16,852

Criteria relevant to the finding:

DE defines resident students to include those students placed in pre-adoptive homes, as well as children placed in private homes within the district whose natural parents are also residents of that district.

Resident and nonresident membership data must be maintained in accordance with DE guidelines and instructions, since they are major factors in determining the District's subsidies and reimbursements.

Our audit of pupil membership records submitted to the Department of Education (DE) for the 2009-10 and 2008-09 school years found errors in nonresident and resident membership data for the 2008-09 school year only. The errors resulted in an overpayment of \$16,852 in Commonwealth-paid tuition for orphans and children placed in private homes. These errors may also have an effect on basic education funding, but the data necessary to compute that effect was not yet available from DE at the time of our audit.

District personnel's lack of awareness of all the reporting guidelines concerning children placed in private homes, inadequate review of membership records and supporting documentation, along with clerical errors, resulted in the following nonresident and resident membership reporting errors:

	<u>Days (Over)/Understated</u>		
	<u>Kindergarten</u>	<u>Elementary</u>	<u>Secondary</u>
Nonresident:			
Child Placed in Private Homes	(5)	(177)	(179)
Institutionalized Wards of the State	-	-	(9)
Tuition Waiver	-	-	9
Institutionalized	-	-	(2)
Resident	5	177	170

Children Placed in Private Homes and Institutionalized Wards of the State

Membership days for three resident students were incorrectly reported as membership for nonresident children placed in private homes for the 2008-09 school year. Our review of placing agency letters confirmed the students' natural or custodial parents lived in the District, or that the student was in pre-adoptive status, which would classify each student as a resident. These errors resulted in the overstatement of membership days for nonresident children placed in private homes. Furthermore, there was a corresponding resident membership understatement for the same number of days.

Membership for one secondary mainstreamed intermediate unit (IU) institutionalized ward of the state was reported twice for the 2008-09 school year. The error resulted in a 9 day overstatement of institutionalized ward of the state membership.

Tuition Waiver

Membership for one secondary tuition-waiver student was incorrectly reported as resident membership for the 2008-09 school year. This error resulted in a 9 day understatement of tuition-waiver membership and a corresponding overstatement of resident membership.

District-Paid Tuition

One secondary IU student was incorrectly reported as a district-paid tuition student of Carlisle Area School District (CASD) for 173 days. He should have been reported as an institutionalized student from CASD for 102 days and as an institutionalized student from Big Spring School District for 71 days. There was no net effect on the district-paid tuition membership days reported by the District, but the District's reporting error caused the days to be incorrectly distributed by DE to the other districts involved.

Institutionalized

Membership for one secondary mainstreamed IU student from Hanover Public School District was reported twice as an institutionalized student. This error resulted in a 20 day overstatement of membership for nonresident institutionalized students.

Membership for one secondary institutionalized IU student from Elizabethtown Area School District was not reported. This error resulted in an 18-day understatement of membership for institutionalized students.

We have provided DE with reports detailing the errors for use in revising District subsidies and reimbursements.

Recommendations

The *Cornwall-Lebanon School District* should:

1. Ensure membership for nonresident children placed in private homes, tuition waiver students, and institutionalized students is supported by the appropriate documentation and properly reported to DE.
2. Ensure membership for mainstreamed IU students is reported correctly.
3. Review reports for years subsequent to the audit and, if errors are found, submit revised reports to DE.

The *Department of Education* should:

4. Adjust CLSD's allocations to resolve the \$16,852 overpayment in tuition for orphans and children placed in private homes and any over or underpayment that may result in basic education funding.
5. Adjust membership and allocations to other affected school districts.

Management Response

Management chose to address only the foster care students in its response. Management stated the following:

Foster care membership was reported incorrectly for three students in 2008-09. Two students were reported as

non-residential but, in fact, parents were residing in our district, thus the district should not have received the foster care funding. The clerical oversight has been addressed and the expectation understood.

The third student was a pre-adoptive status and the district was not clear on how to present this. . . . We have been informed how to properly deal with pre-adoptive status and to follow the appropriate paperwork.

Finding No. 2

Transportation Reporting Errors Resulted in Underpayments of \$9,793

Criteria relevant to the finding:

DE instructions for reporting contractor cost data on the end-of-year pupil transportation reports specify that districts report the total amount paid to the contractor. This includes fuel costs and costs for vehicle aides.

Our audit of pupil transportation data for the 2009-10 and 2008-09 school years found errors in the contractor cost data reported to DE for both school years. The errors resulted in \$4,307 and \$5,486 underpayments in transportation subsidy for the 2009-10 and 2008-09 school years, respectively.

Contractor cost data for one contractor who provided transportation services during the 2009-10 school year was understated by \$38,172. District personnel did not report costs to DE for the use of transportation aides. They were not aware these costs were eligible for subsidy. The effect of understating contractor costs was a \$4,307 subsidy underpayment.

Contractor costs were understated by \$76,733 and \$65,452 for two contractors who provided transportation services during the 2008-09 school year. The understatements were the result of not reporting costs for transportation aides and failing to report the District's fuel costs as provided for in their transportation fuel sharing agreement. Once again the costs were not reported to DE because District personnel were unaware the costs were eligible for subsidy. These errors resulted in a \$5,486 subsidy underpayment.

Contractor cost data is an integral part of the transportation subsidy formula and must be reported accurately and in accordance with DE instructions to ensure the correct subsidy is received.

We have provided DE with a report detailing the errors for use in recalculating the District's transportation subsidy.

Recommendations

The *Cornwall-Lebanon School District* should:

1. Establish a procedure to review payments made to the transportation contractors to ensure all eligible costs are reported to DE in accordance with DE's instructions.

2. Review reports submitted to DE for the years subsequent to the audit period and submit revised reports if errors are found.

The Department of Education should:

3. Adjust the District's allocation to resolve the \$9,793 subsidy underpayments.

Management Response

Management stated the following:

The reporting error in the application for transportation subsidy occurred as a result of additional aide costs and fuel sharing costs with the transportation contractor. These additional costs did not exist prior to 2006-07 and were overlooked in subsequent reporting years. Proper adjustments have been made to the spreadsheets and calculations for the transportation subsidy for all periods going forward.

Status of Prior Audit Findings and Observations

Our prior audit of the Cornwall-Lebanon School District (CLSD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in one reported observation pertaining to the District's Memoranda of Understanding (MOU) with the law enforcement agencies within the District. 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 CLSD did implement recommendations related to its MOU.

School Years 2007-08, 2006-07, 2005-06 and 2004-05 Auditor General Performance Audit Report

Observation:	Memoranda of Understanding Not Updated Timely
<u>Observation Summary:</u>	Our prior audit found that the District's signed MOU with its local law enforcement agencies had not been updated since April 1997.
<u>Recommendations:</u>	<p>Our audit observation recommended that the CLSD:</p> <ol style="list-style-type: none">1. Review, update and re-execute the current MOUs between the District and all of the law enforcement agencies that serve the District.2. Adopt a policy requiring District administration to review and re-execute the MOUs every two years.
<u>Current Status:</u>	Our current audit found that the CLSD did implement our recommendations by re-executing MOUs with all law enforcement agencies serving the District in December 2010. The current MOUs contain a provision for regular review and updating.

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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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

