

CRANBERRY AREA SCHOOL DISTRICT
VENANGO COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2011

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

Mr. Michael Port, Board President
Cranberry Area School District
3 Education Drive
Seneca, Pennsylvania 16346

Dear Governor Corbett and Mr. Port:

We conducted a performance audit of the Cranberry Area School District (CASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period May 22, 2009 through May 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, as they were the most recent reimbursements subject to audit. 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 three 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 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 and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

November 9, 2011

cc: **CRANBERRY 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 Cranberry 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.

Our audit scope covered the period May 22, 2009 through May 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 CASD encompasses approximately 71 square miles. According to 2000 federal census data, it serves a resident population of 7,014. According to District officials, in school year 2009-10 the CASD provided basic educational services to 1,169 pupils through the employment of 112 teachers, 73 full-time and part-time support personnel, and 7 administrators. Lastly, the CASD received more than \$9.3 million in state funding in school year 2009-10.

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 three compliance-related matters reported as findings.

Finding No. 1: Errors in Reporting Pupil Membership Data and Internal Control Weaknesses and Lack of Documentation Regarding Verification of Student Existence and Residency. CASD personnel incorrectly reported pupil membership data to Department of Education. We also found internal control weaknesses and lack of supporting documentation to verify student existence and residency (see page 6).

Finding No. 2: Certification Deficiency. Our audit of professional employees' certification for the 2010-11 and 2009-10 school years found an employee was assigned to a professional position without holding proper certification (see page 9).

Finding No. 3: Reporting Errors, Internal Control Weaknesses and Lack of Documentation Regarding Verification of Social Security and Medicare Reimbursements. Errors in the reported Social Security and Medicare data resulted in an underpayment. In addition, we found internal control weaknesses and failure to retain certain supporting documentation (see page 11).

Status of Prior Audit Findings and Observations. There were no findings or observations in our prior audit report.



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 May 22, 2009 through May 5, 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 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?
- ✓ 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?

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, observations and conclusions based on our audit objectives.

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.

Findings and Observations

Finding No. 1

Errors in Reporting Pupil Membership Data and Internal Control Weaknesses and Lack of Documentation Regarding Verification of Student Existence and Residency

Criteria relevant to the finding:

Membership data must be reported in accordance with DE guidelines and instructions to ensure that the correct subsidies and reimbursements are received.

DE provides regulations and guidelines governing the classification of nonresident children placed in private homes by the court.

Section 2503(c) of the Public School Code (PSC) provides, in pertinent part:

Each school district, regardless of classification, which accepts any non-resident child in its school under the provisions of section one thousand three hundred five or section one thousand three hundred six of the act to which this is an amendment, shall be paid by the Commonwealth an amount equal to the tuition charge per elementary pupil or the tuition charge per high school pupil. . . .

Our audit of the Cranberry Area School District (CASD) pupil membership records and reports submitted to the Department of Education (DE) for the 2009-10 and 2008-09 school years found that District personnel incorrectly reported pupil membership data. We also found internal control weaknesses and lack of supporting documentation to verify student existence and residency.

The objective of our audit was to determine the accuracy of membership days for students educated at CASD and to identify whether these students were residents or nonresidents of the District.

However, before being able to verify the accuracy of the membership days reported and the proper classification of the District's students educated, the auditors must determine the reliability of the source documentation the District used to generate pupil membership reports. Available source documentation includes student permanent record information, birth certificates, utility bill duplicates, and/or any other reasonable proof of residency.

A student is considered a resident student of the District in which his/her custodial parents, pre-adoptive parents, or guardian reside. A student is considered a nonresident when he/she attends a District in which he/she has no claim of residency.

DE requires school districts to report resident and nonresident membership separately on DE membership reports, because various Commonwealth subsidies and reimbursements received by the school districts are determined in part by these categories.

Pupil Membership Reporting Errors

Our audit found two elementary students reported as residents when they were nonresident children placed in private homes. The District had the proper placement paperwork on file but failed to properly classify the students. As a result, membership for elementary nonresident children placed in private homes was understated by 354 days in 2009-10 and by 360 days in 2008-09.

The District was able to submit changes for the 2009-10 school year's child accounting to DE. The changes were submitted by the District to DE on April 7, 2011. Therefore the potential underpayment of \$18,634 in Commonwealth-paid tuition for children placed in private homes found by our audit for that year will have been corrected before DE's payment to the District is made. We have provided DE with reports detailing the errors for the 2008-09 school year for use in revising the District's reimbursement. The error for the 2008-09 school year resulted in an underpayment of \$16,700.

The membership reporting errors were caused by District personnel incorrectly identifying children placed in private homes as residents of the District.

Existence and Residency Verification

In addition, the auditors reviewed 97 permanent student records for the 2008-09 school year and found the following internal control weaknesses:

- Verification of residency could not be confirmed for 97 students.
- Birth certificates for 34 students were not on file at the District.
- Entry/withdrawal dates could not be verified for 10 students.
- Verification of legal guardianship was not on file for three students.
- An enrollment form was not on file for one student.

The lack of supporting documentation was a result of District personnel's failure to obtain and retain appropriate legal documentation to verify the existence, guardianship and residency of the students.

By failing to require all parents or guardians who are enrolling the students in the District to show appropriate evidence of residency, the District could be providing education to a nonresident student at no cost.

Recommendations

The *Cranberry Area School District* should:

1. Strengthen controls to ensure adherence to DE regulations when reporting nonresident students.
2. Obtain and retain appropriate legal documentation to verify the existence, guardianship and residency of all students enrolled within the District.

The *Department of Education* should:

3. Adjust the District's allocations to resolve the underpayments of \$35,334.

Management Response

Management stated the following:

The District will implement adequate procedures across the District to avoid future issues.

Finding No. 2

Criteria relevant to the finding:

Section 1202 of the PSC provides, in part:

No teacher shall teach, in any public school, any branch which he has not been properly certified to teach.

Section 1212 of the PSC provides, in part:

Every district superintendent shall keep an accurate record of valid certificates held by teachers of the school within his jurisdiction.

Section 2518 of the PSC provides, in part:

[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio.

Certification Deficiency

Our audit of professional employees' certification for the 2010-11 and 2009-10 school years found an employee was assigned to a professional position without holding proper certification.

Information pertaining to the deficiency was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), DE, for its review. On March 28, 2011, BSLTQ determined the individual was not properly certified. The District is therefore subject to subsidy forfeitures for the 2010-11 and 2009-10 school years. The subsidy forfeiture for the 2009-10 school year is \$2,264. The 2010-11 school year forfeiture could not be calculated because the applicable aid ratio was not available at the time of audit.

The deficiency occurred because the District was not aware this position required specific certification.

Due to lack of internal control over the tracking of teacher certification, additional errors were noted:

- One teacher was listed as teaching English as a Second Language; however, upon inquiry the District claimed that was a mistake;
- One teacher was not listed on the Professional Personal Listing;
- Two teachers' professional certificates were not on file at the District;
- The certification book was not up-to-date; and
- There was a lack of tracking prior work experience for teachers with temporary certifications.

Recommendations

The *Cranberry Area School District* should:

1. Require professional employees to obtain proper Pennsylvania certification prior to being hired.

2. Implement internal controls to ensure appropriate tracking of all employees.

The *Department of Education* should:

3. Recover the appropriate subsidy forfeitures.

Management Response

Management waived the right to reply to the finding at the time of our audit.

Finding No. 3



Criteria relevant to the finding:

Local education agencies (LEA's) are 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 are required to pay the full amount of the employer's tax due, including the Commonwealth's matching share, which is 50 percent of the employer's share of tax due for employees employed by the LEA prior to July 1, 1994, (existing employees). For employees who have never been employed by an LEA prior to July 1, 1994 (new employees), the Commonwealth's matching share is based on the LEA's aid ratio or 50 percent of the employer's share of tax due, whichever is greater. LEAs are subsequently reimbursed the Commonwealth's matching share based on wages reported to DE services, excluding wages paid with the federal funds. greater.

Reporting Errors, Internal Control Weaknesses and Lack of Documentation Regarding Verification of Social Security and Medicare Reimbursements

Our audit of CASD's Social Security and Medicare wages reported to DE for reimbursements received during the 2009-10 and 2008-09 school years found a lack of internal control procedures in the District's business office. District personnel were unable to provide supporting documentation relating to the identification, reporting, reconciliation and verification of actual wages and benefits for the 2008-09 school year. Therefore, we were unable to verify the District's state reimbursement of \$323,933. The District was able to provide documentation to verify the \$325,698 reimbursement for the 2009-10 school year; however, reporting errors were found.

Control Weaknesses and Lack of Documentation

Our attempt to verify the accuracy of the wages and benefits reported by the District found numerous changes were made to the Social Security and Medicare wages and no supporting documentation for the wages reported was retained for audit. The District discovered numerous employees were incorrectly classified for "new" and "existing" employees and federally paid employees. The District began to make corrections, but failed to keep track of the corrections made. Therefore, the wages reported do not match the backup documentation for the 2008-09 school year.

We were unable to verify all the changes made in the 2008-09 school year to verify the \$323,933 reimbursement received by the District.

Reporting Errors

Documentation was available for the corrections made in the wages reported for the 2009-10 school year; however, we found errors in the wages reported, which resulted in an underpayment of \$7,449.

The 2009-10 errors and underpayments were as follows:

<u>Wages Subject to State Reimbursement</u>			<u>Reimbursement Rate</u>	<u>Reimbursement Underpayment</u>
<u>Audited</u>	<u>Reported</u>	<u>Understated</u>		
\$3,101,811	\$3,070,834	\$ 30,977 (SE)	0.0620 x 0.5000	\$ 960
3,102,853	3,071,876	30,977 (ME)	0.0145 x 0.5000	225
4,487,611	4,356,554	131,057 (SN)	0.0620 x 0.6248	5,077
4,487,611	4,356,554	131,057 (MN)	0.0145 x 0.6248	<u>1,187</u>
Total Reimbursement Underpayment				<u>\$7,449</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				

District personnel stated that during the audit period CASD had three different employees in the District's business office payroll department, which resulted in the record retention and reporting errors.

Recommendations

The *Cranberry Area School District* should:

1. Require business office personnel to perform an internal review to ensure the accuracy of the wages reported, and retain supporting documentation of the actual reportable wages.
2. Perform an internal review of reports submitted in school years subsequent to our current audit period for the accuracy of wages reported, and resubmit if necessary.

The *Department of Education* should:

3. Review the propriety of the reimbursement received for the 2008-09 school year.
4. Adjust the District's allocations to resolve the 2009-10 school year underpayment of \$7,449.

Management Response

Management stated the following:

The District was able to correct the issues in question with the current staff members. The District was operating with substitute staffing during the years of audit due to an extended illness in the payroll department.

Status of Prior Audit Findings and Observations

Our prior audit of the Cranberry Area School District resulted in no findings or observations.

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:

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

The Honorable Ronald J. Tomalis
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. Nichole Duffy
Director, Bureau of Budget and Fiscal
Management
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

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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.

