

EAST PENNSBORO AREA SCHOOL DISTRICT
CUMBERLAND COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 2010

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Dennis L. Helm, Board President
East Pennsboro Area School District
890 Valley Street
Enola, Pennsylvania 17025

Dear Governor Rendell and Mr. Helm:

We conducted a performance audit of the East Pennsboro Area School District (EPASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 23, 2006 through August 28, 2009, 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, 2007, 2006 and 2005. 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 EPASD complied, in all significant respects, with applicable state laws, regulations, 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 EPASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve EPASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the EPASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

June 17, 2010

JACK WAGNER
Auditor General

cc: **EAST PENNSBORO 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 East Pennsboro Area School District (EPASD). 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 EPASD in response to our prior audit recommendations.

Our audit scope covered the period March 23, 2006 through August 28, 2009, 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, 2006-07, 2005-06 and 2004-05.

District Background

The EPASD encompasses approximately 12 square miles. According to 2000 federal census data, it serves a resident population of 18,254. According to District officials, in school year 2007-08 the EPASD provided basic educational services to 2,901 pupils through the employment of 217 teachers, 129 full-time and part-time support personnel, and 15 administrators. Lastly, the EPASD received more than \$8.6 million in state funding in school year 2007-08.

Audit Conclusion and Results

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

Finding 1: Inaccurate Reporting of Membership Days Resulted in a Net Subsidy and Reimbursement

Underpayment of \$55,536. Our audit of documentation supporting pupil membership reports submitted to the Department of Education for the 2007-08, 2006-07, 2005-06 and 2004-05 school years found errors in resident and nonresident membership data. The errors resulted in a net underpayment of \$55,536 (see page 6).

Finding 2: Internal Control Weaknesses Regarding Memorandum of Understanding

Our audit of the EPASD's records found that the Memorandum of Understanding between the EPASD and its local law enforcement agency was last updated in September 2004 (see page 10).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the EPASD from an audit we conducted of the 2003-04, 2002-03, 2001-02 and 2000-01 school years, we found the EPASD did take appropriate corrective action in implementing our recommendations pertaining to inadequate documentation to support pupil membership data (see page 12), the failure to submit reports (see page 13) and partial compliance with tuition

billing (see page 14). However, we found the EPASD did not take appropriate corrective action in implementing our recommendations pertaining to the pupil membership errors (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 March 23, 2006 through August 28, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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 EPASD'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:

- ✓ 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?
- ✓ 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, 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 and conclusions based on our audit objectives.

EPASD 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.

Our audit examined the following:

- Records pertaining to 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 EPASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 19, 2006, we reviewed the EPASD's response to DE dated November 15, 2006. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Inaccurate Reporting of Membership Days Resulted in a Net Subsidy and Reimbursement Underpayment of \$55,536

Criteria relevant to the finding:

Child accounting guidelines and instructions require the accurate reporting of pupil membership days and student classifications, since these are major factors used by DE to calculate various subsidies and reimbursements, including, but not limited to basic education funding (BEF), special education subsidy, and tuition for children placed in private homes.

Our audit of documentation supporting pupil membership reports submitted to the Department of Education (DE) for the 2007-08, 2006-07, 2005-06 and 2004-05 school years found errors in resident and nonresident membership data for all four years. The errors resulted in a net underpayment of \$55,536, detailed for the school years as follows:

<u>Subsidy</u>	<u>(Over)/Underpayments</u>				<u>Totals</u>
	<u>2007-08</u>	<u>2006-07</u>	<u>2005-06</u>	<u>2004-05</u>	
BEF	\$ (1,911)	\$ (1,368)	\$ (1,283)	\$ (1,007)	\$ (5,569)
Tuition for Children Placed in Private Homes	<u>23,255</u>	<u>14,609</u>	<u>8,546</u>	<u>14,695</u>	<u>61,105</u>
Totals	<u>\$21,344</u>	<u>\$13,241</u>	<u>\$ 7,263</u>	<u>\$13,688</u>	<u>\$55,536</u>

The failure to reconcile data reported on the District's detail membership data to supporting documentation, clerical errors when reporting intermediate unit membership, and a misunderstanding of the District's child accounting software nonresident classification codes for children placed in private homes resulted in the following errors:

1. Incorrectly reporting full-time kindergarten, elementary and secondary nonresident children placed in private homes as residents.
2. Incorrectly reporting one elementary student during the 2004-05 school year as a nonresident child placed in a private home when she was a nonresident parent-paid tuition student for part of the school year and a tuition-waived student for the other part of the school

year.

3. Incorrectly subtracting kindergarten resident membership days from the elementary resident days for students who were educated by the Capital Area Intermediate Unit #15 for the 2006-07, 2005-06 and 2004-05 school years.

Resident

The resident membership errors resulted in the following membership day (over)/understatements for the following school years:

<u>Classification</u>	<u>2007-08</u>	<u>(Over)/Understatements</u>		
		<u>2006-07</u>	<u>2005-06</u>	<u>2004-05</u>
Kindergarten	(296)	(179)	-	-
Elementary	(278)	91	200	89
Secondary	-	(180)	(73)	(360)

Nonresident

The nonresident membership errors resulted in the following membership day (over)/understatements for the following school years:

<u>Classification</u>	<u>2007-08</u>	<u>(Over)/Understatements</u>		
		<u>2006-07</u>	<u>2005-06</u>	<u>2004-05</u>
Children Placed in Private Homes:				
Kindergarten	296	179	-	-
Elementary	278	-	143	23
Secondary	-	180	73	360
Tuition-Waiver:				
Elementary	132	-	-	31
Secondary	66	-	-	-
District-Paid Tuition:				
Elementary	(132)	-	-	-
Secondary	(66)	-	-	-
Parent-Paid Tuition:				
Elementary	-	-	-	35

These errors in resident and nonresident membership resulted in the net underpayment of \$55,536 for subsidies and reimbursements.

Recommendations

The *East Pennsboro Area School District* should:

1. Perform a final reconciliation of nonresident membership by classification to nonresident membership reported to DE, and ensure the appropriate supporting documentation is obtained and retained for audit verification.
2. Establish review procedures to ensure the accuracy of membership for students educated by the Capital Area Intermediate Unit #15 prior to submission to DE.
3. Perform a final reconciliation of final detailed membership reports to ensure agreement with membership reports to be submitted to DE.
4. Contact DE for guidance regarding any questionable issues prior to reporting end-of-year child accounting data.
5. Review reports for years subsequent to the audit, and if errors are found, submit revisions to DE.

The *Department of Education* should:

6. Resolve the \$55,536 net underpayment.

Management Response

Management stated the following:

The District, working closely with the state auditors, acknowledges certain students were not identified properly. The District recognizes deficiencies in that area. The District, at the recommendation of the previous state audit, implemented centralized student accounting. At the same time the Director of Pupil Services developed procedures to standardize the student account[ing] process, incorporating the new centralized process with the processes in place within each building. New student accounting software was purchased to assist in the process. What appears to be the initial cause of the current findings are the apparent lack of clear communications between central office and the schools. As a result of the latest audit findings, the District

will review the existing processes and prepare a corrective action plan to address those issues.

Finding No. 2 →

Internal Control Weaknesses Regarding Memorandum of Understanding

Criteria relevant to the finding:

Section 1303-A(c) of the Public School Code provides:

All school entities shall develop a memorandum of understanding with local law enforcement which sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

The District's MOU with the East Pennsboro Police Department at section VI, B states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter (emphasis added).

Our review of the District's records found that the Memorandum of Understanding (MOU) between the District and its local law enforcement agency, East Pennsboro Police Department, was last signed September 24, 2004. Because the District was not aware of the provision requiring re-execution of the MOU at least every two years, they had not updated the MOU since September 24, 2004.

The failure to update the MOU with the local law enforcement agency could result in a lack of cooperation, direction, and guidance between District employees and the law enforcement agency if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

Recommendations

The *East Pennsboro Area School District* should:

1. Review, update and re-execute the current MOU between the District and the East Pennsboro Police Department.
2. Follow the General Provisions of the District's MOU which states that the MOU must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.
3. Adopt a policy requiring the administration to review and re-execute the MOU every two years as stated in the current MOU.

Management Response

Management stated the following:

The district is currently taking steps to begin discussions with the East Pennsboro Township Police Department to have the Memorandum of Understanding reviewed and re-executed.

Status of Prior Audit Findings and Observations

Our prior audit of the East Pennsboro Area School District (EPASD) for the school years 2003-04, 2002-03, 2001-02 and 2000-01 resulted in four reported 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 recommendations. We analyzed the EPASD 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 EPASD implemented recommendations for two findings, partially implemented recommendations for one finding, and did not implement recommendations for one finding.

<i>School Years 2003-04, 2002-03, 2001-02 and 2000-01 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Inadequate Documentation to Support Pupil Membership Data</i></u></p> <ol style="list-style-type: none"> Develop and implement procedures to ensure supporting documentation for child accounting data reported to DE is available for audit. Establish procedures for the child accounting function. 	<p>Background:</p> <p>Our prior audit of child accounting records for the school years of audit found that the District did not retain documentation to support membership data reported to DE for the 2003-04, 2002-03, 2001-02 and 2000-01 school years.</p> <p>District personnel were unable to provide detailed reports to support membership days reported to DE for kindergarten through 12th grade and for the days part-time area vocational-technical school students were in District classes. Moreover, District personnel were unable to determine where the documentation used to generate the reported data was stored.</p>	<p>Current Status:</p> <p>Our current audit found that District personnel were able to produce detailed membership reports for all four audit years; however, insignificant variances were found with the 2004-05 school year.</p> <p>District personnel established a child accounting procedural manual at the end of the 2005-06 school year which is updated annually.</p>
<p><u><i>II. Finding No. 2: Pupil Membership Errors Resulted in a Net Overpayment</i></u></p> <ol style="list-style-type: none"> Establish review procedures to help ensure all students enrolled in District classes are correctly reported to DE. Ensure intermediate unit (IU) membership is correctly reported to DE. 	<p>Background:</p> <p>Our prior audit of pupil membership found errors in the 2000-01 data reported to DE. As a result, basic education funding was overpaid \$31,688, special education subsidy was overpaid \$7,546, and tuition for children placed in private homes was overpaid \$5,984, for a total of \$45,218.</p>	<p>Current Status:</p> <p>Our current audit again found errors in the reporting of resident and nonresident membership for all four audit years as detailed in Finding No. 1 of this report (see page 6).</p> <p>Therefore, we concluded that the District did not take corrective action to address all of our recommendations.</p>

<p>3. Establish procedures to ensure nonresident students were correctly classified and accurately reported to DE.</p> <p>4. Establish procedures to reconcile membership data provided by the Cumberland-Perry Area Vocational-Technical School (AVTS) to District-generated membership records and resolve any discrepancies prior to submitting reports to DE.</p> <p>5. Review reports for years subsequent to the current audit; if errors are noted, revised reports should be submitted to DE.</p> <p>6. DE should adjust the District's allocations to resolve the \$45,218 overpayment of subsidies and reimbursements.</p>		<p>However, District personnel were able to document that a reconciliation procedure was established beginning with the 2004-05 school year to ensure membership data provided by the AVTS was in agreement with District-generated membership reports. Therefore, we concluded that the District did take corrective action to address our recommendation No. 4.</p> <p>Based on additional data, the overpayment for basic education funding was adjusted by DE to \$25,858 and recovered by DE as of June 1, 2008. The overpayment of tuition for children placed in private homes of \$5,984 was recovered by DE on August 30, 2007. However, the special education subsidy has not been recovered by DE. Therefore, we again recommend that DE recover the overpayment of \$7,546 of special education subsidy.</p>
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<p><u>III. Finding No. 3: Failure to Submit Reports Resulted in a Loss of Funding</u></p> <p>1. Implement internal control procedures that would ensure all grant requirements were complied with in a timely manner.</p>	<p>Background:</p> <p>Our prior audit of the 2000-01 school year Alternative Education for Disruptive Youth Program found the District failed to submit an application by the April 28, 2000 deadline. The effect was a \$40,148 loss of entitlement to the Alternative Education Grant.</p>	<p>Current Status:</p> <p>Our current audit found the District operated an alternative education program for the 2004-05 school year; it applied for and received funding in a timely manner.</p> <p>Therefore, we determined that the District did take appropriate corrective action</p> <p>Beginning with the 2005-06 school year, the District no longer operated the alternative education program.</p>
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<p><u><i>IV. Finding No. 4: Tuition Billing Errors</i></u></p> <ol style="list-style-type: none"> 1. Implement procedures to ensure all tuition is correctly billed in the future. 2. Send supplemental billings to the districts noted in the finding to collect the tuition due the District. 3. Review membership and tuition invoices for years subsequent to the years audited, and if similar errors occurred submit revised reports and invoices as necessary. 	<p>Background:</p> <p>Our prior audit found that during the 2003-04, 2002-03, 2001-02 and 2000-01 school years the District provided regular education to nonresident students attending IU classes at the East Pennsboro Elementary School. Our audit of the tuition billings for these four school years found that the District failed to bill districts of residence for students educated during all four years, in the amount of \$19,748.</p>	<p>Current Status:</p> <p>Our current audit found that District personnel submitted invoices in March 2006 for the outstanding tuition identified in our prior audit in the amount of \$13,549, and received the payments accordingly. The remaining \$6,199 was for a 2000-01 parent-paid tuition student for whom the District obtained additional information subsequent to our prior audit confirming the student was actually a resident and not a parent-paid tuition student.</p> <p>Additionally, our current audit found tuition billing for the 2006-07 school year was billed and received in a timely manner.</p> <p>We also found that District personnel failed to bill and collect the outstanding tuition for IU nonresident students educated in District classes for the 2005-06 and 2004-05 school years. However, the unbilled tuition was insignificant.</p> <p>Therefore, we determined that the District took partial corrective action. We continue to recommend that the District ensure that it implement procedures to correctly bill tuition in the future.</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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