

EAST STROUDSBURG AREA SCHOOL DISTRICT
MONROE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2012



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER
AUDITOR GENERAL**

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

Mr. William Searfoss, Board President
East Stroudsburg Area School District
50 Vine Street, P.O. Box 298
East Stroudsburg, Pennsylvania 18301

Dear Governor Corbett and Mr. Searfoss:

We conducted a performance audit of the East Stroudsburg Area School District (ESASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period September 4, 2009 through August 6, 2012, 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 ESASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with ESASD's management and their response is included in the audit report. We believe the implementation of our recommendations will improve ESASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the ESASD's cooperation during the conduct of the audit.

Sincerely,

/s/

**JACK WAGNER
Auditor General**

December 31, 2012

cc: **EAST STROUDSBURG 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 Stroudsburg Area School District (ESASD). 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 ESASD in response to our prior audit recommendations.

Our audit scope covered the period September 4, 2009 through August 6, 2012, 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 ESASD encompasses approximately 214 square miles. According to 2010 federal census data it serves a resident population of 47,430. According to District officials, in school year 2009-10 the ESASD provided basic educational services to 8,017 pupils through the employment of 644 teachers, 667 full-time and part-time support personnel, and 46 administrators. Lastly, the ESASD received more than \$30.7 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the ESASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: Errors in Reporting the Number of Nonpublic Students Transported Resulted in a Net Underpayment of \$94,325.

Our audit found that the ESASD transportation reports submitted to the Pennsylvania Department of Education for the 2009-10 and 2008-09 school years were inaccurate. ESASD personnel incorrectly reported their nonpublic students, which resulted in a net underpayment of \$94,325 in subsidies and reimbursements (see page 6).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the ESASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the ESASD had taken appropriate corrective action in implementing our recommendations pertaining to bidding (see page 8) and tuition procedures (see page 9).



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

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 September 4, 2009 through August 6, 2012, except for certification which was performed for the period of July 1, 2011 through April 30, 2012.

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 Pennsylvania Department of Education (PDE) 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 ESASD'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?

- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ 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?
- ✓ In areas where the District receives transportation subsidies, is the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that its current bus drivers are properly qualified, and does it have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does 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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's board members free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, contracts, grant requirements and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

ESASD 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. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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 transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 12, 2011, we reviewed the ESASD's response to PDE dated November 9, 2011. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Errors in Reporting the Number of Nonpublic Students Transported Resulted in a Net Underpayment of \$94,325

Public School Code sections and criteria relevant to the finding:

Section 2541 provides, for payment of pupil transportation.

Section 2509.3 states, in part:

For the school year 2001-02 and each school year thereafter, each school district shall be paid the sum of \$385 for each nonpublic school pupil transported.

Public and nonpublic pupil tabulation is an integral part of the transportation reimbursement formula. Pupil counts should be reported accurately, in accordance with PDE guidelines and instructions, to ensure the district receives proper reimbursement.

Our audit found that the East Stroudsburg Area School District's (ESASD) transportation reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years were inaccurate. ESASD personnel incorrectly reported their nonpublic students, which resulted in a net underpayment of \$94,325 in subsidies and reimbursements.

ESASD personnel overstated the number of nonpublic students it transported by 21 in the 2009-10 school year and understated the number by 266 in the 2008-09 school year, resulting in an overpayment of \$8,085 and an underpayment of \$102,410, respectively.

ESASD did not have proper internal controls over their transportation reporting process. Individuals responsible for preparing and reporting this data did not verify its accuracy prior to submission to PDE. They also did not review the preliminary reports received from PDE to make the needed adjustments prior to final submission.

Recommendations

The East Stroudsburg Area School District should:

1. Institute a system of review that would help ensure reports sent to PDE are accurate.
2. Review subsequent year reports and if errors are found, submit revised reports to PDE.

The Pennsylvania Department of Education should:

3. Adjust the ESASD's allocations to recover the net underpayment of \$94,325.

Management Response

Management stated the following:

Although the eTran System does not generate an Accuracy Certification Statement (ACS) similar to those created and required by the Pennsylvania Information Management System (PIMS), beginning with the submission of the 2011-2012 eTran report, an Accuracy Certification Statement will be furnished to the Transportation Director, Data Contact Person, and IT Contact Person to certify that the information given in the data file and summarized on the reports (PDE-1049, PDE 2089) are correct and true to the best of their knowledge and were prepared in accordance with the applicable reporting requirements.

Additionally, the Director of Transportation and Business Manager will continue to be provided with a copy of both the Preliminary/Final Summary of Pupil Transportation Subsidy (PDE-2576) reports, as applicable.

Status of Prior Audit Findings and Observations

Our prior audit of the East Stroudsburg Area School District (ESASD) for the school years 2007-08 and 2006-07 resulted in two matters reported as findings. The first finding pertained to the school district not following proper bidding procedures and the second pertains to tuition billing internal control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the ESASD Superintendent's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the ESASD did implement recommendations related to bidding and tuition procedures.

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

Finding No. 1: School District Did Not Follow Proper Bidding Procedures

Finding Summary: Our prior audit of ESASD's records found that the board and administration did not adhere to the provisions stated in Sections 807.1 (a) and 751 (a) of the Public School Code (PSC) pertaining to bidding requirements. Furthermore, ESASD did not adhere to their Board Policy #610, which requires that supplies in excess of \$15,200 be purchased only after advertisement for bids.

Recommendations: Our audit finding recommended that the ESASD:

1. Enter into a formal written contract to protect the interest of ESASD when purchasing new buses.
2. Develop bid specifications for school buses and other purchases, required to be advertised. All prospective vendors may then compete for the opportunity to provide new buses or other products and services, possibly offering substantial savings to ESASD and its taxpayers.
3. Ensure that administrators involved in purchasing decisions require purchasing project interaction with personnel who are knowledgeable of purchasing regulations and board policies.
4. Adhere to Sections 807.1(a) and 751(a) of the PSC and Board Policy #610, when making purchases in excess of \$15,200.

Current Status: During our current audit procedures we found that the ESASD did implement all of the above recommendations. ESASD entered into a formal written contract, when purchasing new buses. New contracts have been executed, and board approved, for all school years, since this report was released. ESASD developed bid specifications for school buses and other purchases, that were required to be advertised, giving vendors the chance to compete for the opportunity to provide products and services, while offering savings to the taxpayers. All purchases, since the prior audit, that required advertisement and/or board approval, were done so in the proper fashion. ESASD solicited bids for their busing services and purchased computer related items through State Contracts and Purchasing Consortiums. Lastly, ESASD administrators and personnel, involved in purchasing decisions, displayed knowledge of purchasing regulations, found within the PSC and in their board policies. They adhered to Sections 807.1(a) and 751(a) of the PSC and Board Policy #610, by following proper bidding and price quotation procedures, when purchasing products and services.

Finding No. 2: Tuition Billing Internal Control Weaknesses

Finding Summary: Our prior audit of the ESASD's pupil membership reports, submitted to PDE, and tuition records for the 2007-08 and 2006-07 school years found tuition billing internal control weaknesses as follows:

- Failure to monitor billing/collection of tuition;
- Failure to have a board approved contract;
- Failure to provide a breakdown of costs per day per student; and
- Failure to reconcile invoices.

Recommendations: Our audit finding recommended that the ESASD:

1. Determine whether they are owed any money by Shawnee Academy (SA), and if so, take whatever steps are necessary to collect it.
2. Implement control procedures between the child accounting and business office functions that would provide assurance that tuition paid to SA is properly billed and collected.
3. Verify that invoices received from SA for payments are properly billed reflecting actual membership and correct classification of regular or special education.

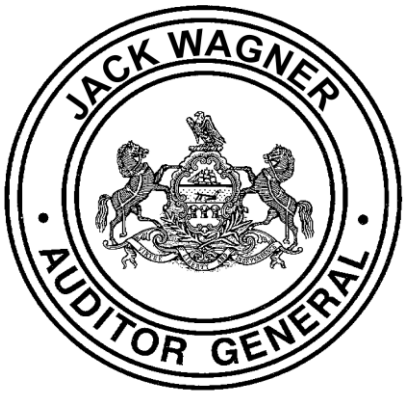
4. Develop a system for retaining all documentation from districts of residence paid tuition and file it by districts of residence and then by student for reconciliation purposes.
5. Review records for years subsequent to the 2007-08 and 2006-07 school years, and if necessary, bill the sending districts of residence for uncollected tuition.
6. Obtain acknowledgement or disclaimer forms signed by districts of residence's board secretary declaring residence of the child.
7. Require that SA issue invoices for actual membership days.
8. If SA invoices to districts of residence are based on prior year's tuition rates, then reconciliation should occur when PDE issues actual rates at the end of the year.
9. Administration should review and compile the contract for each school year, and then acquire board approval.
10. Promptly send invoices to districts of residence and PDE to ensure reconciliation of students records for payments made to SA.
11. Obtain from SA a breakdown of costs per day per student.

Current Status:

During our current audit procedures we found that the ESASD is not owed any money from SA. Control procedures were implemented between child accounting and the business office; invoices were received and verified from SA to assure payments were properly billed and reflected actual membership and correct classification of regular and special education students and all documentation from districts of residence was retained and filed by student for reconciliation purposes. The District reviewed records for subsequent years and found they were owed \$19,000 from SA from the previous years and SA disagreed. The District then withheld this amount from an invoice they sent to SA. The district of residence would not pay the invoice due to lack of documentation from SA. SA provided the proper documentation and the district of residence paid the invoice and ESASD then paid the \$19,000 to SA; however we obtained documentation showing that ESASD owes SA \$15,899 for the 10-11 sy and has not paid this amount due to lack of the proper documentation from SA. During our review of students attending SA, we found that acknowledgement and disclaimer forms were available for our review and all invoices from SA reflected the actual membership days because ESASD no longer prepays invoices to SA. The final contract with SA

stated what the per diem fees would be; therefore, invoices to districts of residence were based on these rates and not on prior year tuition rates.

ESASD did have a contract with SA effective July 1, 2010 and this was the final contract with SA. Business Manager said the District would not sign and approve this contract due to the 60 day turnaround restriction of billing the districts and paying SA within this time. She said they had too many problems when the district of residence would dispute the amounts charged by SA. She wanted ESASD to pay SA when the district of residence submitted payments, but SA would not agree. Therefore, she stated they would pay SA as soon as the districts of residence paid ESASD. There are still outstanding payments due to SA and ESASD will not pay these invoices until the districts of residence make restitution. Finally we could not obtain a breakdown of costs per day per student charged by SA. The school is now closed and the District did not obtain this information.



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.

