



**FRAZIER SCHOOL DISTRICT
FAYETTE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JUNE 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

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

Mr. Thomas Shetterly, Board President
Frazier School District
142 Constitution Street
Perryopolis, Pennsylvania 15473

Dear Governor Corbett and Mr. Shetterly:

We conducted a performance audit of the Frazier School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period April 23, 2010 through October 18, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies 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 significant noncompliance with state laws and administrative procedures, as detailed in the three audit findings and one observation within this report. A summary of these results is presented in the Executive Summary section of the audit report. These findings and observations include recommendations aimed at the District and a number of different government entities, including the Pennsylvania Department of Education and the Public School Employees' Retirement System.

Our audit findings, observation, and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements. We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

/s/

EUGENE A. DePASQUALE
Auditor General

June 25, 2013

cc: **FRAZIER SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Frazier School District (District). 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 District in response to our prior audit recommendations.

Our audit scope covered the period April 23, 2010 through October 18, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 83 square miles. According to 2010 federal census data it serves a resident population of 8,015. According to District officials, the District provided basic educational services to 1,249 pupils through the employment of 87 teachers, 25 full-time and part-time support personnel, and 9 administrators during the 2009-10 school year. Lastly, the District received \$9,052,923 in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found significant noncompliance with applicable state laws, contracts, grant requirements, and administrative procedures, as detailed in three audit findings and one observation within this report.

Finding No. 1: Errors in Reporting Nonresident Pupil Membership Resulted in a \$27,993 Tuition Underpayment. Our audit of the Frazier School District's nonresident pupil membership for the 2009-10 school year found discrepancies in the reports it submitted to the Pennsylvania Department of Education. These errors resulted in a reimbursement underpayment of \$27,993 (see page 6).

Finding No. 2: Memorandum of Understanding Not Updated Timely. Our audit of the Frazier School District's (District) records found that its existing Memorandum of Understanding with local law enforcement agencies had been signed on March 23, 2010, and had not been updated (see page 8).

Finding No. 3: Possible Violation of the Retirement Code. On March 24, 2011, the Frazier School District approved an agreement with its former Superintendent to serve as Acting Superintendent at a salary of \$110,000 per year. His return to service may have violated the Public School Employees' Retirement Code (see page 10).

Observation: The District Lacks Sufficient Internal Controls Over Its Student Data. Our review of the Frazier School District's data integrity controls over student data reporting to the Pennsylvania Department of Education through the Pennsylvania Information Management System, found that the District's internal controls need to be improved (see page 12).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the District from an audit released on January 4, 2011, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to a certification deficiency (see page 14).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania 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 Pennsylvania 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 April 23, 2010 through October 18, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011 through June 30, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 school years.

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 District'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 received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ 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 did 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?
- ✓ Did the District take 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 of School Directors free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

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

The District's 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. In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives 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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 4, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1 →

Criteria relevant to the finding:

Section 2503 of the Public School Code, P.S. 24 § 25-2503, provides for Commonwealth payment of tuition for children placed in private homes.

The Pennsylvania Information Management System manual of reporting provides guidelines for the reporting of all residency classifications.

Errors in Reporting Nonresident Pupil Membership Resulted in a \$27,993 Tuition Underpayment

The Pennsylvania Department of Education (PDE) uses data submitted by school districts to the Pennsylvania Information Management System (PIMS) in order to determine each local education agency's state subsidy. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid.

Our audit of the Frazier School District's (District) nonresident pupil membership for the 2009-10 school year found discrepancies in reports submitted to PDE. These errors resulted in an underpayment of \$27,993 in Commonwealth-paid tuition for children placed in private homes (foster children).

For the 2009-10 school year, membership for kindergarten foster children was underreported by 177 days, elementary membership was underreported by 99 days, and secondary membership was underreported by 310 days.

District personnel caused these errors by failing to report correctly the foster children's "District Code of Residence" and "Funding District" to PIMS. Moreover, District personnel responsible for entering student data into the PIMS system were not familiar with the PIMS residency code reporting guidelines.

In the 2009-10 school year the errors described above resulted in an underpayment of \$27,993 in state aid for foster children. In addition, the District could have lost additional aid if it made similar reporting errors in its subsequent PIMS reporting.

Recommendations

The *Frazier School District* should:

1. Review the PIMS manual of reporting for instructions in the proper reporting of nonresident students.

2. Review membership reports submitted to PDE for years subsequent to the audit, and submit revised reports to PDE if similar errors are found.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to correct the underpayment of \$27,993.

Management Response

Management stated the following:

“The District is in the process of reviewing the procedures utilized for data entry in the PIMS system. Due to the level of personnel turnover, it has become necessary to address this issue to ensure that future data is input accurately and that procedures exist to make sure that information is correct and consistent. Furthermore, those individuals entrusted with the maintenance and ultimate oversight of student records will be trained and updated on a regular basis.”

Finding No. 2

Memorandum of Understanding Not Updated Timely

Criteria relevant to the observation:

The Public School Code, 24 P.S. § 13-1303-A(c), as amended November 17, 2010, provides, in part:

“[E]ach chief school administrator shall enter into a memorandum of understanding with police departments having jurisdiction over school property of the school entity. Each chief school administrator shall submit a copy of the memorandum of understanding to the office by June 30, 2011, and biennially update and re-execute a memorandum of understanding with local law enforcement and file such memorandum with the office on a biennial basis.”

The effective date of this amended provision was **February 15, 2011**. The “office” refers to the Office for Safe Schools within the Pennsylvania Department of Education. The term “biennially” means “an event that occurs every two years.”

Our audit found that the Memorandum of Understanding (MOU) between the Frazier School District (District) and its local law enforcement had not been updated since March 23, 2010. The Public School Code requires public schools to update and re-execute MOUs with local law enforcement every two years. It appears this oversight was due to the District’s lack of familiarity with the requirements of the law.

The failure to update MOUs with all pertinent police departments could result in a lack of cooperation, direction, and guidance between District employees and the police departments if an incident occurs on school grounds, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. Non-compliance with the statutory requirement to biennially update and re-execute a MOU could have an impact on police department notification and response, and ultimately, the resolution of a problem situation.

Recommendations

The *Frazier School District* should:

1. In consultation with the District’s solicitor, review, update and re-execute the existing MOU between the District and all the police departments having jurisdiction over school property.
2. In consultation with the District’s solicitor, review new requirements for MOUs and other school safety areas under the Public School Code to ensure compliance with amended Safe Schools provisions enacted November 17, 2010.

3. Adopt an official board policy requiring District administrators to biennially update and re-execute all MOUs with police departments having jurisdiction over school property, and file a copy with the Pennsylvania Department of Education’s Office of Safe Schools on a biennial basis, as required by law.

Management Response

Management stated the following:

“The MOU will be placed on the October board agenda for approval. Following the approval of the Board, the necessary signatures from the [local law enforcement agencies] will be obtained and forwarded to the Department of Education. As required by law, the MOU will be updated every two years and prior to the July 31st submission of the annual safe schools report.”

Finding No. 3

Possible Violation of the Retirement Code

Criteria relevant to the finding:

The Public School Employees' Retirement Code (Retirement Code), 24 Pa. C.S. § 8346(a), provides that a retiree's annuity ceases effective with the date of any return to school service. 24 Pa. C.S. § 8346 (b), provides, in part:

“When, in the judgment of the employer, an emergency creates an increase in the work load such that there is a serious impairment of service to the public . . . , an annuitant may be returned to school service for a period not to extend beyond the school year during which the emergency or shortage occurs, without loss of his annuity.”

The Public School Employee's Retirement System's (PSERS) Return to Service Guidelines and Clarifications state:

“Initially, the school employer makes the determination that a an Employment Emergency or Personnel Shortage exists and that only a retiree is available to fill the positions. PSERS has the right to review the employment of any retiree for compliance with the intent of the Retirement Code. If the school employer or retiree have any questions as to whether a particular situation will qualify . . . , they may submit to PSERS for review the facts surrounding their determination. PSERS will advise the employer and retiree whether the employment of the retiree complies with the Retirement Code.”

Our audit found that at its November 18, 2010, meeting, the Board of School Directors (Board) for the Frazier School District (District) approved the hiring of a retired former Superintendent as a consultant to assist with a superintendent candidate search. This former Superintendent had originally retired from the District effective August 31, 2005. On March 24, 2011, the Board approved an agreement with this same former Superintendent to serve as the District's Acting Superintendent at a salary of \$110,000 per year. The former Superintendent subsequently resigned from the Acting Superintendent position effective July 29, 2011. During his period of employment as acting superintendent he was paid a total of \$27,077.

During his employment with the District, the former Superintendent continued to receive his retirement annuity. Consequently, his return to service beginning in March 2011 may have violated the Public School Employees' Retirement Code (Retirement Code).

As noted in the box to the left, retirees may return to service while receiving their retirement annuities if the District makes the determination that an employment emergency or personnel shortage exists and that only a retiree is available to fill the position. The Public School Employees' Retirement System (PSERS) has the right to review the employment of any retiree for compliance with the intent of the Retirement Code.

The District did not have any confirmation on file indicating that PSERS reviewed and approved the circumstances surrounding the former Superintendent's return to service. We contacted PSERS on October 4, 2012, and confirmed that no review of the facts related to the District's former Superintendent had occurred. Consequently, we concluded that the District had violated the Retirement Code. The cause of this violation was unclear. However, it appears that the District was not fully aware of the restrictions on hiring annuitants.

Recommendations

The *Frazier School District* should:

1. Follow the Public School Employees' Retirement code by submitting the required documentation to PSERS for its review as to whether an employment company or personnel shortage exists that would necessitate a retiree returning to service.
2. Meet with its solicitor to verify that the administration and the Board fully understand the requirements of the Retirement Code.

The *Public School Employees' Retirement System* should:

3. Review the employment of the retiree for compliance and render an opinion on the appropriateness of the return to service.
4. If annuity payments are determined to be improper, PSERS should make the necessary corrections to pension benefits.

Management Response

Management provided a response agreeing with the finding but made no further comment.

Observation

The District Lacks Sufficient Internal Controls Over Its Student Data

Criteria relevant to the observation:

According to the Pennsylvania Department of Education's (PDE) *2009-10 PIMS User Manual*, all Pennsylvania local education agencies must submit data templates as part of the 2009-10 child accounting data collection. Pennsylvania Information Management System data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code.

In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the *Federal Information Systems Control Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

PDE began calculating the LEA's state subsidy using data that the LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEA's must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Moreover, with a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our review of the Frazier School District's (District) data integrity found that its internal controls needed to be improved. Specifically, our review found that:

1. District personnel in charge of child accounting and PIMS reporting did not print out the required validation reports from their Student Information System (SIS) vendor software after the data was uploaded to PIMS at the end of the 2009-10 school year. Consequently, the District could not reconcile its SIS vendor membership reports with its PIMS reports.
2. Our testing of school calendars found that membership for students was reported based on 177 days in session but the calendar templates reported 176 days in session.
3. The rotation pattern for the home portion of area vocational-technical school membership was not reported. The rotation pattern should have been reported as half-day.

5. The District does not have adequate documented procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.

Recommendations

The *Frazier School District* should:

1. Print out SIS membership reports and PIMS reports after the PIMS upload is completed and perform reconciliations between the District's child accounting software data and the PIMS reports, and retain all documentation for audit purposes.
2. Review calendar fact templates for accuracy to ensure that they reflect the correct days in session and days of enrollment.
3. Reference the PIMS manual of reporting for instructions in the proper reporting of the home portion of Area Vocational-Technical School rotation patterns.
4. Develop documented procedures (e.g. procedure manuals, policies or other written instructions) to ensure continuity over PIMS data submission if District personnel were to leave the District suddenly or otherwise be unable to upload PIMS data to PDE.
5. Review membership reports submitted to PDE for years subsequent to the audit, and submit revised reports to PDE if similar errors are found.

Management Response

Management stated the following:

“As noted previously, the high turnover in personnel and the conversion to a new automated system has caused some issues with regard to accurate child accounting practices. In order to address this, new procedures will be implemented in order to ensure accurate and consistent input into the system. An administrator will be appointed to review all enrollments, withdrawals, and changes made in the child accounting system in order to double-check the input and ensure the accuracy. As a result of the audit findings, the District will review for accuracy all of the areas addressed in the observation and will correct as necessary.”

Status of Prior Audit Findings and Observations

Our prior audit of the Frazier School District (District) released on January 4, 2011, resulted in one reported finding. The finding pertained to a certification deficiency. 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 interviewed District personnel regarding the prior finding. As shown below, we found that the District did implement recommendations related to the certification deficiency.

Auditor General Performance Audit Report Released on January 4, 2011

Finding: **Certification Deficiency**

Finding Summary: Our prior audit of the District found that certificates and assignments of professional personnel for the period July 1, 2009 through March 31, 2010, found that one teacher was assigned to teach one course for which she was not certified. The resulting subsidy forfeiture could not be calculated because the aid ratio necessary for the calculation was not yet available at the time of our prior audit.

Recommendations: Our audit finding recommended that the District:

Review the course objective and content with the Pennsylvania Department of Education’s Bureau of School Leadership and Teacher Quality to determine the proper certification.

Our finding also recommended that PDE:

Adjust the District’s allocations to recover the appropriate subsidy forfeiture.

Current Status: During our current audit, we found that the course in question is no longer offered by the District. No additional certification deficiencies were found during our current audit.

PDE withheld \$227 from the District’s June 2011 basic education funding payment to assess the subsidy forfeiture.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditor.gen.state.pa.us, and the following stakeholders:

The Honorable Tom Corbett
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This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, Pennsylvania 17120; via email to: news@auditorgen.state.pa.us.

