

JERSEY SHORE AREA SCHOOL DISTRICT
LYCOMING COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Mr. Craig M. Allen, Board President
Jersey Shore Area School District
175 A&P Drive
Jersey Shore, Pennsylvania 17740

Dear Governor Rendell and Mr. Allen:

We conducted a performance audit of the Jersey Shore Area School District (JSASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period August 2, 2007 through August 18, 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 and June 30, 2007. 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 JSASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 29, 2010

cc: **JERSEY SHORE 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 Jersey Shore Area School District (JSASD). 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 JSASD in response to our prior audit recommendations.

Our audit scope covered the period August 2, 2007 through August 18, 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 and 2006-07.

District Background

The JSASD encompasses approximately 385 square miles. According to 2000 federal census data, it serves a resident population of 19,807. According to District officials, in school year 2007-08 the JSASD provided basic educational services to 2,805 pupils through the employment of 213 teachers, 53 full-time and part-time support personnel, and 15 administrators. Lastly, the JSASD received more than \$18.3 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the JSASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

Finding: Continued Transportation Reporting Errors Resulted in Overpayments of Reimbursement.

The JSASD overreported the number of nonpublic pupils transported by 6 for the 2006-07 school year, resulting in an overpayment of \$2,310. Moreover, the JSASD overreported the number of nonpublic pupils transported by 52 for the 2007-08 school year, resulting in an overpayment of \$20,020 (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the JSASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the JSASD did not take appropriate corrective action in implementing our recommendations pertaining to transportation (see page 9). However, we found the JSASD did take appropriate corrective action in implementing our recommendations pertaining to their Memorandum of Understanding (see page 8).



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 August 2, 2007 through August 18, 2009.

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

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 JSASD'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?
- ✓ 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 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 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.

JSASD 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 and pupil transportation.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications and financial stability.

- Items such as Board meeting minutes and pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 25, 2008, we reviewed the JSASD's response to DE dated July 28, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Continued Transportation Reporting Errors Resulted in Overpayments of Reimbursement

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 DE guidelines and instructions, to ensure the district receives proper reimbursement.

An additional reimbursement of \$385 for each non public and charter school pupil transported for the 2006-07 and 2007-08 school years.

Our current audit of the District's pupil transportation records and reports submitted to the Department of Education (DE) found that District personnel continued to incorrectly report nonpublic pupils for the 2006-07 and 2007-08 school years resulting in overpayments of \$22,330.

Our prior audit found nonpublic pupil reporting errors and overpayments to two contractors.

The District overreported nonpublic pupils by 6 for the 2006-07 school year, resulting in an overpayment of \$2,310. In addition, the District overreported nonpublic pupils by 52 for the 2007-08 school year, resulting in an overpayment of \$20,020.

The errors were caused by District personnel double counting some of the students.

Recommendations

The *Jersey Shore Area School District* should require District personnel to:

1. Report eligible nonpublic pupils only once for reimbursement purposes.
2. Strengthen controls to ensure accurate reporting of nonpublic pupils transported.
3. Thoroughly reconcile all transportation data for accuracy prior to submission of reports to DE.
4. Review subsequent reports submitted to DE and revise if necessary.

The *Department of Education* should:

5. Adjust the District's allocations to resolve the net reimbursement overpayment of \$22,330.

Management Response

Management stated the following:

The problem was caused by district personnel not properly counting non-public students transported.

The district will set up new procedures and approvals and strengthen internal controls in the counting of nonpublic students.

Status of Prior Audit Findings and Observations

Our prior audit of the Jersey Shore Area School District (JSASD) for the school years 2005-06 and 2004-05 resulted in two reported findings. The first finding pertained to their Memorandum of Understanding and the second was transportation. 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 JSASD superintendent'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 JSASD did not implement recommendations related to transportation, but did implement our recommendations related to their Memorandum of Understanding (MOU).

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Memorandum of Understanding Irregularities</i></u></p> <ol style="list-style-type: none"> 1. Develop and implement a MOU between the three elementary schools and appropriate local law enforcement agency(ies) and/or the Pennsylvania State Police as required by Section 13-1303-A (c) of the Public School Code. 2. Review, update and re-execute the current MOU between the District and Jersey Shore Borough Police Department. 3. Adopt a policy requiring the administration to review and re-execute the MOUs every two years. 	<p>Background:</p> <p>Our prior audit found that the District did not have a signed MOU available for audit for three elementary schools that are located in a different jurisdiction from the town. Furthermore, a MOU between the District and the Jersey Shore Borough Police Department was signed August 13, 1998, and had not been updated.</p>	<p>Current Status:</p> <p>We followed up on the JSASD MOUs and found that JSASD <u>did</u> take appropriate corrective action to address our prior recommendations.</p>

<p><u>II. Finding No .2:</u> <u>Transportation Reporting</u> <u>Errors Resulted in</u> <u>Overpayment of Contracted</u> <u>Costs and Underpayment of</u> <u>Reimbursement</u></p> <ol style="list-style-type: none">1. Reconcile contractor payments per their signed contract.2. Request repayment from contractors.3. Report all nonpublic pupils who are eligible for reimbursement.4. DE should adjust the District's allocations to resolve the net reimbursement underpayment of \$1,155.	<p>Background:</p> <p>Our prior audit of the JSASD pupil transportation reports submitted to DE and other financially related records found District personnel overpaid two contractors a total of \$13,644 for the 2004-05 school year.</p> <p>In addition, a review of nonpublic pupils transported found that District personnel incorrectly reported nonpublic pupils for the 2005-06 and 2004-05 school years resulting in a net underpayment of \$1,155.</p>	<p>Current Status:</p> <p>We followed up on JSASD transportation reports and found that JSASD <u>did not</u> take corrective action to address all of our prior audit recommendations pertaining to nonpublic pupils reporting.</p> <p>As of our fieldwork completion date of August 18, 2009, the District has not requested repayment from the contractors. Furthermore, DE had not adjusted the District's allocations.</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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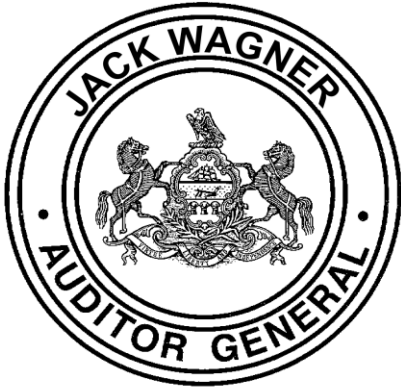
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