

KARNS CITY AREA SCHOOL DISTRICT  
BUTLER COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

NOVEMBER 2012



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

Mr. Bryan Fleeger, Board President  
Karns City Area School District  
1446 Kittanning Pike  
Karns City, Pennsylvania 16041

Dear Governor Corbett and Mr. Fleeger:

We conducted a performance audit of the Karns City Area School District (KCASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period June 7, 2010 through January 12, 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 KCASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER  
Auditor General

November 1, 2012

cc: **KARNS CITY AREA SCHOOL DISTRICT** Board Members



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## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period June 7, 2010 through January 12, 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 KCASD encompasses approximately 125 square miles. According to 2010 federal census data, it serves a resident population of 10,460. According to District officials, in school year 2009-10 the KCASD provided basic educational services to 1,542 pupils through the employment of 122 teachers, 96 full-time and part-time support personnel, and 9 administrators. Lastly, the KCASD received more than \$13.2 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the KCASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings. In addition, one matter unrelated to compliance is reported as an observation.

#### **Finding No. 1: Errors in Reporting Pupil Membership Resulted in a**

**Reimbursement Underpayment of \$34,142.** Our audit of pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 school year found reporting errors. KCASD personnel inaccurately reported membership for children placed in private homes as resident membership in the 2009-10 school year. These errors resulted in a reimbursement underpayment of \$34,142 (see page 7).

#### **Finding No. 2: Errors in Reporting Pupil Transportation Data Resulted in a**

**Reimbursement Underpayment of \$8,432.** Our audit of pupil transportation records and reports submitted to PDE for the 2009-10 school year found that the KCASD had not reported days of service or miles with and without pupils for two buses. These errors resulted in a reimbursement underpayment of \$8,432 (see page 9).

**Observation: The Karns City Area School District Lacks Sufficient Internal Controls Over Its Student Record Data.**

Our review of the KCASD's controls over student data for the 2009-10 school year found that internal controls need to be improved (see page 10).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the KCASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the KCASD has not implemented our recommendations pertaining to errors in reporting pupil transportation data (see page 12).

However, we found that KCASD had implemented the recommendations in our observation related to a Memorandum of Understanding that was not updated timely (see page 13).



## Audit Scope, Objectives, and Methodology

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### 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 June 7, 2010 through January 12, 2012, except for the verification of professional employee certification which was performed for the period May 1, 2010 through November 10, 2011.

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

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with 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 KCASD'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, are the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers are properly qualified, and do they 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 findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observations and conclusions based on our audit objectives.

KCASD 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, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 29, 2010, we reviewed the KCASD's response to PDE dated January 9, 2012. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding No. 1

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### Errors in Reporting Pupil Membership Resulted in a Reimbursement Underpayment of \$34,142

*Criteria relevant to the finding:*

Resident nonresident, and vocational education membership data must be maintained in accordance with PDE guidelines and instructions, since they are major factors in determining the district's subsidies and reimbursements.

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

Each school district, regardless of classification, which accepts any nonresident child in its school. . . shall be paid by the Commonwealth an amount equal to the tuition charge per elementary pupil or the tuition charge per secondary pupil as the case may be. . . .

Our audit found errors in the District's public membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 school year. District personnel inaccurately classified students in the reporting category "children placed in private homes," as resident students. This error resulted in a \$34,142 underpayment in Commonwealth-paid tuition.

The errors were discovered by District personnel and revisions were submitted to PDE. As of January 12, 2012, PDE had not made any adjustments.

District personnel's misclassification of some students as residents, when in fact, they were nonresident students falling into the reporting category of "children placed in private homes," resulted in the District understating its membership days for that reporting category on its reports to PDE. Specifically, the District's membership days for the nonresident category "children placed in private homes," were understated as follows:

- Kindergarten was understated by 132 days
- Elementary students were understated by 169 days
- Secondary students were understated by 417 days.

The errors described above resulted in the District receiving \$34,142 in Commonwealth-paid tuition for the non-resident reporting category of "children placed in private homes."

#### Additional Membership Errors

District personnel also made the following additional errors in their reporting of the District's membership to PDE. None of the errors made in reporting resident membership days were large enough to impact the District's basic education funding or special education reimbursement.

- **Vo-Tech Students:** Membership days for students enrolled in the area vocational-technical school were overstated by 2,186 days.
- **Resident Students:** Resident membership days were overstated by 132 days for kindergarten students, 169 days for elementary students, and 2,603 days for secondary students.
- **Mainstreaming:** The District did not report mainstream time for 4 elementary students and 6 secondary students, resulting in understatements of 148 days in elementary and 276 days in secondary.

The errors were the result of inaccurately coding nonresident students as resident, as well as clerical mistakes made when inputting membership for the 2009-10 school year.

In addition to the revisions reported by District personnel, we have provided PDE with documentation detailing the errors for use in recalculating the District's reimbursement.

## Recommendations

The *Karns City Area School District* should:

1. Strengthen internal controls to ensure the accuracy of membership data reported to PDE.
2. Review reports for subsequent school years and submit revised reports to PDE if errors are found.

The *Pennsylvania Department of Education* should:

3. Adjust the District's future allocations to resolve the underpayment of \$34,142.

## Management Response

Management provided a response indicating agreement with the finding and provided no further comment.

**Finding No. 2**

**Errors in Reporting Transportation Data Resulted in an Underpayment of \$8,432**

*Criteria relevant to the finding.*

PDE Instructions for completing the form PDE 1049c (End-of-year report) state that the local education agency (LEA) must maintain records for all buses used by the district. The information required to be maintained includes: miles traveled with pupils; miles traveled without pupils; and the largest number of pupils assigned to each vehicle. Additionally, the instructions state that information and support data used by the LEA to prepare the reports should be retained for audit purposes.

Our audit of the pupil transportation records submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 school year found errors which resulted in an underpayment in transportation subsidy of \$8,432.

Our audit found that in the 2009-10 school year the District failed to report data for one contractor who provided special education transportation to the District.

For the period December 2009 through June 2010, one student attended a Life Skills class in a neighboring district. For this period, the contractor used two vehicles to transport the student for a total of 114 days of service. Miles traveled with pupils totaled 26.6 miles, and miles traveled without pupils totaled 48.6 miles.

These errors in reporting resulted in an underpayment totaling \$8,432.

The errors were due to the District not receiving the invoice for the transportation service until after the end of the 2009-10 school year. After the receipt of the bill, the data for the routes were never submitted to PDE.

**Recommendations**

The *Karns City Area School District* should:

1. Strengthen controls to ensure all eligible buses and data are reported correctly.
2. Review subsequent school years' pupil transportation reports submitted to PDE for accuracy, to ensure the District has received all the reimbursement it is entitled to receive.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to correct the underpayment of \$8,432.

**Management Response**

Management provided a response indicating agreement with the finding and provided no further comment.

**Observation** →

**The Karns City Area School District Lacks Sufficient Internal Controls Over Its Student Record Data**

*Criteria relevant to the observation:*

According to PDE's 2009-10 PIMS User Manual, all Pennsylvania LEAs must submit data templates as part of the 2009-10 child accounting data collection. PIMS 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 (FISCAM), 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.

Beginning with the 2009-10 school year, the Pennsylvania Department of Education (PDE) now 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. PIMS replaces PDE's previous reporting system, the Child Accounting Database (CAD), which PDE ran concurrently until it brought PIMS completely online. PDE no longer accepts child accounting data through the CAD system.

Because PDE now uses the data in PIMS to determine each LEA's state subsidy, it is vitally important that the student information entered into this system is accurate, complete, and valid. Moreover, anytime an entity implements a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. LEA's must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our review of Karns City Area School District's controls over data integrity found that internal controls need to be improved.

Specifically, our review found that nonresident student registrations were incorrect for 5 of 5 students.

The District has resolved the errors between its child accounting vendor and the PIMS system.



**Recommendations**

The *Karns City Area School District* should:

1. Maintain adequate evidence of manual compensating controls (i.e. supporting documentation) to support its student registrations.
2. Have adequate written procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.
3. Submit revised reports to PIMS to account for membership for students enrolled in intermediate unit classes.

**Management Response**

Management provided a response indicating agreement with the observation and provided no further comment.

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Karns City Area School District (KCASD) for the school years 2007-08 and 2006-07 resulted in one reported finding and one reported observation. The finding pertained to errors in reporting pupil transportation data, and the observation pertained to the updating of a Memorandum of Understanding. 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 KCASD Board's response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the KCASD had implemented the recommendations in our observation related to the Memorandum of Understanding but did not implement recommendations related to errors in reporting pupil transportation data.

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

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**Finding:** **Errors in Reporting Pupil Transportation Data Resulted in Reimbursement Underpayments of \$24,412**

Finding Summary: Our prior audit of pupil transportation records and reports submitted to PDE for the 2007-08 and 2006-07 school years found that the District had not reported days of service, miles with pupils and without pupils for one bus each year, and found errors in reporting mileage for a mid-day run for a bus in the 2007-08 school year. These errors resulted in underpayments of \$16,444 and \$7,968, respectively.

Recommendations: Our audit finding recommended that the KCASD:

1. Strengthen internal controls to ensure all eligible vehicles and data are reported for reimbursement.
2. Ensure vehicle data, including daily mileage, is reported accurately to PDE.
3. Review subsequent school years' pupil transportation reports submitted to PDE, and resubmit them if necessary.

We also recommended that PDE:

4. Adjust the District's future allocations to resolve the underpayments totaling \$24,412.

Current Status: Our current audit again found errors in reporting pupil transportation data, as detailed in Finding No. 2 (see page 9).

As of January 12, 2012, PDE had not yet corrected the underpayments of \$24,412.

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**Observation: Memorandum of Understanding Not Updated Timely**

Observation

Summary:

Our prior audit of the District's records found that the Memorandum of Understanding (MOU) between the District and the local law enforcement agency had not been updated since it was signed on January 14, 2008.

Recommendations:

Our audit observation recommended that the KCASD:

1. In consultation with the District's solicitor, to review, update and re-execute the current MOU between the District and the local law enforcement agency.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status:

During our current audit procedures we found that the KCASD did implement the recommendations. A new MOU was signed on June 14, 2010.

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## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

The Honorable Tom Corbett  
Governor  
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