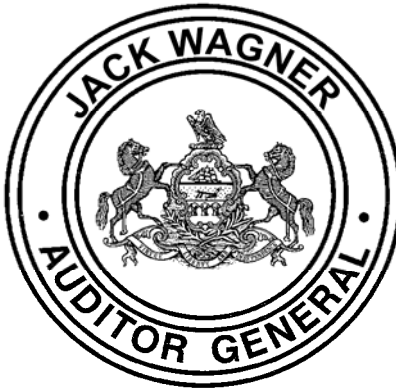


SCHOOL DISTRICT OF LANCASTER
LANCASTER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2004, 2003, 2002 AND 2001,
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2004

WITH FINDINGS, OBSERVATIONS, RECOMMENDATIONS
AND STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS
THROUGH NOVEMBER 23, 2005



LANCASTER SCHOOL DISTRICT
LANCASTER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2004, 2003, 2002 AND 2001,
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2004
WITH FINDINGS, OBSERVATIONS, RECOMMENDATIONS
AND STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS
THROUGH NOVEMBER 23, 2005

SCHOOL DISTRICT OF LANCASTER
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The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Rendell:

We have conducted a performance audit of the School District of Lancaster for the years ended June 30, 2004, 2003, 2002 and 2001, and in certain areas extending beyond June 30, 2004. 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 was limited to the following objectives:

- . Objective No. 1 - To determine if the School District of Lancaster complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit; and
- . Objective No. 2 - To determine if the School District of Lancaster took appropriate corrective action to address the findings and recommendations contained in our prior audit report and in the Office of Special Investigations Summary Report dated December 2004.

To plan and perform our audit of the School District of Lancaster, we considered the district's internal controls pertinent to our audit objectives. Based on our consideration of these internal controls we determined audit procedures for the purpose of reporting on our audit objectives, but not to provide assurance on the effectiveness of the district's internal controls. However, any significant internal control deficiencies found during our audit were included in our report.

Independent Auditor's Report (Continued)

The results of our tests indicated that, in all significant respects, the School District of Lancaster was in compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit and took appropriate corrective action to address the findings and recommendations contained in our prior audit report, except as noted in the following findings. We also identified internal control weaknesses as discussed in the observations. The finding and observations are discussed further in the Conclusions section of this report.

Objective No. 1

- Finding No. 1 – Internal Control Weaknesses
- Finding No. 2 – Board Members Failed to File Statements of Financial Interests in Violation of the State Public Official and Employee Ethics Act
- Observation No. 1 – General Fund Deficit of \$1,647,459 as of June 30, 2005
- Observation No. 2 – Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Objective No. 2

- Finding – Certification Irregularities

We believe that our recommendations, if implemented by the district, will improve the internal control weaknesses identified and help ensure compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

Sincerely,

November 23, 2005

/s/
JACK WAGNER
Auditor General

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT
BACKGROUND

Background

The School District of Lancaster is located in Lancaster County and encompasses an area of 10.6 square miles. The school district has a population of 70,281, according to the 2000 federal census. The administrative offices are located at 1020 Lehigh Avenue, Lancaster, Pennsylvania.

According to school district administrative officials, during the 2003-04 school year, the district provided basic educational services to 11,045 pupils through the employment of 85 administrators, 865 teachers, and 463 full-time and part-time support personnel. Special education was provided by the district and the Lancaster-Lebanon Intermediate Unit #13. Occupational training and adult education in various vocational and technical fields were provided by the district and the Lancaster County Career and Technology Center.

Generally, state subsidies and reimbursements are paid in the year subsequent to the year in which the school district incurs the cost that qualifies it for the applicable subsidy or reimbursement. While the Pennsylvania Department of Education (DE) makes partial payments to the school district throughout the year, final payments are normally made in June. Refer to the Supplementary Information on pages 33 through 36 of this report for a listing of the state revenue the district received during the 2003-04, 2002-03, 2001-02 and 2000-01 school years and for descriptions of the state revenue received by category.

In July of each year, the Commonwealth's Labor, Education and Community Services, Comptroller's Office confirms the payments that were made by DE throughout the prior fiscal year. School district annual financial reports and the related certified audits of the payments are not available before October 31st of the following fiscal year.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT
OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES AND SCOPE

Our audit objectives were:

- . Objective No. 1 - To determine if the School District of Lancaster complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit; and
- . Objective No. 2 - To determine if the School District of Lancaster School District took appropriate corrective action to address the findings and recommendations contained in our prior audit report and in our Office of Special Investigations' Summary Report dated December 2004.

The scope of our audit covered the years ended June 30, 2004, 2003, 2002 and 2001, and in certain areas extending beyond June 30, 2004.

METHODOLOGY

Our audit was conducted under authority of 72 P.S. § 403, and does not supplant the local annual audit as required by the Public School Code of 1949, as amended (Public School Code).

The proper administration of a school district requires school board members to establish and maintain internal controls to provide reasonable assurance that specific school district objectives will be achieved. School board members are responsible for the adoption and use of policies and procedures that promote the economic and efficient conduct of assigned duties and responsibilities. In completing our audit, we obtained an understanding of the school district's internal controls as they relate to the district's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. We evaluated and tested documents, files, reports, agreements, and systems, and performed analytical procedures to the extent necessary to satisfy our audit objectives. Additionally, we interviewed selected administrators and operations personnel.

As noted in the Background section of this report, the Department of Education generally pays state subsidies and reimbursements in the fiscal year subsequent to the fiscal year in which the district incurs the qualifying cost. Because we use the payment confirmations, annual financial reports and certified audit data as supporting documentation of actual payments received in the performance of our audit, we cannot begin the field work of a school district's operations for a given year until after this information becomes available.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

CONCLUSIONS – OBJECTIVE NO. 1

The first objective of our audit was to determine if the School District of Lancaster complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

The results of our tests indicate that, with respect to the items tested, the School District of Lancaster complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, except as noted in the Conclusions-Objective No. 2 section of this report and the findings listed below. Additionally, we identified internal control weaknesses as noted below. The findings, observations and recommendations were reviewed with representatives of the School District of Lancaster, and their comments have been included in this report.

Finding No. 1 – Internal Control Weaknesses

Our review of district procedures and records found internal control weaknesses in certain operational areas. The weaknesses resulted in procedural deficiencies in the following areas:

- vocational education membership; and
- minutes of school board meetings.

Internal controls are the responsibility of management. Good internal controls are essential to achieving the proper conduct of business with full accountability for the resources available. Good internal controls provide management with assurance that data is collected, recorded and reported accurately in accordance with management intent. Weak internal controls do not provide management with those assurances.

Vocational Education Membership

Our review of the district's supporting documentation for vocational education membership found that there were errors in the data submitted to the Department of Education (DE) for reimbursement.

District personnel stated that the errors were due to the child accounting system used during the years of audit. A new system was being implemented as we were finishing our current audit.

SCHOOL DISTRICT OF LANCASTER

PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

The software in use during our audit had no edit checks for dates. The software failed to identify the dates for when children were entering and withdrawing from vocational education programs. District personnel were unaware of the glitches in the system. Although some compensating controls were implemented as a result of our audit, the sheer volume of manual adjustments and the number of different school calendars leaves much room for error. Furthermore, hard copies of student records were not retained to support the computerized reports. Although it was apparent that the software glitches resulted in reporting errors, the lack of supporting documentation left us unable to determine the correct vocational education membership and corresponding amount of vocational education subsidy the district was entitled to for any of the years of audit.

Minutes of School Board Meetings

The official board minutes for the years of audit were in the process of being permanently bound during fieldwork for our audit; only copies were provided to the auditors. We noted that the board met several times before approving minutes from prior meetings. None of the copies of the minutes were signed.

Section 433 of the Public School Code provides, in part:

The secretary of the board of school directors shall perform the following duties: . . . shall keep a correct and proper record of all the proceedings of the board, and shall prepare such reports and keep such accounts as are required by the provisions of this act . . .

Approval of prior meetings' minutes should be completed in a timely manner. Furthermore, a correct and proper record of the minutes should include the signature of the preparer of the minutes.

Recommendations

District personnel should:

- ensure that the new child accounting software contains edit checks to verify accuracy of student entry and withdrawal dates;
- ensure that all individuals involved in the child accounting processing understand the importance of maintaining supporting documentation and reporting accurate vocational education membership data; and
- ensure that minutes are approved, signed and bound in a timely manner.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

Response of Management

Management, in its written response, agreed with the finding, stating:

With regard to Vocational Education Accounting, the District concurs with the finding of the Auditor General and acknowledges the need for corrective action. The District agrees that there were both information system and process issues. In response, the District has taken the following actions:

- The installation of new child accounting (Pentamation) and financial accounting (CSIU) software systems will greatly enhance the District's tracking capabilities. The District believes that this will correct the computation problems observed by the Auditor General.
- The employees associated with Vocational Education accounting have been counseled on the appropriate procedures to be followed and the importance of strict adherence to these procedures. The District believes that this will correct the process issues observed by the Auditor General. If, however, the process issues persist, appropriate personnel actions will be taken by the District.
- The District has begun conducting periodic spot audits of its Vocational Education accounting. At least three times each year, the District will randomly select the records of several Vocational Education students and conduct an internal audit. . . .

With regard to Board Minutes, the District concurs with the finding of the Auditor General and acknowledges the need for corrective action. The District's new Board Secretary is now signing the minutes she prepares and arranging for those minutes to be bound properly. Additionally, meeting minutes that require Board approval are being brought forward in a timely manner. The District believes that these actions fully resolve this issue.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 2 – Board Members Failed to File Statements of Financial Interests in Violation of the State Public Official and Employee Ethics Act

Our review of the 2004, 2003, 2002 and 2001 calendar years' Statements of Financial Interests found that three board members in 2004, 2003 and 2002, and six board members in 2001, failed to file Statements of Financial Interests. As a result of our audit, one of the three board members who failed to file for 2004 belatedly filed her statement, on July 19, 2005.

Public office is a public trust sustained by assuring the people of the impartiality and honesty of public officials and public employees. Accordingly, the Public Official and Employee Ethics Act (Ethics Act), 65 Pa.C.S. § 1101 *et seq.*, requires all candidates for public office, public officials and certain public employees to complete a Statement of Financial Interests for the preceding calendar year annually, no later than May 1st of each year they hold their positions and of the year after leaving such positions.

The Ethics Act specifically requires public officials and certain public employees to disclose matters on the Statement of Financial Interests that currently or potentially create conflicts of interest with their public duties. When a public official does not properly file a required disclosure, the public cannot examine the disclosure in order to determine whether conflicts of interest exist. This in turn erodes the public's trust. In addition, the board members' failure to file the Statement of Financial Interests constituted a violation of the Ethics Act.

Section 1104(d) of the Ethics Act, 65 Pa.C.S. § 1104(d), which pertains to the failure to file the required Statement of Financial Interests, provides, in pertinent part, as follows:

No public official shall be allowed to take oath of office or enter or continue upon his duties, nor shall he receive compensation from public funds, unless he has filed a statement of financial interests . . .

Section 1109(b), 65 Pa.C.S. § 1109(b) provides, in pertinent part that any person who is required to file a Statement of Financial Interests but fails to do so may be found guilty of a misdemeanor and may be fined not more than \$1,000 or imprisoned for not more than one year.

Section 1109(f), 65 Pa.C.S. § 1109(f) provides, in pertinent part that any person who is required to file a Statement of Financial Interests but fails to do so in a timely manner or who files a deficient Statement of Financial Interests may be subject to a civil penalty, at a rate of not more than \$25 for each day such statement remains delinquent or deficient, with a maximum penalty under this chapter of \$250.

A copy of this finding will be forwarded to the State Ethics Commission for additional review and investigation, as it deems necessary.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 2 (Continued)

Recommendations

The board should:

- develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act; and
- seek the advice of its solicitor in regard to the board's responsibility when an elected board member fails to file a Statement of Financial Interests; and

Response of Management

Management, in its written response, agreed with the finding, stating:

The District has implemented significantly improved procedures for tracking the receipt of Statement of Financial Interest forms, not only from Board members, but from all District employees who must make such disclosure. The Board Secretary is responsible for implementing the new procedures, which the District believes will cure the deficiency identified by the Auditor General.

Observation No. 1 – General Fund Deficit of \$1,647,459 as of June 30, 2005

Our review of the district's annual financial reports, local auditor's reports and general fund budgets for the fiscal years ended June 30, 2005, 2004, 2003, 2002 and 2001 found that the balance in the district's general fund decreased during our review period from a \$576,228 surplus at June 30, 2001, to a deficit of \$1,647,459 at June 30, 2005, detailed as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Beginning</u> <u>Fund Balance</u>	<u>Restatement of</u> <u>Fund Balance</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Ending Fund</u> <u>Balance</u>
2001	\$ 1,298,923	\$ -	\$ 94,306,528	\$ 95,029,223	\$ 576,228
2002	576,228	-	100,468,234	101,709,608	(665,146)
2003	(665,146)	-	104,859,145	104,240,901	(46,902)
2004	(46,902)	-	112,122,461	115,406,746	(3,331,187)
2005	(3,331,187)	1,006,374	119,831,617	119,154,263	(1,647,459)

Audited information for the 2005-06 school year was not available at the time of fieldwork for our audit.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Observation No. 1 (Continued)

As indicated in the chart on the previous page, the district's expenditures exceeded current revenue for three of the five years reviewed, causing the depletion of the district's fund balance.

Our review indicates that a contributing factor in the district's financial condition was the significant variances of budgeted revenues and expenditures when compared with actual data. Failure to adopt realistic budgets makes it difficult to maintain control over district finances.

Our review of the district's budgeted and actual revenue and expenditure data found significant variances, both favorable and unfavorable, as follows:

2000-01

- . the district's final budgeted beginning fund balance for the 2000-01 fiscal year was zero, but the actual beginning fund balance was \$1,298,923;
- . actual revenue was less than budgeted revenue by a net amount of \$2,003,204, as a result of overestimating federal revenue by \$2,551,228 and underestimating state and local revenue by \$186,495 and \$361,529, respectively; and
- . actual expenditures and other financing uses were \$1,280,509 less than those budgeted.

2001-02

- . the district's final budgeted beginning fund balance for the 2001-02 fiscal was zero, but the actual beginning fund balance was only \$576,228;
- . actual revenue was less than budgeted revenue by a net amount of \$2,743,592, as a result of overestimating federal and local revenue by \$1,388,038 and \$1,687,150, respectively, and underestimating state revenue by \$331,596; and
- . actual expenditures and other financing uses were \$1,502,218 less than those budgeted.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Observation No. 1 (Continued)

2002-03

- the district's final budgeted beginning fund balance for the 2002-03 fiscal year was zero, when the actual beginning fund balance was in deficit by \$665,146;
- actual revenue was less than budgeted revenue by a net amount of \$4,309,335, as a result of overestimating federal and local revenue by \$2,432,410 and \$2,092,199, respectively, and underestimating state revenue by \$215,274; and
- actual expenditures and other financing uses were \$4,927,579 less than those budgeted.

2003-04

- the district budgeted for the use of \$479,897 in beginning fund balance to fund the 2003-04 fiscal year budget, when the actual beginning fund balance was in deficit by \$46,902;
- actual revenue was less than budgeted revenue by a net amount of \$3,225,492, as a result of overestimating federal and local revenue by \$3,966,769 and \$954,971, respectively, and underestimating state revenue by \$1,696,248; and
- actual expenditures and other financing uses were \$421,104 less than those budgeted.

2004-05

- as found that in the local auditor's report, district management reorganized its governmental funds structure resulting in the consolidation of the debt service fund into the general fund. Accordingly, the fund balance of the general fund was restated as of July 1, 2004 to reflect an increase of \$1,006,374;
- there was a net surplus of actual revenue over budgeted revenue of \$3,408,775, resulting from underestimating state and local revenue by \$3,460,009 and \$3,122,367, respectively, and overestimating federal revenue by \$3,173,601; and
- actual expenditures and other financing uses were \$2,731,421 in excess of those budgeted.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Observation No. 1 (Continued)

The issues discussed in this finding evidences the apparent confusion that exists at the district with regards to deficit revenues and the budgeting process. District administrative staff should make a concerted effort to get a handle on this situation to improve the district's financial condition.

Recommendations

The board should:

- prepare realistic budgets based on historical data;
- examine the budgeting procedures which allow total expenditures and other financing uses to exceed revenue; and
- provide for further systematic reduction and elimination of the deficit general fund balance.

Response of Management

Management, in its written response, agreed with the observation, stating:

It should be noted that the General Fund's fund balance improved \$1.7 million in fiscal year 2005, from a deficit of \$3.3 million to a deficit of \$1.7 million. This constitutes a 50 percent reduction in the District's deficit and was the result of (a) tightened controls on spending in the second half of the fiscal year; (b) debt restructuring to take advantage of lower interest rates; and (c) improved revenue collection. (Please note that a District decision to consolidate the Debt Service fund into the General Fund which resulted in a \$1 million favorable restatement of beginning fund balance, offset entirely by a \$1 million increase in FY2005 expenditures. Hence, the consolidation had a net neutral effect on the final General Fund fund balance.)

The District believes that reforms initiated in 2004-05, combined with recently implemented initiatives, will reduce further – and perhaps even eliminate – the General Fund fund balance deficit in the 2005-06 fiscal year.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Observation No. 2 – Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers’ Qualifications

Section 111 of the Public School Code requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions of certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.¹

Similarly, Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to provide an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.²

The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. To that end, there are other serious crimes that school districts should consider, on a case-by-case basis, in determining a prospective employee’s suitability to have direct contact with children. Such crimes would include those listed in Section 111 but which were committed beyond the five-year look-back period, as well as other crimes of a serious nature that are not on the list at all. School districts should also consider reviewing the criminal history and child abuse reports for current bus drivers on a periodic basis in order to learn of incidents that may have occurred after the commencement of employment.

Our review of the personnel records of a random sample of 25 of 51 bus drivers currently employed by the district’s transportation contractors found that these individuals possessed the minimum requirements to be employed as bus drivers and that the School District of Lancaster had on file the required report of criminal history record information and an official child abuse clearance statement for all drivers’ files that we reviewed. There was no information contained in these reports that would have prohibited the School District of Lancaster from hiring any of the drivers. Therefore, we concluded that the School District of Lancaster has satisfied the minimum legal requirements set forth in both the Public School Code and the CPSL. Additionally, there were no serious crimes identified or other information that called into question the applicants’ suitability to have direct contact with children.

However, neither the district nor the transportation contractors have written policies or procedures in place to ensure that they are notified if current employees have been charged with, or convicted of, serious criminal offenses which should be considered for the purpose of determining an individual’s continued suitability to be in direct contact with children. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

¹ 24 P.S. § 1-111.

² 23 Pa.C.S. § 6355.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Observation No. 2 (Continued)

Recommendations

The school board and district administrators should consider, in consultation with the district's solicitor:

- . developing a process to determine, on a case-by-case basis, whether prospective and current employees of the district or the district's transportation contractors have been convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children; and
- . implementing written policies and procedures to ensure that the district is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children and to ensure that the district considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.

Response of Management

Management, in its written response, agreed with the observation, stating:

The District is in the process of agreeing [on] procedures with its vendors that will require a bus driver who has been convicted of a reportable offense to notify his/her employer of that reportable offense. The vendor will then be required to notify the District. The vendor will also be required to take such corrective action as is directed by the District.

The District does not have any bus drivers on its payroll.

It is worth noting that the District is preparing, for Board consideration, a procedure under which all District employees will be required to notify the District of reportable convictions that occur after the date when Act 34 [criminal history record] and 151 [child abuse clearance] background checks were last completed.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

CONCLUSIONS - OBJECTIVE NO. 2

The second objective of our audit was to determine if the School District of Lancaster took appropriate corrective action to address the finding and recommendations contained in our prior audit report for the years ended June 30, 2000 and 1999, and in certain areas extending beyond June 30, 2000, and to address the findings and recommendations contained in the Department of the Auditor General's Office of Special Investigations (OSI) Summary Report dated December 2004. The status of these findings along with a description of the school board's disposition of each recommendation was determined by one or more of the following procedures:

- reviewing the board's written response, dated July 15, 2003, to the Labor, Education and Community Services, Comptroller's Office, replying to the Auditor General's audit report for the years ended June 30, 2000 and 1999, and in certain areas extending beyond June 30, 2000;
- reviewing OSI's Summary Report dated December 2004, and school district officials' response, as included in OSI's report;
- performing tests as a part of, or in conjunction with, the current audit; and
- questioning appropriate district personnel regarding specific prior years' findings and recommendations.

Finding No. 1 – Certification Irregularities

Our prior audit of the professional employees' certificates and assignments for the period July 1, 2001 through June 30, 2002, found that six employees were assigned to the locally titled position of "Outreach Worker" during those years without possessing proper certification, resulting in possible subsidy forfeitures of \$12,208.

We recommended that the superintendent:

- take necessary action to ensure compliance with certification regulations; and
- require district personnel to submit job descriptions for locally titled positions to the Department of Education's (DE) Bureau of Teacher Certification and Preparation (BTCPP), to ensure that the individuals are properly certified for the new position.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

We also recommended that DE adjust the district's allocations to assess any appropriate subsidy forfeitures.

Our current audit found that the subsidy forfeitures were administratively addressed by DE.

Furthermore, our current audit of the district's professional employees' certification and assignments for the period September 2, 2003 through October 25, 2005 found certification irregularities as follows:

- seven individuals were again assigned to the locally titled position of "Outreach Worker" without the proper certification; six of these individuals were also cited in the prior audit;
- two individuals assigned to locally titled positions of IMPACT program administrator and Literacy Coach (Elementary) were not properly certified;
- nine individuals were teaching with expired certificates;
- two individuals taught prior to being certified; and
- one individual was not properly certified for his assignment.

This is the fourth consecutive audit in which individuals assigned to the position of "Outreach Worker" have been cited for lacking proper certification. Although the district appealed this citation to DE in December of 2000, the issue has still not been resolved. In its determination for the current citations, BTCP again indicated this position requires Home and School Visitor certification, which the individuals cited did not hold.

Section 1202 of the Public School Code provides, in part:

No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.

Section 2518 of the Public School Code mandates any school district that:

. . . has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio. . . .

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

Certification irregularities are not determined by the Department of the Auditor General. Information pertaining to the assignments and certificates were submitted to BTCP, DE, for determination. BTCP confirmed the irregularities for the individuals cited above. Therefore, the district is subject to the following subsidy forfeitures:

<u>School Year</u>	<u>Subsidy Forfeitures</u>
2005-2006	\$21,919
2004-2005	26,318
2003-2004	<u>29,185</u>
Total Subsidy Forfeitures	<u>\$77,422</u>

The certification irregularities occurred because the administrative staff failed to submit locally titled positions to DE, failed to accurately determine when provisional certificates had lapsed, did not apply for emergency certificates in a timely manner, and erroneously believed one other employee was properly certified for his assignment.

Based on the results of our current audit, we concluded that the district did not take appropriate corrective action to address this finding. DE should contact the district to instruct the district on what it must do to be in compliance with the certification requirements for locally titled and other positions.

Recommendations

We again recommend that the superintendent:

- take the necessary action required to ensure compliance with certification regulations; and
- submit locally titled positions to BTCP for its review and determination prior to assigning employees to these positions.

We further recommend that the superintendent:

- establish a review process to ensure that all professional employees' certificates are current and valid; and
- ensure that all teachers are assigned to courses that they are properly certified to teach.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

DE should take action to recover the subsidy forfeitures of \$77,422.

Response of Management

Prior to BTCP's issuance of its final determination, management provided a written response to our finding for all positions other than "Outreach Worker." BTCP later deleted some the citations we originally submitted to BTCP. The eliminated citations are not included in this finding. The portions of the management response related to the citations that BTCP upheld were as follows:

With regard to the locally titled positions, the District has been in contact with PDE. PDE has provided guidance regarding the certification requirements of most of the locally titled positions. Based on the information provided by PDE, the District believes the following for each of the locally titled positions: . . .

Literacy Coach Elementary:

PDE Response:

Elementary Literacy Coach: The functions and duties of this position include the implementation of strategies for a balanced and comprehensive literacy program, assisting classroom teachers with demonstration lessons and coaching, and providing of professional development opportunities. It has been clarified by the district that reading-related aspects of this program have developmental reading functions rather than diagnostic and prescriptive reading functions. Therefore, according to Certification and Staffing Procedures Guidelines (CSPG) #41 and CSPG # 57, effective 7-1-2004, the duties and functions of this position require an educator to hold an *Elementary K-6* certificate for the reading and English-related literacy duties of the program.

SDoL [School District of Lancaster] Response:

All employees identified by the Auditor General hold, at a minimum, an Elementary K-6 certificate. . . .

IMPACT

SDoL Response:

This position is still under review.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

With regard to the other Certification Irregularities identified by the Auditor General, the District disagrees with the following:

[Individual No. 1] – The employee’s certificate did not expire until 6/04. The following years were counted as using the Elementary K-6 certificate: 91-92 Harrisburg SD, 92-93 Harrisburg SD, and 2000 – 2004 SDoL. The employee was sent reminder notices to complete the Level II (May 2002, March 2003 and 2004). The employee was terminated at the end of the school year (8/24/04).

[Individual No. 2] – Our records indicate that the employee had used 3.5 years on the Level I certificate at the end of the 2000-01 school year. The employee applied for Level II in a timely manner.

[Individual No. 3] – Our records indicate that the employee spoke directly with [a staff member] at PDE regarding the emergency certificate applications for 2003-04 and 2004-05. The employee indicated “yes” answers where a “no” was required in order to have the application considered by PDE. A notarized letter from the employee to PDE references PDE’s acknowledgement of the employee mistake and acceptance of the application. PDE approved the emergency certificate on 3/1/05. *There was a period of time when the certificate lapsed – 2003-04 and 9/04 – 2/05.*

The District is continuing its evaluation of [nine other] individuals.

We again submitted information regarding the “Outreach Worker” position separately to BTCP. After BTCP’s determination that a Home and School Visitor certificate was required for the position, we requested that management provide an additional response on those citations. Management responded as follows:

The Auditor General has forward to the District a citation letter from BTCP, dated November 31, 2006, indicating that “[t]his position requires a certificate from Home & School Visitor (school social work).” District Employees [serving in the position] are specifically named in the citation.

Action Plan: The District disagrees with this citation.

According to CSPG No. 77 Home and School Visitor, the District is permitted to utilize social worker paraprofessionals to serve under a certified Home and School Visitor.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

The SDoL organizational structure for Outreach Workers is such that the paraprofessionals serve under the direction of the Assistant Superintendent for Student Services and certified Home and School Visitors.

The use of paraprofessionals is clarified in CSPG No. 101 "Utilization of Paraprofessional Staff." Item number one states that a paraprofessional may assist a certified professional in a team approach. The paraprofessional provides services that are related to and support instruction and services to children, youth and families.

The District requests a hearing regarding the matter.

Auditor's Conclusion

As stated above, BTCP confirmed the irregularities included in our finding. Therefore, the finding will stand as written, and any further disagreement on the part of the district must be addressed to DE.

Finding No. 2 – The School District Failed to Manage the Selection, Monitoring and Oversight of Educational Consultants

During the fiscal years 1997-98 through 2002-03, the school district paid approximately \$3.2 million for educational consulting services. Our Office of Special Investigations (OSI) found major deficiencies in the school district's management of those services, as follows:

- selection of consultants;
- general absence of written agreements; and
- absence of effective monitoring.

OSI made the following recommendations:

- the school district should immediately develop and implement policies and procedures relating to educational consultants; implementation should be closely monitored by the school board; monitoring should include the full participation of the business manager and regular oversight by the school district's independent auditor;

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 2 (Continued)

- the school district should require all educational consultants providing services to the school district to have a written agreement or contract;
- terms and conditions of consultant agreements should include:
 - a listing of other payments to which consultants are entitled, including travel expenses and reimbursement for supplies;
 - the time period of agreements, including start and ending dates;
 - a description of information to be presented on invoices, such as details of specific services, dates and places of service, and references to required documentation, such as reports;
 - the consultant's name, address, telephone number, e-mail address and federal identification number or Social Security number;
 - a statement of required licensing and professional certifications and authorizations/waivers relating to criminal record background checks;
 - a statement that agreements are contingent upon approval by the school board; and
 - a statement that the consultant is subject to periodic review or audit of services by school district personnel, state auditors, and/or independent auditors and that consultants must provide all requested records and documentation to auditors in a timely manner as a condition of the agreement.
- the school district should review all consultants currently providing services to the school district to ensure that the services are being provided, charges are reasonable and contract requirements are met;
- written agreements should be obtained for all current consultants;

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 2 (Continued)

- the school district should appoint a full-time qualified administrator to monitor consultant services. The administrator should report to the business manager or the appropriate committee of the school board and should provide periodic reports to the school board concerning consultants and their services;
- consultants' invoices should be reviewed and approved for payment by the Business office;
- the administrator should sign off on consultants' invoices prior to their approval;
- no one with a personal or financial relationship to a school district official should be hired as a consultant without full disclosure of the nature of the relationship to the school board in writing and abstention of the school district official from any role in the hiring process; and
- the school district should conduct a detailed review of the 20 additional consultants for which former Superintendent Curry was the school district official who signed off on invoices or who dealt with the individual consultant.

In a response included in OSI's report, school district officials stated:

- In January of 2004, the School District retained an independent accounting firm to investigate the School District's use of educational consultants. The firm of Kuntz Lesher LLP issued a report ("Kuntz Lesher report") to the Board of School Directors on March 15, 2004.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 2 (Continued)

- The School District's administrative procedures now substantially reflect the recommendations contained in the Kuntz Leshner report and, in many respects, the recommendations contained in the Auditor General's report. For example, the Board of School Directors requires a standard written contract with all educational consultants and independent contractors. The contracts are reviewed and approved by the Board of School Directors prior to the educational consultant or independent contractor providing services to the School District. The standard written contract requires that documentation be maintained to facilitate proper review and audit of the services and to evaluate the services performed by the educational consultants and independent contractors.
- Act 34 [criminal background checks] and Child Protective Services Law clearances are required from all educational consultants, independent contractors and employees prior to providing services as required by law.
- Effective November 16, 2004, the School District employed Dr. Robert Bordeaux as the federal/external funding coordinator. Dr. Bordeaux will insure that all federal, state and private grants are in compliance with applicable laws, regulations and grant requirements. As such, Dr. Bordeaux will monitor the services provided by, the payment of and the evaluation of, educational consultants and independent contractors.

In April of 2004, the Board of School Directors created an Education Subcommittee ("Subcommittee"). Proposed contracts with educational consultants or independent contractors, and the documentation related to the contracts, must be submitted to and recommended by the Subcommittee prior to approval by the Board of School Directors. The School District employee who is proposing the contract must appear before the Subcommittee to describe the service which is proposed, to identify the funding source and to present the evaluation tool to be used to measure the effectiveness of the services if approved. Act 34 and Child Protective Services Law clearances must be submitted to the Subcommittee. In addition, each contract with an educational consultant or independent contractor is provided to each member of the Board of School Directors in advance for review and submitted to the Board of School Directors for final approval at a regularly scheduled public Board meeting.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 2 (Continued)

- Administrative procedures for the payment of invoices submitted by the educational consultants and independent contractors now require documentation to support the invoices submitted in accordance with the contracts. The documentation must include the dates of the service, a list of the participants and an evaluation of the service.
- On November 16, 2004, the Board of School Directors contracted with the Pennsylvania School Boards Association to review, analyze and recommend a complete Board policy manual which will be published on the School District's website. The School District will provide the Association with the Auditor General's final report as well as the Kuntz Leshner report. The Board of School Directors will adopt additional policies to implement fully the recommendations contained in the Kuntz Leshner report and the Auditor General's report.
- The Board of School Directors is committed to adopt a new Board policy manual. The Board policy manual will regulate a wide range of School District functions, and will include the recommendations contained in the Kuntz Leshner report and the Auditor General's report.
- The School District, and an independent accounting firm, will conduct a detailed review of the 20 additional consultants for which former Superintendent Curry was the School District official who signed off on invoices or who dealt with the individual consultant. In the event that the review uncovers improper expenditures, appropriate legal action will be initiated.

Our current review of policies, procedures and written contracts found that the district implemented OSI's recommendations. Our current review found:

- the district reviews all consultants currently providing services to the district to ensure that the services are being provided, that charges are reasonable and that contract requirements are met;
- written agreements properly outlining terms and conditions have been obtained for all current consultants;
- the district appointed a full-time qualified administrator to monitor consultant services who reports to the business manager;
- the administrator provides semi-annual reports to the school board;

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 2 (Continued)

- all invoices are reviewed three times prior to payment, and include the proper signatures;
- the district does not believe that any consultant has been hired because the issuance of the OSI report in December 2004 who has a personal or financial relationship to a district official; and
- the district completed a review of the 20 additional consultants for which the former superintendent signed off on invoices or who dealt with the individual consultant. The district concluded there were no significant problems related to these consultants.

Based on the results of our current audit, we concluded that the district did take appropriate corrective action to address this finding.

Finding No. 3 – The School District Failed to Manage the Cultural Translator Program Costing Approximately \$382,000 Obtained from Federal Grants

The school district's Cultural Translator Program was experimental, non-traditional and controversial. Its value has been questioned by some in the school district, as well as the community. OSI did not review the activity from a programmatic perspective, nor did they opine on its educational and social value. OSI's inquiry focused on the program's management, with which OSI had significant concerns. Unfortunately, issues relating to the results of the program could not be addressed because of the almost complete lack of records.

The school district mismanaged the Cultural Translator's Program and, as part of that failure, violated requirements of the United States Department of Education grant through which the program was funded. Based on the information summarized in the finding, the mismanagement had several components:

- questionable selection of the grant administrator;
- absence of a mechanism or structure for effective monitoring of the program;
- failure to retain records; and
- no record of the Cultural Translators' qualifications or criminal background checks.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 3 (Continued)

OSI recommended that the school district:

- obtain from the Shalom Partnership [which provided Cultural Translation Services to the district] and other parties, including former superintendent Curry and law enforcement agencies, all records and other information concerning billings and charges for Cultural Translators, including timesheets, pay records, and names, addresses and background materials for all Cultural Translators, to determine whether there was a reasonable basis for all charges, and seek reimbursement of all improper or undocumented charges;
- adopt and enforce a policy that all persons performing services for the school district who may come into contact with students, including employees of a contractor, vendor and non-profit agencies, volunteers, consultants and temporary employees, obtain an up-to-date criminal record background check from the Pennsylvania State Police and all other background checks required by law; and
- review the appropriateness of the former grant administrator's continued involvement in school district activities in any capacity, including as a contract employee.

In response, school district officials stated:

- The School District has discontinued the cultural translator program. The School District has no contractual relationship with the Shalom Partnership.
- The School District administration and the Board of School Directors will review the appropriateness of the former Shalom Partnership grant administrator's continued service as an employee of an independent contractor who has a contractual relationship with the School District.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 3 (Continued)

- The School District will seek to obtain from the Shalom Partnership and other parties including former Superintendent Curry and law enforcement agencies, all records and other information concerning billings and charges for cultural translators, including timesheets, pay records and the names, addresses and background materials for all cultural translators. The School District, in consultation with its solicitor, will determine whether there is a reasonable basis for the charges, and will seek, if appropriate, reimbursement of all improper or undocumented charges.

Our current review found that:

- the district believes that it or its solicitor obtained all of the available records and other information concerning billings and charges for Cultural Translators. The records were obtained from the Federal Bureau of Investigation, with the consent of the Office of the United States Attorney;
- the district believes that improper or undocumented charges, if any, are not significant. The costs of pursuing improper or undocumented charges would likely exceed the amount that might be recouped;
- the district adopted and enforces a policy that all persons performing services for the school district who may come into contact with students, obtain an up-to-date criminal record background check from the Pennsylvania State Police and all other background checks required by law; and
- the district reviewed the appropriateness of the former grant administrator's continued involvement in school district activities and concluded that there were insufficient grounds to terminate her employment.

Based on the results of our current audit, we concluded that the district did take appropriate corrective action to address this finding.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 4 – The School District Failed To Manage the Use of Credit Cards

OSI's review of the district's oversight process in the use of credit cards found that it was cumbersome, slow and limited in its effectiveness. A former business manager told OSI that the use of credit cards was to be heavily restricted, with daily expenditure limits, maximums and specific codes to prevent cards from being used for inappropriate purchases or purchases from non-approved vendors. He also stated that he prepared written policies and procedures for the use and reconciliation of the cards and provided OSI with a copy of them. According to him, the procedures stated that the cards (referred to as Purchasing Cards), were for use "for selected local vendors in an effort to reduce the costs of processing for small purchases." The copy of the written procedures provided to OSI by the former business manager was dated February 3, 1999. The school district itself was not able to provide OSI with a copy of those procedures, and OSI concluded there was no evidence that the procedures were implemented.

OSI was told by district officials that credit cards were assigned to each school district building and sent to the building principals, who were responsible for the use of the cards. Cards were to be used for purchases of supplies such as paper, pens, pencils and printer cartridges and would allow principals to purchase supplies and other emergency items without having to go through the school district's regular purchasing process.

OSI conducted an analysis of credit card use during the calendar year January 1, 2003 to December 31, 2003. During that time, the school district had 39 credit cards; they were used for 4,035 transactions totaling \$419,972. OSI found that the credit cards were used for other categories in addition to school supplies, particularly for food, hotels and transportation. Furthermore, purchases totaling approximately \$18,125 appeared to be questionable based on the identity of the vendor, e.g., a karate facility, or a shoe store, and/or the absence of documentation identifying the purchases as items that could reasonably be considered school supplies.

OSI also selected several credit cards for detailed testing and concluded that several upper level school district staff used the credit cards inappropriately.

OSI recommended that the school district:

- establish, implement and enforce uniform district-wide policies and procedures regarding authorized credit card purchases;
- ensure awareness and understanding of such policies and procedures through the distribution of written materials and periodic training sessions for appropriate individuals, including authorized users, the business office staff, building principals and senior management officials;

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 4 (Continued)

- differentiate between credit cards intended for use in purchases of supplies (generally referred to as “Purchasing Cards”) and use of credit cards for payment of travel expenses by individuals. The former should be assigned only to a specific and limited number of individuals with duties related to purchasing; the latter should be assigned only to officials and other employees who travel regularly, and who are responsible for making the payments for the credit card charges themselves and then submitting claims for reimbursement to the school district for charges necessary and related to official school district business;
- require all cardholders to reimburse the school district for all inappropriate purchases;
- limit the number of card users and credit cards to the minimum necessary to conduct essential business and limit the vendors from which items can be purchased to those furnishing school supplies and other allowed items;
- require approval by the school district technology office before purchasing technology-related items such as Palm Pilots, cellular telephones, computers and printers, and maintain an inventory of such items to prevent loss or misuse;
- prohibit purchases of meals and food by cards meant for purchasing supplies;
- prohibit purchasing cards from being used for travel or other travel-related costs; impose strict timeframes on reconciliation of monthly credit card statements;
- require submission and retention of documentation to justify credit card purchases;
- require regular reports to the school board by the business office concerning credit card use, the number and identity of cardholders, letters, notices and other actions taken in regard to questioned and inappropriate credit card purchases, and reimbursement payments for inappropriate charges; and

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 4 (Continued)

- obtain documentation and explanation of the justification for the questionable credit card charges, or obtain full and immediate repayment (or, where possible, the items purchased) from former Superintendent Curry, the former Director of Communications, and the former McCaskey High School principal in connection with all improper credit card charges.

In response, school district officials stated:

- The School District suspended credit card use in February of 2004. The credit card accounts were canceled in July of 2004 with the exception of a single credit card held exclusively by Dr. Rita Bishop, the School District's Superintendent. The use of the credit card by Dr. Bishop is governed by an expenditure policy adopted by the Board of School Directors. All credit card transactions by Dr. Bishop are reviewed by the Finance Subcommittee of the Board of School Directors.
- The School District, in consultation with its solicitor, will seek to obtain reimbursement from present and former School District employees for inappropriate purchases with School District credit cards. The School District will initiate legal proceedings to recover such amounts.

Our current review found that only the superintendent has a credit card. Additionally, the superintendent's credit card is reconciled monthly and supporting documentation is required. The district determined that the amounts owed to the district were insignificant per individual cardholder and that the costs of pursuing the improper or undocumented charges would likely exceed the amount that might be recouped. Based on the results of our current audit, we concluded that the district did take appropriate corrective action to address this finding.

Finding No. 5 – The School District Failed To Manage the Use of Cellular Telephones

The school district did not have policies or procedures (1) to determine the appropriate and necessary number of cellular telephones and the proper distribution of telephones to individuals and (2) to review charges so that the school district would not pay charges for calls unrelated to official business.

OSI reviewed the school district's records of cellular telephone charges for calendar years 2002 and 2003. During 2002, the school district had 100 cellular telephones and paid for charges totaling \$65,752. For 2003, there were 167 telephones and charges totaling \$53,707. The costs include both costs of basic plans and use charges.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 5 (Continued)

OSI recommended that the school district adopt and enforce policies and procedures for cellular telephones that included the following:

- evaluation of the justification for each cellular telephone assigned based on the user's duties;
- a specific limitation of use to official business;
- a requirement that monthly bills should be sent to users for review and written acknowledgement that calls were for official purposes and not for personal use;
- charges for calls identified as personal should be repaid to the school district within 30 days; if no charge is listed because it is included in the plan, the school district should establish a reasonable amount that users should be required to pay the school district for personal calls; and
- substantial misuse of a cellular telephone or failure to pay for personal calls should result in return of the equipment to the school district and appropriate disciplinary action.

In response, school district officials stated:

On June 20, 2004, the Board of School Directors adopted a policy limiting the number of School District cellular telephones and regulating the use of the telephones. The policy prohibits the use of such telephones for any reason other than School District business. The invoices for cellular telephones are reviewed by the School District's Director of Finance.

Our current review confirmed that the district adopted a cellular phone policy on July 20, 2004, and revised on August 16, 2005, that incorporates the recommendations of OSI. Based on the results of our current audit, we concluded that the district did take appropriate corrective action to address this finding.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

Finding No. 6 – The School District Did Not Have In Its Records Statements of Financial Interests That Are Required To Be Filed In Accordance With the Ethics Act

The Public Official and Employee Ethics Act (the Ethics Act) requires public officials and certain public employees, including school district employees, to file annual Statements of Financial Interests. For school district officials and employees, the Statements of Financial Interests are to be submitted and kept on file at the school district.

OSI attempted to review statements on file at the school district and found that the school district did not have any in its files for calendar year 2001 for any official, except the business manager. Statements of Financial Interests for other years included in the review (2000 and 2002) were available in the school district's records, with one exception: the former superintendent's statement for 2000 was not in the records.

OSI recommended that the school board ensure that all records of financial interests required to be kept in the school district in accordance with the Ethics Act are present and kept in a secure location; that they are reviewed regularly by the solicitor to ensure that all information required to be on file is present; and that the school district follow the direction and advice of the State Ethics Commission in regard to obtaining resubmission of missing Statements of Financial Interests.

In response to the audit report, the school district stated:

In addition to adopting a policy as recommended by the Pennsylvania School Boards Association regarding the maintenance of records required by the Public Official and Employee Ethics Act, the Board will follow the advice and direction of the State Ethics Commission in regards to the re-submission of the missing statements of financial interests for 2000 and 2001.

Our current review found that the superintendent and the business manager filed their Statements of Financial Interests for the 2004 calendar year, subsequent to the release of the summary report dated December 2004. The district administration stated that in the future, the solicitor would work with the board secretary to ensure that all information required to be on file was, in fact, present. Based on the results of our current audit, we concluded that the district did take partial corrective action regarding district administrators' submission of their Statements of Financial Interests. However, the district did not take sufficient corrective action to address this finding, as indicated by the failure of the board members to file their statements, as found in Finding No. 2 in the Objective No. 1 section of this report.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Schedule of State Revenue Received

The district reported it received state revenue of \$45,765,025, \$43,910,497, \$42,899,238 and \$39,486,590, respectively, for the years ended June 30, 2004, 2003, 2002 and 2001, as detailed in the following schedule:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
STATE REVENUE				
Basic Education	\$30,122,022	\$28,249,635	\$27,339,683	\$25,926,558
Read to Succeed	-	85,715	126,340	162,623
Charter Schools	214,744	225,090	1,700	566
School Performance Incentives	-	70,048	384,251	304,354
Tuition for Orphans and Children Placed in Private Homes	163,071	134,896	154,339	161,013
Educational Empowerment/School Improvement	17,309	1,288,301	1,326,817	1,182,475
Homebound Instruction	4,082	8,467	6,308	6,961
Vocational Education	237,791	189,417	175,991	151,307
Alternative Education	111,030	176,120	195,040	179,157
Migratory Children	14,628	17,659	16,969	13,063
Special Education	7,822,728	7,522,280	7,435,463	6,043,293
Adult Literacy	38,595	75,000	61,070	68,617
Transportation	901,787	921,264	806,251	766,396
Rental and Sinking Fund Payments	1,748,860	1,768,018	1,746,428	1,712,084
Health Services	244,650	242,359	242,674	242,319
Social Security and Medicare Taxes	2,312,269	2,131,668	2,082,620	1,971,042
Retirement	1,308,659	469,371	344,066	483,787
Technology Grants	-	54,491	332,857	-
Other Program Subsidies/Grants:				
Pregnant and Parenting Teens	60,000	60,000	10,000	9,800
Educational Assistance	286,406	-	-	-
School Demonstration	40,000	97,105	-	-
Project ELECT	104,914	-	90,582	34,600
Project ELECT Fatherhood Initiative	11,480	123,593	19,789	20,000
PA Council of the Arts	-	-	-	1,575
Community Revitalization	-	-	-	20,000
Community and Economic Diversity	-	-	-	25,000
<u>TOTAL STATE REVENUE</u>	<u>\$45,765,025</u>	<u>\$43,910,497</u>	<u>\$42,899,238</u>	<u>\$39,486,590</u>

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Description of State Revenue Received (Source: the Pennsylvania Accounting Manual)

Basic Education

Revenue received from Commonwealth appropriations as subsidy for basic education.

Read to Succeed

Revenue received from the Commonwealth to ensure that all students learn to read and write by the end of the third grade.

Charter Schools

Revenue received from the Commonwealth to fund the Charter Schools initiative. The state subsidy received includes revenue for startup funding, nonpublic transfers, and transitional grants.

School Performance Incentives

Revenue received from Commonwealth appropriations to reward significant educational and school-specific performance improvements as measured by improvements in student attendance and student accomplishments.

Tuition for Orphans and Children Placed in Private Homes

Revenue received from the Commonwealth as tuition for children who are orphans and/or children who are placed in private homes by the court. Payments are made in accordance with Sections 1305 and 1306 of the Public School Code.

Educational Empowerment/School Improvement

Grants distributed to school districts on the Education Empowerment List or certified as Education Empowerment Districts to assist in the implementation of their school district improvement plans. These grants are authorized by Act 16 of 2000 and Section 1709-B of the Public School Code.

Homebound Instruction

Revenue received from the Commonwealth as subsidy for expenses incurred for instruction of homebound pupils. Payments are made in accordance with Section 2510.1 of the Public School Code.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Vocational Education

Revenue received from the Commonwealth as subsidy for vocational education expenditures which are classified as current operating expenditures and also for preliminary expenses in establishing an area vocational education school. Payments are made in accordance with Sections 2504, 2506 and 2507 of the Public School Code.

Alternative Education

Revenue received from the Commonwealth as subsidy for alternative education. Alternative education is specialized educational instruction and support services to students that must be removed from regular classrooms because of disruptive behavior.

Migratory Children

Revenue received from the Commonwealth as subsidy for the attendance of migratory children in accordance with Sections 2502 and 2509.2 of the Public School Code.

Special Education

Revenue received from the Commonwealth as subsidy for expenditures incurred for instructing school age special education students.

Adult Literacy

Revenue received from the Commonwealth to expand the availability of adult literacy and other adult education programs authorized by Act 143 of 1986.

Transportation

Revenue received from the Commonwealth as subsidy for pupil transportation expenditures and/or board and lodging in lieu of transportation. Payments for pupil transportation are made in accordance with Section 2541 of the Public School Code. Payments for board and lodging in lieu of transportation are made in accordance with Section 2542 of the Public School Code. This revenue also includes subsidy for the transportation of nonpublic and charter school students.

Rental and Sinking Fund Payments

Revenue received from the Commonwealth as a full or partial subsidy payment for approved lease rentals, sinking fund obligations, or any approved district debt obligations for which the Department of Education has assigned a lease number.

SCHOOL DISTRICT OF LANCASTER
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Health Services

Revenue received from the Commonwealth as subsidy for health services. Payments are made in accordance with Section 2505.1 of the Public School Code and include revenue for medical, dental, nurse and health services.

Social Security and Medicare Taxes

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of the Social Security and Medicare taxes for covered employees who are not federally funded.

Retirement

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of retirement contributions for active members of the Public School Employees' Retirement System.

Technology Grants

Revenue received for technology initiatives that allow the schools to develop new information technology projects, such as upgrade of networks or improved computer hardware and software.

Other Program Subsidies/Grants

Revenue received from the Commonwealth not specified elsewhere.

BUREAU OF SCHOOL AUDITS
AUDIT REPORT 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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Commonwealth of Pennsylvania
Harrisburg, PA 17120

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BUREAU OF SCHOOL AUDITS

AUDIT REPORT DISTRIBUTION LIST (Continued)

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