

MERCER AREA SCHOOL DISTRICT
MERCER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2012



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

**JACK WAGNER
AUDITOR GENERAL**

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

Mr. Cedric A. Butchy, Board President
Mercer Area School District
545 West Butler Street
Mercer, Pennsylvania 16137

Dear Governor Corbett and Mr. Butchy:

We conducted a performance audit of the Mercer Area School District (MASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period May 14, 2010 through April 13, 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 MASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/
JACK WAGNER
Auditor General

December 20, 2012

cc: **MERCER AREA SCHOOL DISTRICT** Board Members

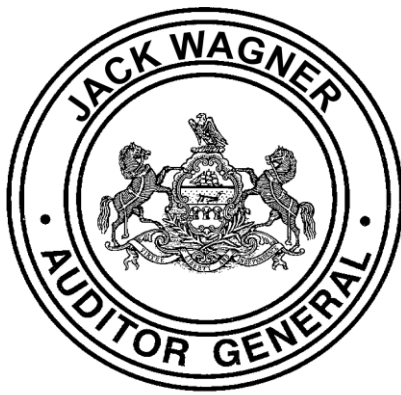
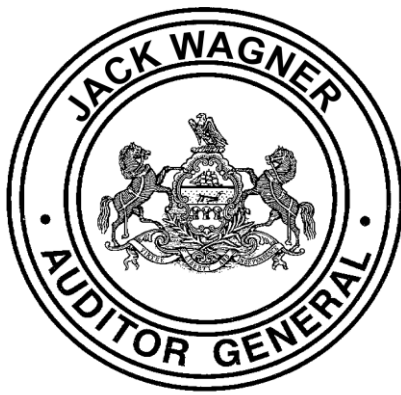


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Executive Summary

Audit Work

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

Our audit scope covered the period May 14, 2010 through April 13, 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 MASD encompasses approximately 91 square miles. According to 2010 federal census data, it serves a resident population of 10,752. According to District officials, in school year 2009-10 the MASD provided basic educational services to 1,328 pupils through the employment of 107 teachers, 80 full-time and part-time support personnel, and 7 administrators. Lastly, the MASD received more than \$7.8 million in state funding in school year 2009-10.

Audit Conclusion and Results

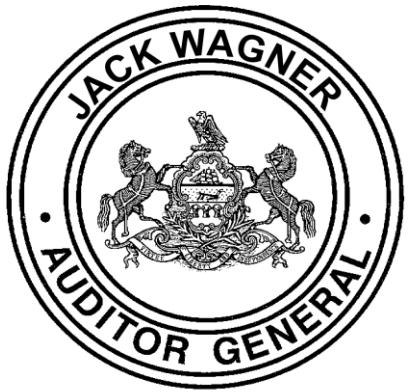
Our audit found that the MASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: Certification Deficiency.

Our audit of professional employees' certification for the period July 1, 2011 through February 21, 2012, found one employee was improperly assigned to a professional position without holding proper certification (see page 7).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the MASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the MASD had taken appropriate corrective action in implementing our recommendations pertaining to charter school reimbursement (see page 10), Social Security and Medicare reimbursement, (see page 11), membership for children placed in private homes (see page 12), noncompliance with the Public School Code and the Sunshine Act (see page 12), and pupil transportation internal control weaknesses (see page 13).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period May 14, 2010 through April 13, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011 through February 21, 2012.

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

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education 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 MASD'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.

MASD 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 MASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on May 26, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

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

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

Section 1212 of the PSC provides, in part:

“Every district superintendent shall keep an accurate record of valid certificates held by teachers of the school within his jurisdiction.”

Section 2518 of the PSC provides, in part:

“[A]ny school district, intermediate unit, area vocational-technical school or other public school in the Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Pennsylvania Department of Education but who has not been certified 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.”

Certification Deficiency

Our audit of professional employees’ certification for the period July 1, 2011 through February 21, 2012, found one employee was improperly assigned to a professional position without holding proper certification.

Information pertaining to the assignment was submitted to the Pennsylvania Department of Education’s (PDE) Bureau of School Leadership and Teacher Quality (BSLTQ) for its review.

Subsequent to our completion of fieldwork on April 5, 2012, BSLTQ confirmed the deficiency, stating in part:

“[The employee] received an Instructional I certificate in the area of Elementary K-6 on 5/1/2005. He has been employed by the district beginning the 2005-06 school year as an Elementary teacher. He continued serving in this position through the 2010-11 school year for a total of six (6) service years. An Instructional certificate is valid for six (6) service years. [The employee] has been employed by the district on a lapsed Instructional I certificate . . .”

Additionally, in May 2012 District personnel forwarded to the auditor documentation that the District received from PDE’s Teacher Information Management System¹ showing that appropriate Instructional II certification was granted with an effective date of January 1, 2012.

The District will be subject to a subsidy forfeiture for the period of July 1, 2011 through January 1, 2012. The subsidy forfeiture could not be calculated at the time of audit because the applicable aid ratio was not yet available.

¹ The Teacher Information Management System (TIMS) allows the exchange of data among several existing applications currently used by PDE to collect and manage data related to professional educators. TIMS also incorporates an online certification process replacing the previous Teacher Certification System.

The deficiency was due to District administrators' understanding that the individual had submitted the appropriate documentation to obtain the proper certification to PDE at the beginning of the school year.

Recommendations

The *Mercer Area School District* should:

Put procedures in place to ensure that all employees holding Instructional I certificates obtain permanent Instruction II certificates before they lapse.

The *Pennsylvania Department of Education* should:

Recover the subsidy forfeiture levied as a result of BSLTQ's determination.

Management Response

Management stated the following:

“This response is given with respect the finding that one of our elementary faculty members has been teaching without his Instructional Level II certificate. [The employee's] Level I certificate expired at the end of 2010. Prior to this date he completed 26 credits and all other requirements for the Instructional Level II. Additionally, he sent in all of the information and a personal check to the department in 2009. The problem was he sent in a personal check, which was deemed unacceptable by PDE and his certificate upgrade was consequently never processed. According to PDE policy unacceptable or incomplete applications are simply shelved and not processed and no notification is given back to the school or the individual with respect to their status.

“Unfortunately, [the employee] believed he had acted in good faith and his certificate would eventually be processed. [The employee] should have been more diligent with respect to fully reading the requirements and following up on the status of his certificate, yet he nevertheless completed all of the requirements on a timely basis and submitted his application.

“Concerning the District’s corrective action, when the yearly review of all of our employees was conducted this year we noticed that his certificate was never updated. Therefore, we contacted [the employee] who completed a new submission, garnered new transcripts, and sent the packet along with a money order to PDE. At this juncture it is still pending review by PDE.

“In the future the Mercer Area School District will be more diligent with respect to monitoring the timely submissions of all applications on the part of its faculty in addition to being more thorough in our yearly reviews.”

Status of Prior Audit Findings and Observations

Our prior audit of the Mercer Area School District (MASD) for the school years 2007-08 and 2006-07 resulted in five reported findings, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and questioned District personnel regarding the prior findings. As shown below, we found that the MASD did implement recommendations related to all five findings.

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

Finding No. 1: District Error Resulted in an Underpayment of \$17,090 in Charter School Reimbursement

Finding Summary: Our prior audit found the MASD failed to accurately report to the Pennsylvania Department of Education (PDE) the total tuition paid for one charter school for the 2006-07 school year, resulting in an underpayment of \$17,090 in charter school reimbursement.

Recommendations: Our audit finding recommended that the MASD:

1. Perform a review of subsequent years' data and applications submitted for accuracy, and resubmit to PDE, if necessary.
2. Ensure that personnel responsible for compiling the reimbursement form understand that prior year reimbursement is not to be used to reduce current year tuition expenditures.

We also recommended that PDE:

3. Adjust the District's allocations to resolve the reimbursement underpayment of \$17,090.

Current Status: During our current audit procedures we found that the MASD did implement the recommendations. However, PDE personnel informed us that, as of our completion of fieldwork, MASD's underpayment was awaiting resolution.

Finding No. 2: Continuing Errors and Internal Control Weaknesses in Reported Social Security and Medicare Wages Resulted in Reimbursement Overpayments of \$7,998

Finding Summary: The audit report preceding our audit of the school years 2007-08 and 2006-7 had identified reporting errors in federally paid Social Security and Medicare wages, which resulted in subsidy overpayments. The District, in attempting to comply with our audit, made revisions and resubmitted reports to PDE for the 2007-08 and 2006-07 school years. However, our audit of the revised information found that the District's corrections again failed to include all wages paid by federal funds, and resulted in revisions that, if processed by PDE, would result in additional overpayment.

Recommendations: Our audit finding recommended that the MASD:

1. Ensure that District personnel properly recognize federal wage employees on the District's payroll records.
2. Ensure that District personnel annually reconcile federal grant wages with district-paid wages.
3. Ensure that District personnel comply with PDE instructions for the completion of the Reconciliation of Social Security and Medicare Tax Contributions forms when reporting wages paid by federal funds.
4. Perform an internal review of reports submitted for school years subsequent to the current audit period for inclusion of federal wages and resubmit to PDE, if necessary.

We also recommended that PDE:

5. Adjust the District's allocations to resolve the reimbursement overpayments totaling \$7,998.

Current Status: During our current audit procedures we found that the MASD did not implement the recommendations. Our audit found that federal employees were appropriately reported. PDE personnel informed us that, as of completion of our fieldwork, MASD's overpayment was awaiting resolution.

Finding No. 3: Errors in Reporting Membership Days for Children Placed in Private Homes Resulted in an Overpayment of \$6,989

Finding Summary: Our prior audit of the District's pupil membership records for nonresident children placed in private homes found that for the 2006-07 school year the District overstated membership by 176 days for one nonresident student, resulting in an overpayment of \$6,989 in Commonwealth-paid tuition for children placed in private homes.

Recommendations: Our audit finding recommended that the MASD:

1. Require District personnel to review membership data thoroughly to ensure students are properly classified prior to submitting reports to PDE.
2. Require District personnel to review reports submitted subsequent to the years audited and submit revised reports to PDE if errors are found.

We also recommend that PDE:

3. Adjust the District's allocations to recover the overpayment of \$6,989.

Current Status: During our current audit procedures we found that the MASD did implement the recommendations, and no additional errors were noted. As of completion of fieldwork PDE personnel verified MASD's overpayment was pending resolution.

Finding No. 4: Noncompliance with Public School Code and Sunshine Act

Finding Summary: Our prior audit of the minutes of the District's board of directors meetings and related District administrative actions found deficiencies.

Recommendations: Our audit finding recommended that the MASD:

1. Ensure the District is in compliance with the Sunshine Act by properly recording all executive sessions and their purpose.
2. Ensure that the District is in compliance with Section 508 of the Public School Code (PSC) by requiring the board secretary to properly record required roll call votes.
3. Ensure that District administrators obtain and retain written contracts.

4. Ensure that all personal information shown on the student disciplinary forms and retained as part of the minutes is removed, and shown in a generalized manner.
5. Ensure that information relating to public presence and comment is accurately reported in the board minutes.
6. Require that all board minutes are signed timely, such as at the end of the meeting where approval occurred.
7. Ensure that the District's board secretary receives adequate and appropriate training in all aspects of board meeting minutes recordkeeping and record retention.
8. Consult with the District's solicitor to reformat the District's minutes to ensure compliance with the PSC and the Sunshine Act

We also recommend that PDE:

9. Require the District provide proper evidence that the District is in compliance with the applicable sections of the PSC and the Sunshine Act.

Current Status: During our current audit procedures we found that the MASD did not implement the recommendations.

Finding No. 5: Incomplete Board Approval of the District's Pupil Transportation Program and Internal Control Weaknesses

Finding Summary: Our prior audit of the District's transportation records identified deficiencies in the board-approved District pupil transportation program, internal controls related to supporting documentation, and transportation contracts.

Recommendations: Our audit finding recommended that the MASD:

1. Consult with its solicitor to prepare the proper board resolution and attachments for approval of the District's pupil transportation program as specified by Pennsylvania school laws relating to transportation.
2. Instruct District personnel to require all contractors and district-hired van drivers to provide monthly mileage reports based on PDE instructions requiring stop-by-stop tenth of mile reporting.

3. Incorporate an “Additional Insured” amendment or modification in the current transportation contracts, if possible, and include the requirements in the next negotiated long-term contracts.

Current Status:

During our current audit procedures we found that the MASD did implement two of the three recommendations. Recommendation number three had not been implemented as of completion of our fieldwork. However, subsequent to fieldwork the District provided us with insurance certificates indicating that the District was appropriately named as “Additional Insured.”

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:

The Honorable Tom Corbett
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The Honorable Ronald J. Tomalis
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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

