



**MONTROSE AREA SCHOOL DISTRICT
SUSQUEHANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

FEBRUARY 2014

COMMONWEALTH OF PENNSYLVANIA
EUGENE A. DEPASQUALE - AUDITOR GENERAL
DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Chris Caterson, Board President
Montrose Area School District
273 Meteor Way
Montrose, Pennsylvania 18801

Dear Governor Corbett and Mr. Caterson:

We conducted a performance audit of the Montrose Area School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period July 27, 2011 through August 6, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 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 District complied, in all significant respects, with relevant requirements.

We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

February 5, 2014

cc: **MONTROSE AREA SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Montrose Area School District (District) in Susquehanna County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period July 27, 2011 through August 6, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2011-12 and 2010-11 school years.

District Background

The District encompasses approximately 220 square miles. According to 2010 federal census data, it serves a resident population of 11,712. According to District officials, the District provided basic educational services to 1,593 pupils through the employment of 136 teachers, 87 full-time and part-time support personnel, and nine (9) administrators during the 2011-12 school year. The District received \$12.2 million in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and Observations

With regard to the status of our prior audit recommendations to the Montrose Area School District (District) from an audit released on March 9, 2012, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting Social Security and Medicare wages (see page 6) and improper reporting of retirement wages and service years (see page 7).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

Our audit, conducted under authority of Section 403 of The Fiscal Code, 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 July 27, 2011 through August 6, 2013, except for the verification of professional employee certification which was performed for the period July 1, 2012 through June 27, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2011-12 and 2010-11 school years.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education (PDE) reporting guidelines, we use the term *school year* rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?

- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

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

The District's management is responsible for establishing and maintaining effective internal controls to provide

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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 9, 2012, we reviewed the District's response to PDE dated June 11, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Montrose Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Montrose Area School District (District) released on March 9, 2012, resulted in two (2) findings . The first finding pertained to errors in reporting Social Security and Medicare wages, and the second to improper reporting of retirement wages and service years. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District’s written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings. As shown below, we found that the District did implement our recommendations related to errors in reporting Social Security and Medicare wages and improper reporting of retirement wages and service years.

Auditor General Performance Audit Report Released on March 9, 2012

Finding No. 1: Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Underpayments of \$18,032

Finding Summary: Our prior audit of the District’s Social Security and Medicare reimbursement records found that reports submitted to PDE were inaccurate, resulting in reimbursement underpayments of \$13,879 for the 2009-10 school year and \$4,153 for the 2008-09 school year, a total underpayment of \$18,032.

Recommendations: Our prior audit finding recommended that the District should:

1. Ensure District personnel are aware of the proper procedures for correctly completing state Social Security reimbursement forms.
2. Reconcile total taxable wages for Social Security and Medicare with wages reported on the Employer’s Quarterly Federal Tax Return.
3. Review reports filed for years subsequent to the audit period and, if errors are found, submit revised reports to PDE.

We also recommended that PDE should:

4. Pay the District \$18,032 to resolve the reimbursement underpayments.

Current Status: During our current audit, we found that the District implemented our prior recommendations. On June 6, 2013, PDE paid the District \$18,032 to resolve the reimbursement underpayments.

Finding No. 2: Possible Improper Reporting of Retirement Wages and Service Years

Finding Summary: Our prior audit of the District's administrative employment contracts, agreements, and payroll records found wages for a prior administrator totaling \$19,103 and \$18,588 that were improperly reported as eligible retirement wages to the Public School Employees' Retirement System (PSERS) for the 2010-11 and 2009-10 school years, respectively. Also, the prior administrator received a net overpayment of wages of \$1,587.

Recommendations: Our prior audit finding recommended that the District should:

1. Contingent upon PSERS's final determination, report to PSERS only those wages allowable for retirement purposes, as stated in PSERS Employer Reference Manual.
2. Implement procedures for reviewing all salary and contribution reports, in order to ensure that only eligible wages are being reported to PSERS for retirement contributions.
3. Recover the \$1,587 overpayment in wages from the prior administrator.

We also recommended that PSERS should:

4. Review the propriety of the wages and service credits for the above-mentioned employee and make any necessary adjustments.

Current Status: During our current audit, we found that the District implemented our prior recommendations and recovered a revised net amount of \$1,586 for the overpayment of wages from the prior administrator and also adjusted payroll and taxes for gross wages. PSERS determined the wages and service credits were not allowable for retirement purposes and adjusted the employee's wages and service years. PSERS also reimbursed the District and employee for all payments into the retirement system based on the ineligible wages.

Distribution List

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

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

The Honorable Carolyn Dumaesq
Acting Secretary of Education
1010 Harristown Building #2
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