

NORTHERN POTTER SCHOOL DISTRICT  
POTTER COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2012



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

Mr. David Smoker, Board President  
Northern Potter School District  
745 SR 49 Northern Potter Road  
Ulysses, Pennsylvania 16948

Dear Governor Corbett and Mr. Smoker:

We conducted a performance audit of the Northern Potter School District (NPSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period October 15, 2008 through August 9, 2011, 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, 2009, 2008 and 2007. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the NPSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the NPSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

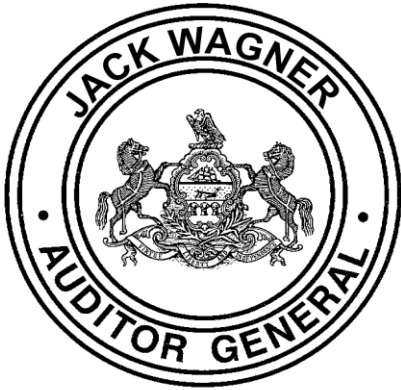
Sincerely,

/s/

JACK WAGNER  
Auditor General

January 20, 2012

cc: **NORTHERN POTTER SCHOOL DISTRICT** Board Members



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## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period October 15, 2008 through August 9, 2011, 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, 2008-09, 2007-08 and 2006-07.

### **District Background**

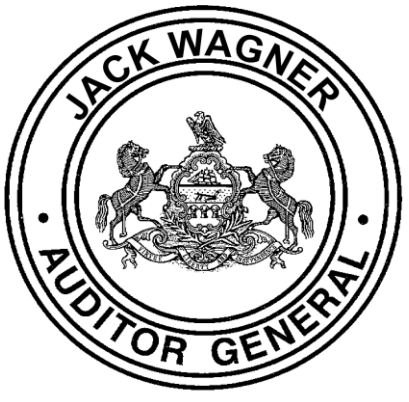
The NPSD encompasses approximately 231 square miles. According to 2010 federal census data, it serves a resident population of 4,113. According to District officials, in school year 2009-10 the NPSD provided basic educational services to 590 pupils through the employment of 54 teachers, 29 full-time and part-time support personnel, and 4 administrators. Lastly, the NPSD received more than \$5.7 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the NPSD complied, in all significant respects, with applicable 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 NPSD from an audit we conducted of the 2006-05 and 2004-05 school years, we found NPSD had taken appropriate corrective action in implementing our recommendations pertaining to tuition billing (see page 7), pupil transportation, certification deficiency (see page 8), internal control weaknesses regarding bus drivers' qualifications and Memorandum of Understanding (see page 9).





## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

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

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

Our audit covered the period October 15, 2008 through August 9, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10, 2008-09, 2007-08 and 2006-07.

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

### Objectives

*What is the difference between a finding and an observation?*

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

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

- ✓ 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?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?

- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

## Methodology

*What are internal controls?*

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, regulations, contracts, grant requirements and administrative procedures.

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

NPSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, 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 and pupil membership records.
- Tuition receipts

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 23, 2009, we reviewed the NPSD's response to DE dated August 4, 2009. We then performed additional audit procedures targeting the previously reported matters.

## **Findings and Observations**

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**F**or the audited period, our audit of the Northern Potter School District resulted in no findings or observations.

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

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Our prior audit of the Northern Potter School District (NPSD) for the school years 2005-06 and 2004-05 resulted in three reported findings and two observations as shown in the following table. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the NPSD Superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings and observations. As shown below, we found that the NPSD did implement recommendations related to tuition billing, pupil transportation, certification deficiency, internal control weaknesses regarding bus drivers' qualifications and Memorandum of Understanding.

### **School Years 2005-06 and 2004-05 Auditor General Performance Audit Report**

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**Finding No. 1: Unrecovered Tuition and Administrative Fees Totaling \$15,199**

Finding Summary: Our prior audit found that the NPSD failed to bill or collect tuition and administrative fees totaling \$15,199 for the 2005-06 and 2004-05 school years.

Recommendations: Our audit finding recommended that the NPSD:

1. Invoice Coudersport Area School District for 2005-06 unbilled tuition.
2. Contact DE regarding Bethlehem Area School District's unpaid tuition.
3. Collect unpaid administrative fees from Adelphoi Village.

The *Department of Education* should:

4. Withhold the unpaid tuition from Bethlehem Area School District's future allotment and reimburse NPSD.

Current Status: During our current audit procedures we found that the NPSD did implement the recommendations. The NPSD collected tuition from Coudersport Area School District and Bethlehem Area School District. However, the NPSD could not collect unpaid administrative fees due to the closing of Adelphoi Village.

**Finding No. 2: Errors in Pupil Transportation Data Resulted in Underpayments Totaling \$4,958**

Finding Summary: Our prior audit of pupil transportation data submitted to DE for the 2005-06 and 2004-05 school years found errors in the reporting of daily miles buses traveled with and without pupils. These errors resulted in transportation reimbursement underpayments of \$863 and \$4,095, respectively.

Recommendations: Our audit finding recommended that the NPSD:

1. Perform an internal review of all transportation data prior to submission to DE.
2. Perform a review of subsequent years' data to ensure that the reported information was accurate.

The *Department of Education* should:

3. Adjust the District's allocations to resolve the underpayments of \$4,958.

Current Status: During our current audit procedures we found that the NPSD did implement the recommendations.

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**Finding No. 3: Certification Deficiency**

Finding Summary: Our prior audit of the professional employees' certification for the period July 1, 2006 through June 30, 2008, found that one employee continued to teach on a lapsed certificate during the 2006-07 school year. The District is therefore subject to a subsidy forfeiture of \$1,114 for the 2006-07 school year.

Recommendations: Our audit finding recommended that the NPSD:

Take the necessary action to ensure compliance with certification requirements.

The *Department of Education* should:

Adjust the District's allocations to recover the subsidy of forfeiture of \$1,114.

Current Status: During our current audit procedures we found that the NPSD did implement the recommendations and DE adjusted the District's allocations and recovered the forfeiture of \$1,114 in December 2009.

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**Observation No. 1: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications**

Observation

Summary:

Our prior audit of the personnel records of all bus drivers employed by NPSD found that neither the District nor the transportation contractor 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.

Recommendations:

Our audit observation recommended that the NPSD:

1. Develop 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 charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure 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.

Current Status:

During our current audit procedures we found that the NPSD did implement the recommendations.

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**Observation No. 2: Memorandum of Understanding Not Updated in a Timely Manner**

Observation

Summary:

Our prior audit of the District's records found that the current Memorandum of Understanding (MOU) between the District and the Pennsylvania State Police (PSP), was signed June 26, 1998, and has not been updated since.

Recommendations:

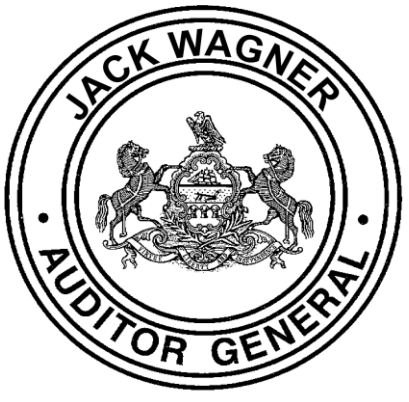
Our audit observation recommended that the NPSD:

1. Update and re-execute the current MOU between the District and the PSP.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status:

During our current audit procedures we found that the NPSD did implement the recommendations.

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## **Distribution List**

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

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

The Honorable Ronald J. Tomalis  
Secretary of Education  
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Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

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Director, Bureau of Budget and  
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Research Manager  
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