

PENNS MANOR AREA SCHOOL DISTRICT
INDIANA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2011

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

Mr. Robert Packer, Board President
Penns Manor Area School District
6003 Route 553 Highway
Clymer, Pennsylvania 15728

Dear Governor Corbett and Mr. Packer:

We conducted a performance audit of the Penns Manor Area School District (PMASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period May 27, 2008 through September 17, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 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 PMASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

April 13, 2011

cc: **PENNS MANOR AREA SCHOOL DISTRICT** Board Members

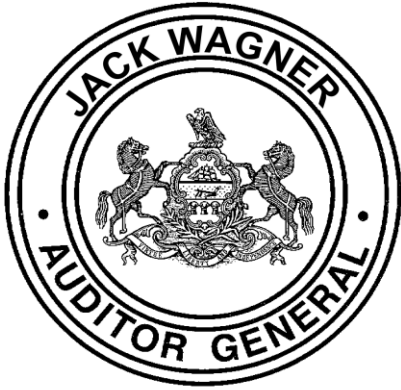
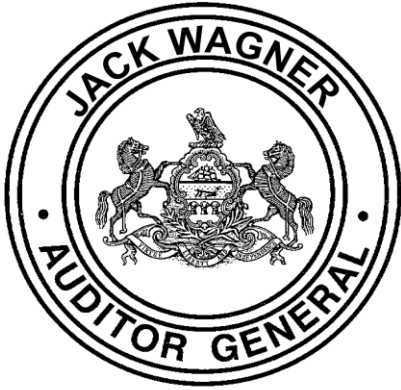


Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Status of Prior Audit Findings and Observations	7
Distribution List	11



Executive Summary

Audit Work

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

Our audit scope covered the period May 27, 2008 through September 17, 2010, 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 2007-08 and 2006-07.

District Background

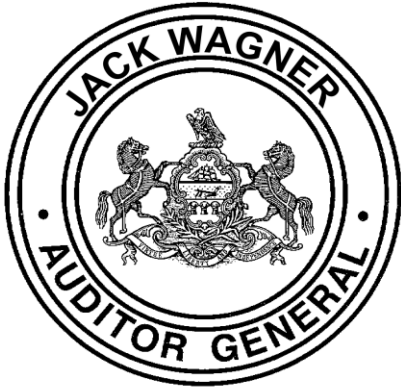
The PMASD encompasses approximately 80 square miles. According to 2000 federal census data it serves a resident population of 6,529. According to District officials, in school year 2007-08 the PMASD provided basic educational services to 1,008 pupils through the employment of 81 teachers, 46 full-time and part-time support personnel, and 8 administrators. Lastly, the PMASD received more than \$9.8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the PMASD 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 PMASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the PMASD had taken appropriate corrective action in implementing our recommendations pertaining to the board members timely filing of Statements of Financial Interests (see page 7), reporting pupil membership data (see page 7), reporting Social Security and Medicare wages (see page 8), and improper management of student activity funds (see page 9).



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 27, 2008 through September 17, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 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 PMA SD'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:

- ✓ 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?
- ✓ 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?

- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ 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

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 and conclusions based on our audit objectives.

PMASD 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

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.

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, and state ethics compliance.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 30, 2010, we reviewed the PMASD's response to DE dated September 9, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

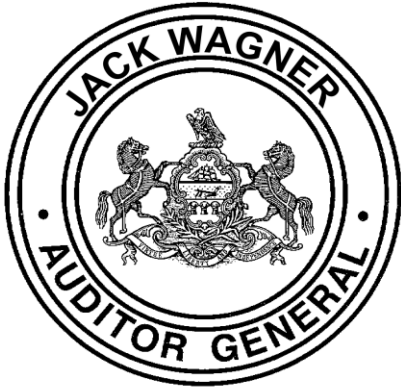
Our prior audit of the Penns Manor Area School District (PMASD) for the school years 2005-06 and 2004-05 resulted in four reported findings, as shown in the following table. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the PMASD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the PMASD did implement recommendations as detailed in the following table.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	Implementation Status	
<p><u><i>I. Finding No. 1: Board Members Failed to File Statements of Financial Interests Timely</i></u></p> <ol style="list-style-type: none"> 1. Seek the advice of the State Ethics Commission in regard to the board's responsibility when an elected board member fails to file a Statement of Financial Interests. 2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Public Official and Employee Ethics Act. 	<p>Background:</p> <p>Our prior audit of District records found that two ex-board members failed to file their Statements of Financial Interests for the year ended December 31, 2006. Likewise, one current and one ex-board member failed to file their Statements of Financial Interests for the year ended December 31, 2007.</p>	<p>Current Status:</p> <p>Our current audit of the years ended December 31, 2009 and 2008, found that the District had on file the Statements of Financial Interests for all board members.</p> <p>Based on our current audit, we concluded the District did take appropriate corrective action.</p>
<p><u><i>II. Finding No. 2: Continued Errors in Reporting Pupil Membership Data</i></u></p> <ol style="list-style-type: none"> 1. Perform an internal review of all pupil membership reports and supporting documentation before submission to DE. 	<p>Background:</p> <p>Our prior audit found the District's pupil membership reports submitted to DE for the 2005-06 and 2004-05 school years were inaccurate, resulting in subsidy reimbursement overpayments of \$26,262 in 2005-06 and \$16,153 in 2004-05 school years.</p>	<p>Current Status:</p> <p>Our current audit of the 2007-08 and 2006-07 school years found only insignificant errors in reporting membership data.</p> <p>Based on our current audit, we concluded the District did take appropriate corrective action.</p>

<ol style="list-style-type: none"> 2. Ensure the students are not reported in multiple membership categories resulting in more than one average daily membership per student. 3. Ensure mainstream time for PMASD students educated in intermediate unit classrooms within PMASD is reported. 4. Review subsequent school years' membership reports submitted to DE for accuracy and resubmit accordingly. 5. DE should amend the District's membership reports and adjust the District's future allocations to recover the overpayments of \$42,415. 		<p>As of September 17, 2010, DE had not adjusted the District's allocations. We again recommend that DE correct the overpayments of \$42,415.</p>
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<p><u>III. Finding No. 3: Continued Errors in Reporting Social Security and Medicare Wages</u></p> <ol style="list-style-type: none"> 1. Comply with DE instructions when reporting wages paid with federal funds. 2. Review reports submitted after the audit period for inclusion of federal wages and resubmit reports to DE, if necessary. 3. DE should adjust the District's allocations to correct the reimbursement overpayments. 	<p>Background:</p> <p>Our prior audit of Social Security and Medicare wages for the 2005-06 and 2004-05 school years found that wages were incorrectly reported to DE, resulting in reimbursement overpayments totaling \$6,032.</p>	<p>Current Status:</p> <p>Our current audit of the 2007-08 and 2006-07 school years found that the District correctly reported Social Security and Medicare Wages for the 2007-08 school year. Although the District did not revise the 2006-07 school year reports, we found only insignificant errors in the reporting of Social Security and Medicare wages.</p> <p>Based on our current audit we concluded the District did take corrective action.</p> <p>As of September 17, 2010, DE had not adjusted the District's allocations. We again recommend that DE correct the prior audit overpayments.</p>
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<p><u>IV. Finding No. 4:</u> <u>Continued Improper Management of Student Activity Funds</u></p> <ol style="list-style-type: none"> 1. Prepare and adopt a new board policy that provides rules and regulations for the management, supervision, control, financing of student activities. 2. Require all organizations to maintain written minutes for all meetings. 3. Require all organizations to designate in writing the officers to be involved in the payment of funds. 4. Prohibit purchases from being made from any account with a negative balance. 5. Ensure payments are made timely to avoid finance charges and late fees. 6. Ensure proper student authorization is obtained on all pay-order requests. 7. Require the use of purchases orders. 8. Attempt to collect payment due for nonsufficient funds. 9. Require sponsors to keep minimal fund balances in each account at the end of the year. 	<p>Background:</p> <p>Our prior audit of the District’s student activity fund (SAF) for the 2006-07 school year found that the District had made improvements in operation of the SAF by implementing some of our previous recommendations. However our review of 8 of 31 accounts found a continued lack of board oversight.</p>	<p>Current Status:</p> <p>Our current audit of the 2009-10 school year found that the District has implemented our recommendations pertaining to the operation of SAF.</p> <p>Based on our current audit we concluded the District did take appropriate corrective action.</p>
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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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