

PHILIPSBURG-OSCEOLA AREA SCHOOL DISTRICT
CLEARFIELD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2011

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

Mr. Robert Selfridge, Board President
Philipsburg-Osceola Area School District
200 Short Street
Philipsburg, Pennsylvania 16866

Dear Governor Corbett and Mr. Selfridge:

We conducted a performance audit of the Philipsburg-Osceola Area School District (POASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period July 10, 2009 through July 15, 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 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 POASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

November 10, 2011

cc: **PHILIPSBURG-OSCEOLA AREA SCHOOL DISTRICT** Board Members

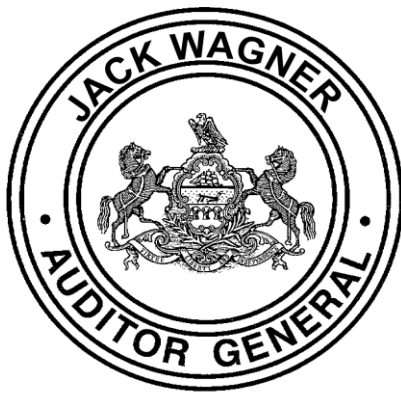


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Philipsburg-Osceola Area School District (POASD). 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 POASD in response to our prior audit recommendations.

Our audit scope covered the period July 10, 2009 through July 15, 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 and 2008-09.

District Background

The POASD encompasses approximately 222 square miles. According to 2000 federal census data, it serves a resident population of 14,228. According to District officials, in school year 2009-10 the POASD provided basic educational services to 1,959 pupils through the employment of 159 teachers, 147 full-time and part-time support personnel, and 10 administrators. Lastly, the POASD received more than \$14.3 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the POASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings.

Finding No. 1: Errors in Reporting Nonresident Pupil Membership Resulted in an Underpayment of Tuition for Children Placed in Private Homes of \$78,051. Our audit of nonresident pupil membership for the 2009-10 school year found discrepancies in reports submitted to the Department of Education (DE) (see page 6).

Finding No. 2: Continued Errors in Reporting Pupil Transportation Data Resulted in a Net Overpayment of \$17,421. Our audit of pupil transportation data for the 2009-10 and 2008-09 school years found errors in reporting daily mileage, the greatest number of pupils transported, days of service, contracted costs and the number of nonpublic pupils transported. Also, the POASD failed to report some bus runs to DE (see page 8).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the POASD from an audit we conducted of the 2007-08, 2006-07, 2005-06 and 2004-05 school years, we found the POASD had not taken appropriate corrective action in implementing our recommendations pertaining to pupil transportation errors (see page 10), but did implement our

recommendations pertaining to a
Memorandum of Understanding that was not
updated timely (see page 11).

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 July 10, 2009 through July 15, 2011.

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 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 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 POASD'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?
- ✓ 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?
- ✓ 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 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.

POASD 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, pupil membership records, and reimbursement applications.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 19, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Criteria relevant to the finding:

Section 2503 of the Public School Code provides for Commonwealth payment of tuition for children placed in private homes.

The PIMS manual of reporting provides guidelines for the reporting of all residency classifications.

Errors in Reporting Nonresident Pupil Membership Resulted in an Underpayment of Tuition for Children Placed in Private Homes of \$78,051

Our audit of nonresident pupil membership for the 2009-10 school year found discrepancies in reports submitted to the Department of Education (DE). These errors resulted in a reimbursement underpayment of \$78,051.

For the 2009-10 school year, membership for elementary children placed in private homes was under reported by 670 days, and secondary membership for children placed in private homes was under reported by 885 days.

The errors were caused by District personnel incorrectly reporting the “District Code of Residence” for the children in the Pennsylvania Information Management Systems (PIMS).

District personnel responsible for entering student data into the PIMS system were not familiar with the PIMS residency code reporting guidelines.

We have provided DE with a report detailing the errors for use in recalculating the District’s tuition for children placed in private homes.

Recommendations

The *Philipsburg-Osceola Area School District* should:

1. Reference the PIMS manual of reporting for instructions in the proper reporting of nonresident students.
2. Review membership reports submitted to DE for years subsequent to the audit, and if similar errors are found, submit revised reports to DE.

The *Department of Education* should:

3. Adjust the District’s allocations to correct the reimbursement underpayment of \$78,051.

Management Response

Management stated the following:

The District will adjust the membership reports for school year 2009-10 by comparing the list provided by PDE to the list that was submitted and we will correct the entries to reflect the proper codes. The corrected reports will be filed with PDE for reimbursement.

The District will review subsequent reports submitted and revise them if errors are found.

The District has implemented a new central registration office beginning with the school year 2011-12. The Director of Student Services will oversee the operations of the office, which should minimize reporting errors. The District will review the PIMS Manual with personnel responsible for the function of student reporting to ensure that they are familiar with the codes and procedures required by PIMS.

Finding No. 2 →

Continued Errors in Reporting Pupil Transportation Data Resulted in a Net Overpayment of \$17,421

Criteria relevant to the finding:

Section 2541 of the Public School Code provides that school districts shall be paid by the Commonwealth for every school year on account of pupil transportation.

Daily miles traveled, the greatest number of pupils transported, days of service, and contractor cost are integral part of the transportation reimbursement calculation. These factors must be reported accurately to DE in order to receive the correct reimbursement.

Section 2509.3 of the Public School Code provides for payments for nonpublic pupil transportation.

Our audit of pupil transportation data for the 2009-10 and 2008-09 school years found errors in reporting daily mileage, the greatest number of pupils transported, days of service, contractor costs and the number of nonpublic pupils transported. Also, the District failed to report two runs to DE, and reported runs that were ineligible for reimbursement.

During the 2009-10 school year, data for two runs that were not eligible for reimbursement were reported to DE for reimbursement. Also, the number of days transported was reported incorrectly for one bus. The errors resulted in an overpayment in transportation reimbursement of \$4,069.

The inaccuracies for the 2008-09 school year were as follows:

- Contractor costs were incorrectly reported for one parent paid contractor, resulting in a \$100 understatement of contractor cost;
- The number of days pupils were transported was incorrectly reported for one vehicle;
- Daily miles with pupils was incorrectly reported for five vehicles, resulting in a net overstatement of 26.4 miles;
- Daily miles without pupils was incorrectly reported for six vehicles, resulting in a net overstatement of 30.1 miles;
- The greatest number of pupils transported was incorrectly reported for one vehicle by one;
- Data for ineligible runs were included for two buses;
- Two buses were not reported for reimbursement; and
- The number of nonpublic pupils was understated by four pupils.

These errors resulted in an overpayment of \$14,892 in regular transportation reimbursement and an underpayment of \$1,540 in nonpublic transportation reimbursement for the 2008-09 school year.

The errors were the result of District transportation personnel being unfamiliar with the transportation reporting requirements, along with various clerical errors.

We have provided DE with reports to be used for the recalculation of the District's pupil transportation reimbursement.

Recommendations

The *Philipsburg-Osceola Area School District* should:

1. Accurately report all data elements in the calculation of pupil transportation reimbursement.
2. Accurately report all runs eligible for reimbursement.
3. Perform an internal review of data before submission to DE.
4. Review subsequent school years' transportation reports for accuracy, and resubmit, if necessary.

The *Department of Education* should:

5. Adjust future District allocations to correct the net overpayment of \$17,421.

Management Response

Management stated the following:

The District will conduct an internal review to ensure that . . . the daily mileage, pupil counts, amount paid to contractors, number of trips, and the number of days transported are accurately reported to PDE. The District will review subsequent reports submitted and revise them if errors are detected.

The District will be implementing a new transportation software program that will integrate with the District's student accounting software which should correct the reporting problems cited in the audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Philipsburg-Osceola Area School District (POASD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in one reported finding and one observation. The finding pertained to continued transportation errors, and the observation pertained to Memorandum of Understanding that was not updated timely. 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 finding and observation. As shown below, we found that the POASD did not implement recommendations related to the continued transportation errors, but did implement recommendations related to the Memorandum of Understanding.

School Years 2007-08, 2006-07, 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding: **Continued Transportation Errors Resulted in a Net Reimbursement Underpayment of \$23,355**

Finding Summary: Our prior audit of pupil transportation data for the 2007-08, 2006-07, 2005-06 and 2004-05 school years found errors in the contractor cost data reported to the Department of Education (DE) for the 2004-05 school year. Errors were also noted in the reporting of nonpublic pupils for the 2007-08, 2005-06 and 2004-05 school years. The errors led to a net reimbursement underpayment of \$23,355.

Recommendations: Our audit finding recommended that the POASD:

1. Report all contractor cost data in accordance with DE instructions.
2. Review reports submitted to DE for the years subsequent to the audit and submit revised reports if errors are found.
3. Strengthen the internal review of reimbursement data prior to submission to DE.

Our audit finding also recommended that DE:

4. Adjust the District's allocations to resolve the \$23,355 transportation net underpayment.

Current Status: During our current audit procedures we found that the POASD did not implement the recommendations (see page 8). The \$23,355 underpayment is still pending DE resolution.

Observation: Memorandum of Understanding Not Updated Timely

Observation

Summary:

Our prior audit of District records found that the Memorandum of Understanding (MOU) between the District and the Pennsylvania State Police was signed August 26, 1998, and had not been updated.

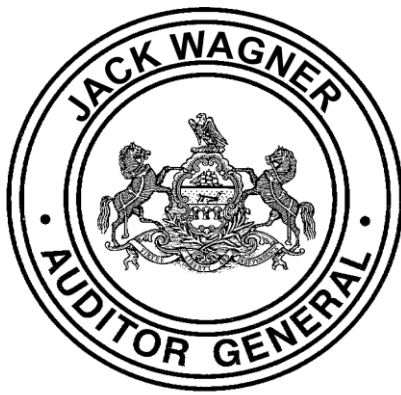
Recommendations:

Our audit observation recommended that the POASD:

1. In consultation with the solicitor, review, update and re-execute the current MOU between the District and the local law enforcement agency.
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 POASD implemented the recommendations. The MOU was updated on July 20, 2010.



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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