

PUNXSUTAWNEY AREA SCHOOL DISTRICT
JEFFERSON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2012

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

Mr. Gary Conrad, Board President
Punxsutawney Area School District
475 Beyer Avenue
Punxsutawney, Pennsylvania 15767

Dear Governor Corbett and Mr. Conrad:

We conducted a performance audit of the Punxsutawney Area School District (PASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period May 7, 2010 through May 1, 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 PASD complied, in all significant respects, with applicable state laws, 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 PASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PASD's operations and facilitate compliance with legal and administrative requirements.

Sincerely,

/s/

JACK WAGNER
Auditor General

November 1, 2012

cc: **PUNXSUTAWNEY 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 Punxsutawney Area School District (PASD). 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 PASD in response to our prior audit recommendations.

Our audit scope covered the period May 7, 2010 through May 1, 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 PASD encompasses approximately 292 square miles. According to 2010 federal census data, it serves a resident population of 21,022. According to District officials, in school year 2009-10 the PASD provided basic educational services to 2,425 pupils through the employment of 200 teachers, 182 full-time and part-time support personnel, and 19 administrators. Lastly, the PASD received more than \$21.2 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the PASD complied, in all significant respects, with applicable state laws, 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 \$28,208. Three nonresident foster children were incorrectly reported as resident pupils (see page 6).

Finding No. 2: Errors in Reporting Nonreimbursable Pupils Led to Overpayments of Transportation Subsidy Totaling \$11,007. Nonreimbursable pupils were understated in both audit years. PASD personnel incorrectly reported the pupils as hazardous pupils (see page 9).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the PASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the PASD had taken appropriate corrective action in implementing our recommendations pertaining to reporting Social Security and Medicare wages (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 May 7, 2010 through May 1, 2012 except for the verification of professional employee certification which was performed for the period July 1, 2011 through March 26, 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 PASD'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.

PASD 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.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 5, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Errors in Reporting Nonresident Pupil Membership Resulted in an Underpayment of Tuition for Children Placed in Private Homes of \$28,208

Criteria relevant to the finding:

Membership data must be reported in accordance with PDE guidelines and instructions to ensure that the correct subsidies and reimbursement are received.

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

The Student Calendar Fact Data template is used to associate a student's membership days with a unique calendar uploaded in the School Calendar file in PIMS.

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

Our audit of nonresident pupil membership for the 2009-10 school year found errors in reports submitted to the Pennsylvania Department of Education (PDE). These errors resulted in a reimbursement underpayment of \$28,208.

District personnel failed to report membership days for three secondary nonresident students who were placed in private homes. As a result, membership days were underreported by 540 days.

Children placed in private homes are defined as children placed in foster care. If the natural parents of such children live in another district, these children are considered nonresidents for child accounting purposes.

District personnel in charge of membership reporting were unaware that the three students were nonresident students and reported them as resident students.

The corresponding resident day errors had no effect on the District's current basic education funding, but may, as a result of the formula used to calculate the District's payments, effect future subsidies the District receives.

Additionally, we noted that on July 27, 2011, District personnel submitted student calendar fact data template revisions for 11 other nonresident students placed in private homes. Four of these students had been double-reported for a total of 180 full-time kindergarten membership days, 37 elementary days and, 242 secondary days. Also, six students required changes to the residency codes, and one elementary student was reported as a secondary student for 180 days.

The errors were caused by District personnel incorrectly reporting the district code of residence for the students in the Pennsylvania Information Management System (PIMS) child accounting system database.

It should be noted that PDE provides the District with a preliminary Summary of Child Accounting Membership report in the spring of each year. This report should be used by District personnel to perform an internal review of all membership that was reported to PDE. If a District notices problems with the information reported, they should make the necessary revisions at that time so the appropriate adjustments are reflected on the final Summary of Child Accounting Membership reports received by the District at the end of June.

The reimbursement adjustments as a result of the membership revisions made by the District in July 2011 were reflected in a reimbursement payment for children placed in private homes tuition which was received by the District on August 25, 2011.

We have provided PDE with a report detailing the errors found by our audit for use in recalculating the District's tuition for children placed in private homes.

Recommendations

The *Punxsutawney Area School District* should:

1. Reference the PIMS Manual of Reporting for proper instructions in reporting nonresident students.
2. Perform an internal review of PDE's preliminary membership reports to be sure that any revisions needed are made prior to the receipt of the final membership reports.
3. Review membership reports submitted to PDE for years subsequent to the audit, and if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

4. Adjust the District's allocations to correct the reimbursement underpayment of \$28,208.

Management Response

Management stated the following:

During the 2009-10 school year, the child accounting secretary resigned and a new team member was hired. During this transition, for the 2009-10 school year an error was made in which only one student was reported as a nonresident. In reviewing the child accounting summary report, this error was realized and corrections were made in July 2011 for [eleven] students. Three students remained unclaimed as nonresidents. In addition, one student was reported as being a high school student and should have been reported as an elementary student. The combination of the three unreported nonresident students and the adjustment for secondary to elementary resulted in the reimbursement underpayment.

The District will continue to make every effort to track and report nonresident students and will review and revise all child accounting reports as necessary.

Finding No. 2

Errors in Reporting Nonreimbursable Pupils Led to Overpayments of Transportation Subsidy Totaling \$11,007

Criteria relevant to the finding:

Section 2541 of the Public School Code provides for payments to school districts for pupil transportation.

A nonreimbursable pupil is defined as elementary pupils residing less than 1½ miles from the school they are assigned to and secondary pupils residing less than 2 miles from the school they are assigned to, excluding: special education students, area vocational-technical school students, and students determined to be on hazardous routes.

A hazardous pupil is defined as any pupil living in an area where the highway, road, or traffic conditions are such that walking constitutes a hazard to the safety of the child, as so certified by the Pennsylvania Department of Transportation.

Our audit of the District's transportation records for the 2009-10 and 2008-09 school years found errors in nonreimbursable pupil data reported to the Pennsylvania Department of Education (PDE) for both years of the audit. The errors resulted in transportation subsidy overpayments totaling \$11,007.

Nonreimbursable pupils were understated by 66 pupils for the 2009-10 school year and by 61 pupils for the 2008-09 school year. The understatements led to transportation subsidy overpayments of \$5,729 and \$5,278, respectively.

The errors were a result of the District incorrectly reporting nonreimbursable pupils as hazardous pupils.

Recommendations

The *Punxsutawney Area School District* should:

1. Accurately report the number of nonreimbursable pupils transported.
2. Review reports submitted to PDE for the years subsequent to the audit period and submit revised reports if errors are found.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to resolve the transportation subsidy overpayments of \$11,007.

Management Response

Management stated the following:

During the 2008-09 and 2009-10 school year, students residing in the Punxsutawney Borough East End were reported as reimbursable on the district's transportation reports. The district used the most direct route in determining a walking route for these students. The most direct walking route would be on Beyer Avenue. Beyer Avenue has been determined to be a hazardous walking route therefore making transportation reimbursable. The audit find indicates that a non-direct walking route exists for the students that is both within the allowable walking distance and has not been determined as hazardous.

The District will contact the Pennsylvania Department of Education to make corrections to the 2010-11 reports and will list these students as non-reimbursable on all future reports.

Status of Prior Audit Findings and Observations

Our prior audit of the Punxsutawney Area School District (PASD) for the school years 2007-08 and 2006-07 resulted in one reported finding. The finding pertained to Social Security and Medicare Wage reimbursement. 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. As shown below, we found that the PASD did implement our recommendations related to the finding.

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

Finding: **Errors in Reporting Social Security and Medicare Wages**

Finding Summary: Our prior audit found that Social Security and Medicare wages for the 2007-08 and 2006-07 school years were incorrectly reported to the Pennsylvania Department of Education (PDE), resulting in reimbursement underpayments totaling \$20,709.

Recommendations: Our audit finding recommended that the PASD:

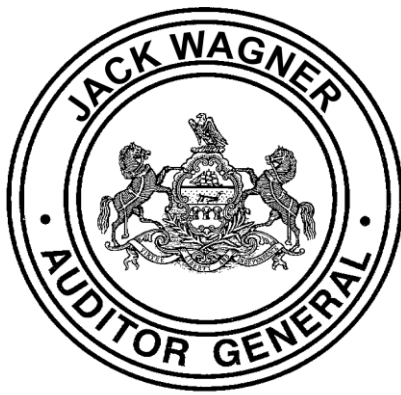
1. Comply with PDE's instructions when reporting total Social Security and Medicare wages.
2. Review reports submitted subsequent to our audit period and submit revised reports to PDE, if necessary.

We also recommended that PDE:

3. Adjust the District's allocations to correct the reimbursement underpayments of \$20,709.

Current Status: Our current audit found the District complied with our recommendations; there were no significant errors in the reporting of Social Security and Medicare wages.

As of May 1, 2012, PDE had not yet adjusted the District's subsidy to correct the reimbursement underpayments.



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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