

RED LION AREA SCHOOL DISTRICT
YORK COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2013



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER
AUDITOR GENERAL**

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

Mr. Chris Seitz, Board President
Red Lion Area School District
696 Delta Road
Red Lion, Pennsylvania 17356

Dear Governor Corbett and Mr. Seitz:

We conducted a performance audit of the Red Lion Area School District (RLASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period August 14, 2009 through November 28, 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 RLASD 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 RLASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve RLASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the RLASD's cooperation during the conduct of the audit.

Sincerely,

/s/

**JACK WAGNER
Auditor General**

January 14, 2013

cc: **RED LION 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 Red Lion Area School District (RLASD). 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 RLASD in response to our prior audit recommendations.

Our audit scope covered the period August 14, 2009 through November 28, 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 RLASD encompasses approximately 140 square miles. According to 2000 federal census data, it serves a resident population of 32,661. According to District officials, in school year 2009-10 the RLASD provided basic educational services to 5,608 pupils through the employment of 400 teachers, 286 full-time and part-time support personnel, and 25 administrators. Lastly, the RLASD received more than \$23.9 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the RLASD 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: Health Services Reimbursement Underpayment of \$38,218. Our audit of Health Services Reimbursement applications for the 2009-10 and 2008-09 school years found errors in the reporting of average daily membership to the Pennsylvania Department of Health for the 2008-09 school year resulting in reimbursement overpayments of \$38,218 (see page 6).

Finding No. 2: Internal Control Weaknesses Regarding the Reporting of Membership Data. Our audit of membership data for the 2009-10 and 2008-09 school years found internal control weaknesses in the reporting of membership data to the Pennsylvania Department of Education (see page 8).

Status of Prior Audit Findings and Observations. There were no findings or observations included in our prior audit report.



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 August 14, 2009 through November 28, 2011, except for the verification of professional employee certification which was performed for the period August 14, 2009 through November 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 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 RLASD'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?

- ✓ 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 buy-out 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, 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.

RLASD 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.

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 bus driver qualifications, professional employee certification, 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 RLASD operations.

Findings and Observations

Finding No. 1

Health Services Reimbursement Underpayment of \$38,218

Our audit of health services reimbursement applications for the 2009-10 and 2008-09 school years found errors in the reporting of average daily membership (ADM) to the Pennsylvania Department of Health (PDH) for the 2008-09 school year resulting in reimbursement underpayments of \$38,218, detailed as follows:

School Year	Reported ADM	Audited ADM	ADM Understated	Medical	Underpayments			Total Underpayment
					Dental	Nurse	Act 25	
2008-09	3,852.615	5,798.459	1,945.844	\$3,113	\$2,609 D	\$13,621 N	\$18,875	\$38,218

N- Nurse Service ADM – capped per Section 1402 (a.1) of the Public School Code; reduced by 303 ADM, audited ADM was 5,495.459.
D- Dental Hygienist Services were understated by 1,304.679 ADM; audited ADM was 3,749.

Criteria relevant to the finding:

Section 2505.1(a) of the Public School Code provides for a reimbursement of the lesser of actual program costs of \$1.60 for medical services, \$7.00 for nurse services for each child enrolled for the entire term, and proportionate share for each child enrolled for part of the term, and \$2.00 for dental hygiene services for each child enrolled in the school for the entire school term who receive such dental hygiene services. In addition, Act 25 of 1991 established that districts would receive an additional uncategorized reimbursement on account of health services of \$9.70 multiplied by the district's ADM.

District personnel were unable to determine the cause of the ADM understatements. However, there was staff turnover for the individual responsible for the reporting of health service ADM to PDH. Furthermore, the District confirmed a lack of written procedures for the reporting of data for health services reimbursement.

Section 1402(a.1) of the Public School Code provides that “the number of pupils under the care of each school nurse shall not exceed one thousand five hundred (1,500).

When districts report an excess of 1,500 students under the care of any nurse PDH reduces the ADM used to calculate nurse services reimbursement by the excess number of students.

Recommendations

The *Red Lion Area School District* should:

1. Develop and implement written procedures and guidelines for the collection, verification and reporting of ADMs for health services reimbursement.
2. Reconcile final health services voucher received from PDH to total ADMs reported by the District.
3. Review applications submitted subsequent to our current audit period, and if errors are noted, submit revised reports to PDH.

The *Pennsylvania Department of Health* should:

4. Adjust the District’s allocations to resolve the underpayment of \$38,218.

Management Response

Management stated the following:

The District administration has determined that staff turnover and the lack of written procedures for the filing of the Health Services report led to the under reporting of the average daily membership (ADM) for the fiscal year ended June 30, 2009. As a result of this finding, written procedures including a verification of reported ADMs are being prepared and will be followed when filing future reports.

Finding No. 2

Internal Control Weaknesses Regarding the Reporting of Membership Data

Criteria relevant to the finding:

Section 518 of the Public School Code requires that records be retained for a period of not less than six years.

The Pennsylvania Department of Education (PDE) guidelines and instructions require the maintenance and retention of adequate documentation to verify the district's entitlement to state payments. Failure to maintain and retain this documentation could result in the loss of state funding.

Our audit of membership data for the 2009-10 and 2008-09 school years found District personnel failed to reconcile student membership data reported to PDE to the District's membership reports to ensure agreement for both audit years. Additionally, one agency placement letter received by the District for the 2009-10 school year used to verify the residency of a child placed by the court was inaccurate.

Resident and Nonresident Membership Days

Our initial review of 2009-10 and 2008-09 school years student membership found numerous discrepancies between the membership days reported to PDE and the District's detailed student membership reports for both school years. District personnel confirmed reconciliation procedures were not done to ensure the membership data reported to PDE was in agreement with the District's student membership reports.

District personnel were able to recreate final membership reports for the 2009-10 school year from their child accounting software. As a result, the District was able to reconcile resident and nonresident membership data reported to PDE except for net differences of 45 resident and 30 nonresident days for five terms. For the 2008-09 school year, District personnel could not reconcile the insignificant differences in membership days for the five different school terms in which discrepancies were found.

No adjustments were made to student membership days reported by the District to PDE because we were not able to rely on the data.

Nonresident Supporting Documentation

The District received an inaccurate agency placement letter for one nonresident student who was placed in a private home and educated by the District during the 2009-10 school year. The letter identified two different student names calling into question the reliability of the source documentation.

Internal controls are the responsibility of management. The District noted that turnover in staff and the implementation of the new Pennsylvania Information Management System (PIMS) reporting process were the causes for not being able to reconcile the membership data for the 2009-10 school year. It was also noted by the District during the audit that there were miscommunications between pupil services and the building secretaries responsible for entering the data, leading to inaccurate reporting of student details. The District could not determine the cause of the insignificant discrepancies for the 2008-09 school year since personnel responsible for that year are no longer employed. The District did not have written procedures in place for the reporting of membership data for either school year.

Recommendations

The *Red Lion Area School District* should:

1. Develop and implement procedures to ensure supporting documentation for child accounting data, which supports membership data reported to PDE, is retained in a manner that it can be retrieved and will be available for audit.
2. Develop and implement written procedures for collecting and maintaining membership data.
3. Develop and implement procedures to reconcile student detail reports to final PDE reports.
4. Obtain accurate agency placement letters, which include foster family, natural parents' district of residence and whether a stipend was received, for all students reported as children placed in private homes.

Management Response

Management stated the following:

The District recognizes the personnel changes within the Pupil Personnel department, lack of written procedures and maintenance of supporting documents led to the inability of the Auditor General's representative to be able to verify student membership data for the audit periods ending June 30, 2010 and 2009. As a result of this audit, the District is developing written procedures outlining the student attendance recordkeeping process, the reporting process and the process to maintain accurate supporting

documentation. In addition, several job responsibilities have been reassigned to better align with the overall reporting process. The procedures will include opportunities for a District Administrator to approve the records, reports, and documents for retention.

Status of Prior Audit Findings and Observations

Our prior audit of the Red Lion Area School District resulted in no findings or observations.



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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