

RICHLAND SCHOOL DISTRICT  
CAMBRIA COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

SEPTEMBER 2010



The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Mr. James J. Roccio, Board President  
Richland School District  
340 Theatre Drive  
Johnstown, Pennsylvania 15904

Dear Governor Rendell and Mr. Roccio:

We conducted a performance audit of the Richland School District (RSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period December 7, 2007 through November 13, 2009, 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 RSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

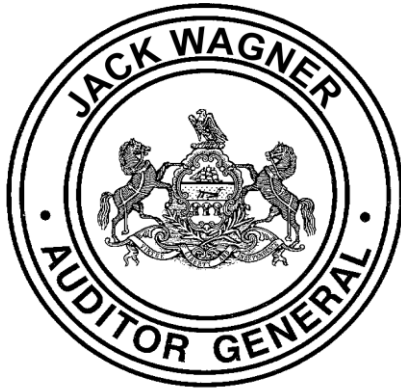
We appreciate the RSD's cooperation during the conduct of the audit.

Sincerely,

JACK WAGNER  
Auditor General

September 8, 2010

cc: **RICHLAND 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 Richland School District (RSD). 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 RSD in response to our prior audit recommendations.

Our audit scope covered the period December 7, 2007 through November 13, 2009, 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 RSD encompasses approximately 25 square miles. According to 2000 federal census data, it serves a resident population of 12,598. According to District officials, in school year 2007-08 the RSD provided basic educational services to 1,608 pupils through the employment of 105 teachers, 40 full-time and part-time support personnel, and 8 administrators. Lastly, the RSD received more than \$4.9 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the RSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. For the audited period, our audit of the RSD resulted in no findings or observations.

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the RSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the RSD had taken appropriate corrective action in implementing our recommendations pertaining to deficiencies in internal controls over student activity funds, possible conflicts of interest (see page 7), and reporting the number of nonpublic students transported (see page 8).





## 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 December 7, 2007 through November 13, 2009, except for the verification of professional employee certification which was performed for the period July 1, 2008 through June 30, 2009.

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

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 RSD'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?

*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.

- ✓ 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

*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 and conclusions based on our audit objectives.

RSD 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.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 5, 2008, we reviewed the RSD's response to DE dated January 26, 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 Richland School District resulted in no findings or observations.

## Status of Prior Audit Findings and Observations

Our prior audit of the Richland School District (RSD) for the school years 2005-06 and 2004-05 resulted in three reported findings. The first finding pertained to deficiencies in internal controls over student activity funds, the second finding pertained to possible conflicts of interest, and the third finding pertained to errors in reporting the number of nonpublic students transported. 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 RSD 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 RSD did implement our recommendations related to deficiencies in internal controls over student activity funds, possible conflicts of interest, and errors in reporting the number of nonpublic students transported.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Deficiencies in Internal Controls over Student Activity Funds</i></u></p> <ol style="list-style-type: none"> <li>1. Abolish all inactive accounts.</li> <li>2. Implement procedures to ensure that there are no booster-club controlled accounts commingled with student activity accounts.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of student activity fund records for the 2006-07 school year found deficiencies in the management and control of the funds.</p>	<p><b>Current Status:</b></p> <p>Our current audit of student activity funds for the 2008-09 school year determined that inactive accounts were abolished and the District is no longer commingling booster club accounts with student activity accounts.</p> <p>Based on our current audit, we determined the District did take appropriate corrective action.</p>
<p><u><i>II. Finding No. 2: Possible Conflicts of Interest</i></u></p> <ol style="list-style-type: none"> <li>1. Strengthen controls regarding the review of Statements of Financial Interests to ensure detection of any conflicts of interest.</li> <li>2. Strengthen controls to help ensure compliance with state laws regarding board members conducting business with the District.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of District records and board members’ Statements of Financial Interest identified transactions that may have constituted a conflict of interest for two board members.</p>	<p><b>Current Status:</b></p> <p>Our current audit of Statements of Financial Interests for the 2008 and 2007 calendar year determined there were no potential conflicts of interest and board members were not conducting business with the District.</p> <p>Based on our current audit, we determined the District did take appropriate corrective action.</p>

<p><u>III. Finding No. 3: Errors in Reporting the Number of Nonpublic Students Transported</u></p> <ol style="list-style-type: none"><li>1. Review reports prior to their submission to DE to ensure they are accurate.</li><li>2. Review all reports submitted subsequent to our audit years and submit revised reports if similar errors are found.</li><li>3. DE should adjust the District's allocations to recover the net overpayment of \$3,080 in nonpublic pupil reimbursement.</li></ol>	<p><b>Background:</b></p> <p>Our prior audit of the District's pupil transportation data for the 2005-06 and 2004-05 school years found errors in the number of nonpublic pupils reported to DE, which resulted in a net overpayment of \$3,080 in nonpublic pupil transportation reimbursement.</p>	<p><b>Current Status:</b></p> <p>Our current audit of pupil transportation for the 2007-08 and 2006-07 school years determined the District accurately reported the number of nonpublic pupils to DE.</p> <p>Based on our current audit, we determined the District did take appropriate corrective action.</p> <p>As of November 13, 2009, DE had not adjusted the District's allocation to recover the overpayment of \$3,080 in nonpublic pupil transportation reimbursement. We again recommend that DE do so.</p>
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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.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

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State Treasurer  
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