

SCHOOL DISTRICT OF THE CITY OF JEANNETTE
WESTMORELAND COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

OCTOBER 2009

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

Ms. Shelly Beckner, Board President
School District of the City of Jeannette
198 Park Street
Central Administration Building
Jeannette, Pennsylvania 15644

Dear Governor Rendell and Ms. Beckner:

We conducted a performance audit of the School District of the City of Jeannette (SDCJ) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 17, 2006 through March 27, 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, 2006, and June 30, 2005, as they were the most recent reimbursements subject to audit. 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 SDCJ complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the 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 SDCJ's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve SDCJ's operations and facilitate compliance with legal and administrative requirements. We appreciate the SDCJ's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

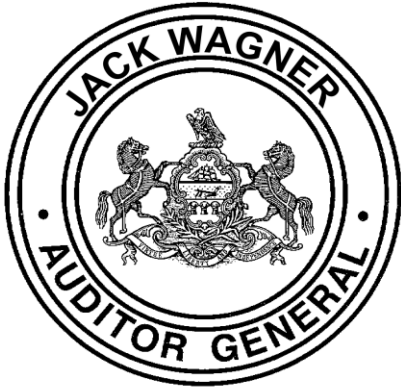
JACK WAGNER
Auditor General

October 29, 2009

cc: **SCHOOL DISTRICT OF THE CITY OF JEANNETTE** Board Members

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the School District of the City of Jeannette (SDCJ). 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 SDCJ in response to our prior audit recommendations.

Our audit scope covered the period March 17, 2006 through March 27, 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 2005-06 and 2004-05 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

District Background

The SDCJ encompasses approximately 2 square miles. According to 2000 federal census data, it serves a resident population of 10,654. According to District officials, in school year 2005-06 the SDCJ provided basic educational services to 1,297 pupils through the employment of 93 teachers, 49 full-time and part-time support personnel, and 11 administrators. Lastly, the SDCJ received more than \$8.8 million in state funding in school year 2005-06.

Audit Conclusion and Results

Our audit found that the SDCJ 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 1: Transportation Reimbursement Underpayment of \$1,925.

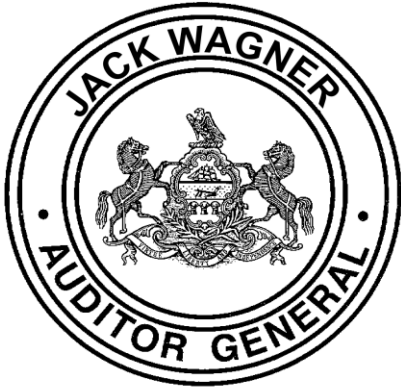
For the 2005-06 school year, the number of nonpublic students transported was understated, resulting in a transportation underpayment of \$1,925 (see page 6).

Finding 2: Errors in Reporting Nonresident Membership Resulted in an Overpayment of \$7,386 in Tuition for Children Placed in Private Homes.

Our current audit of pupil membership submitted to the Department of Education (DE) for the 2005-06 school year found that nonresident membership for children placed in private homes was overstated by 180 days. This error resulted in an overpayment of \$7,386 (see page 8).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the SDCJ from an audit we conducted of the 2003-04 and 2002-03 school years, we found the SDJC had not taken adequate corrective action in implementing our recommendations pertaining to errors in pupil transportation data reported to DE (see page 10)



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 March 17, 2006 through March 27, 2009, except for the verification of professional employee certification which was performed for the period January 1, 2006 through October 20, 2008.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 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 SDCJ'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?

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 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?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ 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 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.

SDCJ 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.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 18, 2006, we reviewed the SDCJ's response to DE dated February 2, 2007. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Transportation Reimbursement Underpayment of \$1,925

Criteria relevant to the finding:

Section 2509.3 of the Public School Code authorizes reimbursement for each nonpublic student transported.

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

Our review of the District's pupil transportation records for the 2005-06 and 2004-05 school years found errors in data reported to the Department of Education (DE) for the 2005-06 school year. The number of nonpublic students transported was understated, resulting in a transportation underpayment of \$1,925.

During school year 2005-06, the District understated the number of nonpublic students transported by 5 students. The District did not centralize all the records necessary to support the number of nonpublic students transported. As a result of the District's failure to centralize the needed records, pupils from one nonpublic school were not reported.

We have provided DE with a report detailing the transportation errors for use in recalculating the District's 2005-06 school year nonpublic transportation subsidy.

Recommendations

The School District of the City of Jeannette should:

1. Require administrative personnel to perform an internal review of transportation reports prior to their submission to DE to ensure accurate reporting of the number of nonpublic pupils transported.
2. Ensure that records are maintained so that all necessary information is available to personnel preparing transportation reports as well as for audit purposes.
3. Review reports submitted to DE subsequent to the years audited and, if errors are found, submit revised reports.

The Department of Education should:

4. Adjust the District's allocations to correct the \$1,925 underpayment of transportation reimbursement.

Management Response

Management stated the following:

The District forgot to include students from Christian Fellowship School when adding total number of students.

Finding No. 2

Criteria relevant to the finding:

Section 2503(c) of the Public School Code provides that the Commonwealth will pay tuition to districts providing education to nonresident children placed in private homes. The payments are based on the membership days reported for such children.

Errors in Reporting Nonresident Membership Resulted in an Overpayment of \$7,386 in Tuition for Children Placed in Private Homes

Our audit of pupil membership reports submitted to DE for the 2005-06 school year found that nonresident secondary membership for children placed in private homes was overstated by 180 days. The error resulted in an overpayment of \$7,386 in tuition for children placed in private homes.

No errors were noted in the 2004-05 school year.

Nonresident pupil membership data must be maintained and reported in accordance with DE guidelines and instructions, since it is a major factor in determining the Commonwealth's payments of tuition for children placed in private homes.

The error occurred because District personnel incorrectly classified a resident student as a nonresident.

We have provided DE with reports detailing the nonresident membership errors for use in recalculating the District's tuition payments.

Recommendations

The *School District of the City of Jeannette* should:

1. Review membership data thoroughly to ensure students are properly classified prior to submitting reports to the DE.
2. Review reports submitted subsequent to the years audited, and submit revised reports to DE if errors are found.

The *Department of Education* should:

3. Adjust the District's allocations to recover the \$7,386 overpayment of tuition for children placed in private homes.

Management Response

Management provided the following response:

The District agrees with the finding and will pursue corrective action as recommended by the auditors. The District recognizes that pupil membership must be maintained in accordance with Department of Education guidelines and instructions, since this data is a major factor in determining the District's receipt of Commonwealth paid tuition for children placed in private homes.

As recommended, the District will:

- Continue to provide regular in-service training to administrative and clerical personnel responsible for recording and reporting membership data.
- Review procedures currently in place to ensure proper classification of students enrolling in the District as resident or non-resident and the necessary steps required for documenting district or residence of natural parents or guardians.
- Review reports submitted to the Department of Education subsequent to the years audited and ensure adequate documentation of students classified as non-resident is maintained.
- Central Administration (i.e. the Superintendent and the Business Manager) and the Director of Pupil Personnel will continue to monitor the collection of student data for resident and non-resident students.

The recommendations of the auditors have already been implemented and will continue to be observed and monitored by the Superintendent, Business Manager, and Director of Pupil Personnel to assure full implementation of those recommendations.

Status of Prior Audit Findings and Observations

Our prior audit of the School District of the City of Jeannette (SDCJ) for the school years 2003-04 and 2002-03 resulted in one reported finding. This finding pertained to transportation reimbursement. 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 SDCJ Board’s written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the SDCJ did not adequately implement recommendations related to the transportation errors.

<i>School Years 2003-04 and 2003-04 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Transportation Reimbursement Overpayment of \$4,235</i></u></p> <ol style="list-style-type: none"> 1. Ensure the number of charter school students transported is accurately reported. 2. Review reports submitted for years subsequent to our current audit period, and if similar errors are found, submit revised reports to DE. 3. DE should adjust the District’s allocations to recover the reimbursement overpayment of \$4,235. 	<p>Background:</p> <p>Our prior audit of the District’s pupil transportation records found errors in data reported to DE for the 2003-04 school year.</p> <p>District personnel incorrectly reported that transportation was provided to 11 charter school students, when in fact no transportation services were provided.</p>	<p>Current Status:</p> <p>Based on the results of our current audit, we concluded that the SDCJ <u>did</u> take appropriate corrective action regarding charter school students.</p> <p>However, the District failed to correctly report the number of nonpublic students transported. This issue is addressed in Finding No. 1 in the current audit (page 6).</p> <p>As of March 27, 2009, DE had not deducted the \$4,235 from the District’s allocations. We again recommend that DE take action to resolve this overpayment.</p>

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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Harrisburg, PA 17120

Senator Jeffrey Piccola
Chair
Senate Education Committee
173 Main Capitol Building
Harrisburg, PA 17120

Senator Andrew Dinniman
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Senate Education Committee
183 Main Capitol Building
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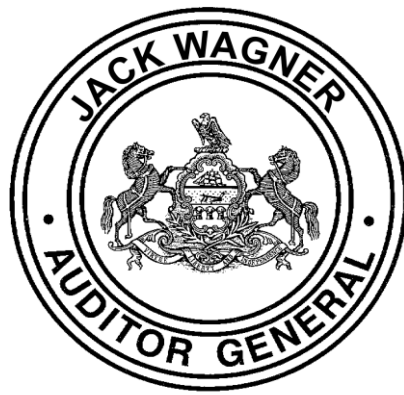
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