

SAYRE AREA SCHOOL DISTRICT
BRADFORD 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. James Osborn, Board President
Sayre Area School District
333 West Lockhart Street
Sayre, Pennsylvania 18840

Dear Governor Corbett and Mr. Osborn:

We conducted a performance audit of the Sayre Area School District (SASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period March 10, 2009 through May 15, 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 SASD 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 SASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve SASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the SASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 9, 2013

cc: **SAYRE 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 Sayre Area School District (SASD). 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 SASD in response to our prior audit recommendations.

Our audit scope covered the period March 10, 2009 through May 15, 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 SASD encompasses approximately 58 square miles. According to 2000 federal census data, it serves a resident population of 5,850. According to District officials, in school year 2009-10 the SASD provided basic educational services to 1,131 pupils through the employment of 90 teachers, 63 full-time and part-time support personnel, and 9 administrators. Lastly, the SASD received more than \$8 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the SASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, as noted below, we identified two compliance-related matters reported as findings.

Finding No. 1: Errors in Reporting Pupil Membership.

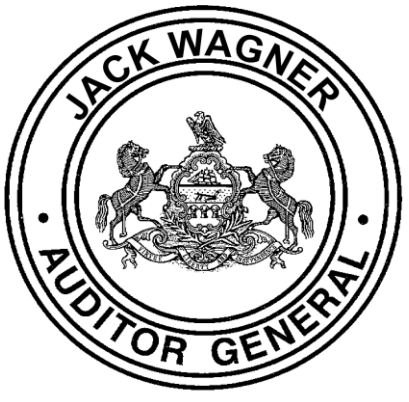
Our audit of SASD's pupil membership reports submitted to the Pennsylvania Department of Education for the 2009-10 school year found reporting errors in resident days, instructional days and a lack of internal controls. The net understatement of resident membership and instructional days during the 2009-10 school year did not have an effect on the 2009-10 basic education funding. However, future basic education funding may be affected (see page 6).

Finding No. 2: Possible Improper Reporting of Retirement Wages.

Our audit of the SASD administrative employment contracts, agreements and payroll records found wages for the current Superintendent paid during the 2010-11 school year may have been improperly reported to the Public School Employees' Retirement System (see page 9).

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 March 10, 2009 through May 15, 2012, except for:

- The verification of professional employee certification which was performed for the period July 1, 2011 through April 4, 2012.
- The verification of retirement wages which we performed for the school years 2008-09 through 2010-11.

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

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 SASD'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?

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.

- ✓ 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. retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District receives transportation subsidies, is the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that its current bus drivers are properly qualified, and does it 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?

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 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.

SASD 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, 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 SASD operations.

Findings and Observations

Finding No. 1

Errors in Reporting Pupil Membership

Criteria relevant to the finding:

According to PDE's 2009-10 PIMS User Manual, all Pennsylvania LEAs must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; LEP Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the Federal Information Systems Control Manual (FISCAM), a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

Instructional time and membership data for resident children placed in private homes must be maintained and reported accurately and in accordance with PDE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

Beginning with the 2009-10 school year, the Pennsylvania Department of Education (PDE) now bases all local education agencies' state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems. PIMS replaces PDE's previous reporting system, the Child Accounting Database (CAD), which PDE ran concurrently until it brought PIMS completely online. PDE no longer accepts child accounting data through the CAD system.

Our audit of Sayre Area School District's (SASD) pupil membership reports submitted to PDE for the 2009-10 school year found reporting errors in resident days, instructional days and a lack of internal controls. The net understatement of resident membership and instructional days during the 2009-10 school year did not have an effect on the 2009-10 basic education funding. However, future basic education funding may be affected.

Instructional days for resident students educated during the 2009-10 school year were incorrectly reported in PIMS at 176 days. However, aggregate days membership were based on each student's membership at 178 days causing an overstatement of average daily membership (ADM) as follows:

	<u>Reported</u>	<u>Audited</u>	<u>Over Reported</u>
Half Time Pre- Kindergarten	2.278	2.252	.026
Full Time Kindergarten	91.431	90.404	1.027
Elementary	503.869	498.207	5.662
Secondary	509.789	504.061	5.728

Additional errors in reporting half-time pre-kindergarten for the 2009-10 school year resulted in an additional understatement of 2,735 aggregate days membership. Combined with instructional days errors, this would result in a net ADM understatement of 15.339

Secondary membership days reported for students enrolled in the career center during the 2009-10 school year were understated by 2,096 days for the portion of time the students were educated at the District. This resulted in a 11.775 understatement of secondary ADMs.

District personnel failed to reconcile final reports submitted to PDE with District records. Also, District personnel misunderstood the PIMS guidelines which caused reporting errors.

PDE has been provided a report detailing the errors for use in recalculating the District's reimbursement.

Recommendations

The *Sayre Area School District* should:

1. Establish internal controls that include reconciliations of the data that is uploaded into PIMS.
2. Strengthen controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions.
3. Implement controls to verify actual membership days to computer generated reports.
4. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
5. Review subsequent year reports and if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

6. Adjust the District's allocations to resolve any net underpayments in future funding based on these errors.

Management Response

Management stated the following:

When student records were uploaded to PIMS, the district software did not recognize half days calendars for “Ready Four” students or vo-tech students. Therefore, the records were not uploaded.

The district has corrected the 2010-11 records ensuring half days were uploaded. Furthermore, the district changed its student management software. The district will upload five master calendars for the 2011-12 school year (Ready 4 am, Ready 4 pm, Elementary, High School and vo-tech). This measure will ensure that no student goes unreported.

Finding No. 2

Possible Improper Reporting of Retirement Wages

Criteria relevant to the finding:

The PSERS Employer Reference Manual defines unqualified salary and wages as follows:

Because employers frequently make payments to their employees in excess of base salary, it is necessary for PSERS to review such payments and determine whether they represent "compensation" for retirement purposes . . . Correct classification of payments is imperative since the amount of compensation received dictates not only the sum of member contributions due the Fund, but also the final average salary used in calculating member retirement benefits . . . The types of payments listed below, made to a school employee eligible for PSERS membership, are NOT compensation for retirement purposes and should not be reported:

Payment to a member in lieu of a benefit a member is eligible to receive, or any reimbursement received by the member. These payments do not become part of the member's standard pay schedule.

PSERS allows only qualified salary and wages to be included for retirement purposes. According to Pennsylvania School Employees' Retirement Board Regulations, Section 211.2, reported compensation should: "exclude . . . payments or similar emoluments which may be negotiated in a collective bargaining agreement for the express purpose of enhancing the compensation factor for retirement benefits."

Our audit of the Sayre Area School District (SASD) administrative employment contracts, agreements and payroll records found wages for the current Superintendent paid during the 2010-11 school year may have been improperly reported to the Public School Employees' Retirement System (PSERS).

A salary schedule included with the Superintendent's 2005-06 through 2009-10 employment contract listed his 2010-11 salary at \$128,241. The prior contract also noted that he was a 260 day employee. The Superintendent's current contract effective July 1, 2011 changed him to a 250 day employee with the option to be paid his daily rate if he chose to work the additional ten days. His base salary remained at \$128,241, but now he was eligible to receive an additional \$5,130 per year for working the ten days. The inclusion of this payment may have resulted in the SASD and the employee overpaying retirement contributions to PSERS. Furthermore, it is not known at this time if the SASD will include these payments in the employee's base salary prior to calculating subsequent yearly wage increases.

According to SASD personnel, the school board wanted to allow the Superintendent the benefit of additional time off if needed.

Possible errors in reporting wages for the Superintendent due to including payments which enhanced his compensation factor for retirement benefits caused the Superintendent to overpay PSERS \$385 and the SASD to overpay PSERS \$289 for the 2010-11 school year.

Although the board has the authority to craft the terms of a contract, the board may not supersede the PSERS' benefit structure. PSERS does not allow payments which may be negotiated in a collective bargaining agreement for the express purpose of enhancing the compensation factor for retirement benefits.

The information concerning the possible inaccuracy will be submitted to PSERS for their final determination.

Recommendations

The *Sayre Area School District* should:

1. Contingent upon PSERS final determination, report to PSERS only those wages allowable for retirement purposes, as stated in PSERS Employer Reference Manual.
2. Implement procedures for reviewing all salary and contribution reports, to ensure that only eligible wages are being reported to PSERS for retirement contributions.

The *Public School Employees' Retirement Systems* should:

3. Review the propriety of the wages for the Superintendent and make any necessary adjustments to his retirement wages.

Management Response

Management stated the following:

Management does not agree that there is a “problem” and believes that the Office of the Auditor General may have misinterpreted the Personal Services Contract with the Superintendent or are under a misunderstanding of some sort.

The Board of Education of the Sayre Area School District entered into a Contract with the Superintendent to be effective July 1, 2010. The Contract of which all Board Members were aware and approved of, provides that the basic number of days to be worked is 250 days per year. However, the Contract allows the Superintendent to work up to an additional 10 days per year and in the event that he works any or all of those additional days he is paid at his per diem rate. Management has reviewed this matter with representatives of the Pennsylvania Public School Employees Retirement System who have advised on two occasions that because the Contract defines the specific days to be worked, the retirement deduction is a required deduction and an appropriate deduction.

Accordingly, Management does not agree that there has been any improper reporting of retirement wages in this situation. If the Superintendent does not work those days, he is not paid.

Auditor Conclusion

As stated in this finding, PSERS should determine the propriety of the wages for the Superintendent and make any necessary adjustments to his retirement wages.

The finding will remain as written.

Status of Prior Audit Findings and Observations

Our prior audit of the Sayre 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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