

SAYRE AREA SCHOOL DISTRICT
BRADFORD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2009

The Honorable Edward G. Rendell
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 Rendell and Mr. Osborn:

We conducted a performance audit of the Sayre Area School District (SASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period December 20, 2006 through March 10, 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, 2007, 2006 and 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 SASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the SASD'S cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/
JACK WAGNER
Auditor General

August 10, 2009

cc: **SAYRE AREA SCHOOL DISTRICT** Board Members

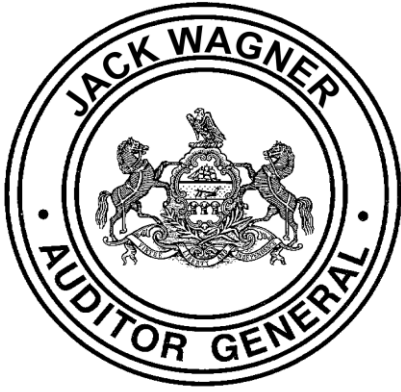
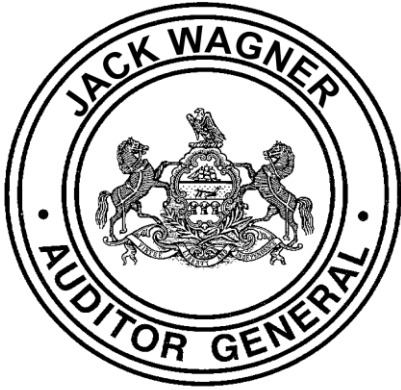


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Executive Summary

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, regulations, 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 December 20, 2006 through March 10, 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, 2006-07, 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

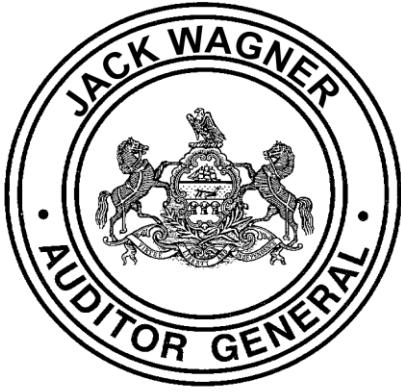
The SASD encompasses approximately 58 square miles. According to 2000 federal census data, it serves a resident population of 5,813. According to District officials, in school year 2007-08 the SASD provided basic educational services to 1,212 pupils through the employment of 86 teachers, 64 full-time and part-time support personnel, and 13 administrators. Lastly, the SASD received more than \$7.4 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the SASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the SASD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the SASD had taken appropriate corrective action in implementing our recommendations pertaining to professional employee certification, nonpublic pupil transportation, and nonresident membership (see page 7).



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 December 20, 2006 through March 10, 2009, except for the verification of professional employee certification which was performed for the period October 1, 2006 through January 30, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 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 SASD'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 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 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.

SASD 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 SASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 22, 2007, we reviewed the SASD'S response to DE dated May 14, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Sayre Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

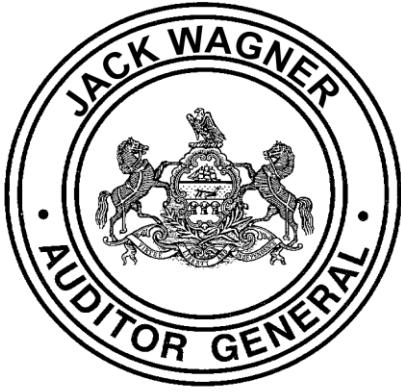
Our prior audit of the Sayre Area School District (SASD) for the school years 2003-04 and 2002-03 resulted in three findings. The first finding pertained to teacher certification, the second finding pertained to nonpublic pupil transportation, and the third finding pertained to nonresident membership. 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 SASD superintendent'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 Sayre Area School District did implement recommendations related to certification, nonpublic transportation and nonresident membership.

<i>School Years 2002-03 and 2003-04 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding 1: Nonresident Membership Errors Resulted in an Underpayment</i></u></p> <p><i>The board should:</i></p> <ol style="list-style-type: none"> 1. Strengthen controls to ensure pupil membership is reported in accordance with DE guidelines and instructions. 2. Review nonresident student records to verify district of residence. 3. Perform an internal review of membership reports and summaries prior to submission of final reports to DE. 4. Review subsequent years' reports and if errors are found, submit revised reports to DE. 	<p>Background:</p> <p>Our audit found that the District's pupil membership reports for the 2003-04 school year were inaccurate. As a result, the SASD was underpaid \$7,997 and the Troy Area School District (TASD) and Athens Area School District (AASD) were overpaid reimbursements of \$6,271 and \$621 respectively.</p>	<p>Current Status:</p> <p>We followed up on SASD's nonresident membership reports and determined that SASD <u>did</u> take corrective action to address our prior audit recommendations.</p> <p>DE had not adjusted the District's allocations to resolve the subsidy forfeiture as of our fieldwork completion date.</p>

<p>DE should:</p> <ol style="list-style-type: none"> 1. Adjust the District's future allocations to correct the \$7,997 underpayment and any special education underpayment. 2. Adjust the TASD's future allocations to correct the \$6,271 overpayment and any special education overpayment. 3. Adjust the AASD's future allocations to correct the \$621 overpayment and any special education overpayment. 		
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<p><u>II. Finding 2: Errors in Reporting Nonpublic Pupil Transportation Data Resulted in Underpayments</u></p> <ol style="list-style-type: none"> 1. Implement procedures to ensure that nonpublic pupils transported are accurately recorded and reported to DE. 2. Review reports submitted subsequent to the audit period, and if similar errors are found, submit revised reports to DE. 3. DE should adjust the District's allocation to correct the underpayment of \$6,930. 	<p>Background:</p> <p>Our audit of the District's pupil transportation data found discrepancies in reports submitted to DE for the 2003-04 and 2002-03 school years, resulting in subsidy underpayments to the District of \$2,695 and \$4,235, respectively.</p>	<p>Current Status:</p> <p>We followed up on SASD nonpublic pupil transportation reports and determined that SASD <u>did</u> take corrective action to address our prior audit recommendations.</p> <p>DE has not adjusted the District's allocations to resolve the underpayment as of our fieldwork completion date.</p>
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<p><i>III. Finding 3: Certification Irregularity</i></p> <ol style="list-style-type: none">1. Only hire individuals with proper certificates.2. DE should adjust the District's future allocations to recover the \$1,187 subsidy forfeiture.	<p>Background:</p> <p>Our audit of the professional employees' certificates and assignments for the period March 5, 2004 through September 30, 2006 found a teacher without certification, was hired as a long-tem substitute.</p>	<p>Current Status:</p> <p>We followed up on SASD certification and determined that SASD <u>did</u> take corrective action to address our prior audit recommendations.</p> <p>DE had not adjusted the District's allocations to resolve the subsidy forfeiture.</p>
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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:

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

The Honorable Gerald Zahorchak, D.Ed.
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Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
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Harrisburg, PA 17120

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173 Main Capitol Building
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Senator Andrew Dinniman
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Senate Education Committee
183 Main Capitol Building
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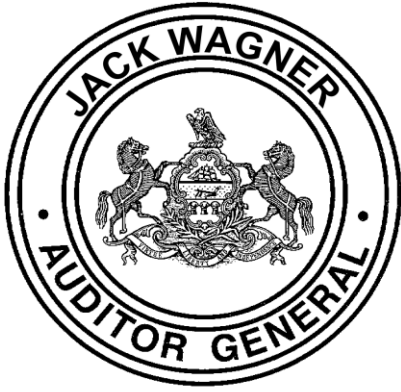
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