

SHAMOKIN AREA SCHOOL DISTRICT  
NORTHUMBERLAND COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2012



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

Ms. Tracey Witmer, Board President  
Shamokin Area School District  
2000 West State Street  
Coal Township, Pennsylvania 17866

Dear Governor Corbett and Ms. Witmer:

We conducted a performance audit of the Shamokin Area School District (SASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period August 30, 2007 through December 7, 2010, 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 SASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding, observation 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 and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

January 23, 2012

cc: **SHAMOKIN AREA 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 Shamokin 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 August 30, 2007 through December 7, 2010, 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 SASD encompasses approximately 64 square miles. According to 2000 federal census data, it serves a resident population of 20,695. According to District officials, in school year 2007-08 the SASD provided basic educational services to 2,588 pupils through the employment of 174 teachers, 102 full-time and part-time support personnel, and 14 administrators. Lastly, the SASD received more than \$15.7 million in state funding in school year 2007-08.

In March of 1999, the SASD contracted with Northwestern Human Services of Pennsylvania, Inc. (NHS), a private non-profit corporation, to provide educational services to adjudicated minors in a detention facility known as

Northwestern Academy that is located within the boundaries of the SASD. NHS operates the Northwestern Academy School (Northwestern) on the grounds of the Northwestern Academy. Northwestern is a private school licensed by the State Board of Private Academic Schools of the Pennsylvania Department of Education (DE). The educational services were provided by the teaching staff of Northwestern. Per the agreement, NHS was to provide the SASD with all information necessary to allow the SASD to arrange for reimbursements from school districts pursuant to the provisions of Section 1309 of the Public School Code. The agreement further provided that the SASD was to subtract and keep a 7 percent fee from the tuition received from the school districts of residence of students educated at Northwestern. Regarding the billing and collecting of tuition charges, the agreement expressly limited the SASD's liability to NHS to that of a "pass through limited to reimbursement it receives from the resident student's home district of Northumberland County less 7 percent." We noted numerous problems with this contractual agreement, as detailed in our prior audit report and status finding nos. 4, 5, 6 and 7.

### **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 one compliance-related matter reported as a finding and one matter unrelated to

compliance that is reported as an observation.

**Finding: Continued Incorrect Reporting of Nonresident Membership, Resulting in the District Being Overpaid**

**Reimbursements.** Our current audit of child accounting records found that SASD personnel incorrectly reported data to DE for out-of-state students at NHS for the 2007-08 and 2006-07 school years. One parent-paid tuition student was reported as a 1305 nonresident for the 2007-08 and 2006-07 school years. Membership days for two students were reported twice in the 2007-08 school year as 1305 nonresident students. One resident student was reported as a nonresident student for the 2006-07 school year. Furthermore, DE paid the SASD on preliminary figures during the 2007-08 school year (see page 6).

**Observation: Continued Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications.**

The SASD continues to have internal control weaknesses in administrative policies regarding bus drivers' qualifications. Neither the SASD nor the transportation contractors have written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses (see page 10).

**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 2005-06 and 2004-05 school years, we found the SASD had taken appropriate corrective action in implementing our recommendations pertaining to their child accounting, child accounting applications, (see page 13) lease rental fees (see page 14) tuition billing findings (see page 16) and the

MOU observation (see page 19). Also, we found the SASD had not taken appropriate corrective action in implementing our recommendations pertaining to their transportation (see page 12), nonresident membership (see page 15), and the bus driver internal control (see page 18). Furthermore, DE had not provided guidance on the contract agreement between SASD and Northwestern Academy. Also, DE and/or the Department of Health have not determined whether the nursing arrangement with Northwestern is acceptable (see page 17).



## 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 August 30, 2007 through December 7, 2010.

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

*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 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?
- ✓ 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 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, 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 finding, observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding, observation 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 and professional employee certification.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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 June 30, 2010, we reviewed the SASD's response to DE dated October 11, 2007. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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*Criteria relevant to the finding:*

Resident, nonresident, and vocational education membership data must be maintained in accordance with DE guidelines and instructions, since they are major factors in determining the district's subsidies and reimbursements.

### **Continued Incorrect Reporting of Nonresident Membership, Resulting in the District Being Overpaid Reimbursements**

Our previous audit found that the Shamokin Area School District (SASD) had discrepancies in data reported to the Department of Education (DE) for students attending Northwestern Academy (Northwestern). The incorrect tuition rate was used, and resident students were reported as nonresident students.

Our current audit of child accounting records found that SASD personnel incorrectly reported data to DE for out-of-state students at Northwestern for the 2007-08 and 2006-07 school years.

The errors in reporting membership days for out-of-state students occurred when SASD personnel incorrectly classified 432 membership days for the 2007-08 school year for students classified as wards of the state and incorrectly classified 67 membership days for the 2006-07 school year for students classified as wards of the state. The misclassification led to the State reimbursing the District instead of the applicable out of state district paying tuition to the SASD.

SASD personnel reported membership days for one parent-paid tuition student as a nonresident foster student for the 2007-08 and 2006-07 school years. The errors occurred when SASD personnel incorrectly classified 180 parent-paid tuition membership days as nonresident foster student membership days for each school year.

Another error occurred when the SASD reported two nonresident students days membership twice for a total of 322 days during the 2007-08 school year.

The final errors occurred when the SASD reported one resident student as a nonresident student for 38 days for the 2006-07 school year.

The above errors by the District resulted in the SASD being overpaid \$29,645 for the 2007-08 school year and \$9,589 for the 2006-07 school year. The District received an additional \$34,352 reimbursement overpayment for the 2007-08 school year as a result of DE using a preliminary report for nonresident students to calculate the District's reimbursement.

## **Recommendations**

The *Shamokin Area School District* should:

1. Implement controls to help ensure that membership for out-of-state students educated at Northwestern is reported to DE correctly.
2. Review all membership for institutionalized children reported to DE for students at Northwestern for subsequent years and submit revised reports to DE if errors are found.
3. Implement controls to ensure that membership days for students educated at Northwestern are not counted twice, are not misclassified as resident students, and are not reported as parent paid tuition students.

The *Department of Education* should:

4. Reimburse the SASD based on final school reports and if changes are made, make adjustments as soon as necessary.
5. Provide guidance to the SASD for reporting membership days for out-of-state students educated at Northwestern to eliminate errors from recurring in subsequent years.
6. Adjust the SASD's allocations to resolve the reimbursement overpayment of \$73,586 for the 2007-08 and 2006-07 school years.
7. Adjust the SASD's allocations to resolve the prior audit reimbursement overpayments of \$87,909 for the 2005-06 and 2004-05 school years and \$27,748 for the 2003-04 and 2000-01 school years.

**Management Response**

Management stated the following:

Cause and Background:

The Shamokin Area School District contracts with Northwestern Academy for educational services provided to adjudicated juveniles enrolled at the academy. When a student is placed at the academy, the standard PDE-4605 form is sent to the school district that the student most recently attended for an “acknowledgement.” Some of the districts “disclaim” the student which prompts further research and effort by representatives at Northwestern Academy to locate the last district of residence. Occasionally, regardless of the efforts initiated, a resident district cannot be established by this process and therefore no District is financially responsible for this student. When this occurs, the Shamokin Area School District is forced to report this student as “ward of the state” on its child accounting report.

This report is uploaded and submitted to PDE after the conclusion of the fiscal year, at which time, appropriations for payment are made to the Shamokin Area School District for these students deemed “wards of the state” from PDE. This presents a problem since at the same time, the District submits a request to the Division of School Services (PDE) to designate the listing of students as “wards of the state.” The Division of School Services is the only entity that has the authority to approve or deny the requested students as “wards of the state.”

One typical example would be the student whose last district of residence is located outside the boundary of Pennsylvania in a neighboring state and would be denied as a ward of the state, but yet the payment was already made to the Shamokin Area School District (overpayment). Consequently, the District’s subsidy is then reduced to reflect this change.

Corrective Action Plan:

District administrators and representatives from Northwestern Academy have been working with PDE Chief Counsel on the establishment of a system that will place a greater responsibility on the resident districts in

order that a District cannot merely mark the word “disclaimed” on the 4605 and exonerate itself from financial responsibility and further research on the students’ last district of residence.

It is the District’s understanding that the PDE Chief Counsel intends to issue a BEC, (Basic Educational Circular) that will establish guidelines and procedures for dealing with students enrolled in these facilities.

Based on the aforementioned, the District is confident that the appropriate internal controls will be in place in order to eliminate the possibility of this oversight from happening in the future.

**Auditor Conclusion**

We appreciate the efforts of the SASD to reach a resolution with DE regarding the correct reporting of membership for facilities like Northwestern Academy. We will review the outcome of their resolution in our next scheduled audit of SASD.

**Observation** →

**Continued Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications**

*Criteria relevant to the observation:*

Section 111 of the Public School Code requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Similarly, Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to submit an official child abuse clearance statement obtained from the Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have a committed child abuse.

Chapter 23 of the State Board of Education Regulations indicates the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

The Shamokin Area School District (SASD) continues to have internal control weaknesses in administrative policies regarding bus drivers' qualifications.

Our previous audits of personnel records of a random sample of bus drivers employed by the SASD and the SASD's transportation contractors found that these individuals possessed the minimum requirements to be employed as bus drivers and that the SASD had on file the required report of criminal history record information and an official child abuse clearance statement for all drivers' files that we reviewed. There was no information contained in these reports that would have prohibited the SASD from hiring any of the drivers. Therefore, we concluded that the SASD has satisfied the minimum legal requirements set forth in both the Public School Code and the CPSL. Additionally, there were no serious crimes identified or other information that called into question an applicant's suitability to have direct contact with children.

However, neither the SASD nor the transportation contractors have written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses which were to be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

**Recommendations**

The *Shamokin Area School District* should:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the SASD or the SASD's transportation contractors have been charged with or convicted of crimes that, even though not barred by state law, affect their suitability to have direct contact with children.



2. Implement written policies and procedures to ensure the SASD is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.

**Response of Management**

Management stated the following:

The management of the district is in agreement with this observation and is confident our legislature will revise the Pennsylvania School Code of 1949 to mandate annual clearances from bus drivers, but until that time, we will comply within the present laws and regulations

**Auditor Conclusion**

Management stated that it will only comply with present laws and regulations. We urge the SASD to implement our recommendations. We will again re-visit this issue during our next audit of the SASD.

Effective September 28, 2011, Section 111 of the Public School Code was amended. The amendments added additional offenses under the Pennsylvania Crimes Code that qualify as Section 111(e) offenses and increased the period of disqualification for Section 111 (e) offenses. Now, a person convicted of a Section 111(e) offense is permanently excluded from school employment if he or she has been convicted of a Section 111(e) offense at any time. The amendments also require current school employees to provide assurances that they have not been previously arrested or convicted of Section 111(e) offenses. Although the amendments do not require annual clearances from bus drivers, in light of the amendments, SASD should review the amended law and comply with all provisions.

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Shamokin Area School District (SASD) for the school years 2005-06 and 2004-05 resulted in seven reported findings and two observations as shown in the following table. As part of our current audit, we determined the status of corrective action taken by the SASD to implement our prior recommendations. We analyzed the SASD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned SASD personnel regarding the prior findings and observations. As shown below, we found that the SASD did implement recommendations related to its child accounting, child accounting applications, lease rental fees and tuition billing findings and the Memorandum of Understanding observation. Also, shown below, we found that the SASD did not implement recommendations related to transportation and nonresident membership findings and the bus driver internal control observation. Furthermore, DE has not given guidance on the contract agreement between SASD and Northwestern Academy. Also, neither DE nor the Department of Health (DH) has determined whether the nursing services arrangement with Northwestern is acceptable.

### **School Years 2005-06 and 2004-05 Auditor General Performance Audit Report**

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**Finding No. 1:            Incorrect Reporting of Transportation Data**

Finding Summary:    Our prior audit of the SASD's local education agency (LEA-owned) pupil transportation records and other financial data found a discrepancy in reports submitted to DE for the 2005-06 school year. The discrepancy resulted in a reimbursement subsidy underpayment of \$39,866.

Recommendations:    Our audit finding recommended that the SASD:

1. Thoroughly reconcile all transportation data for accuracy prior to submission of reports to DE.
2. DE should adjust the SASD's allocations to resolve the reimbursement underpayment of \$39,866.

Current Status:        During our current audit procedures, we found that the SASD did not take corrective action to address our prior audit recommendations. However, the errors that occurred were insignificant.

Furthermore, as of the end of our fieldwork date, December 7, 2010, DE had not adjusted the SASD's allocations for the underpayment of \$39,866.

**Finding No. 2: Child Accounting Internal Control Weaknesses**

Finding Summary: Our prior audit of the SASD’s child accounting records found internal control weaknesses which resulted in the SASD reporting membership for students who had withdrawn from the SASD during the school year.

Recommendations: Our audit finding recommended that the SASD:

1. Receive training on the importance of accurate reporting of all membership data to ensure the proper subsidy is received.
2. Centralize the entry and withdrawal of students to ensure that the data is recorded on a daily basis into the child accounting system.
3. Review all student records to ensure a significant error does not exist that could have an impact on funding in the future.

Current Status: During our current audit procedures, we found that the SASD did take corrective action to address our prior audit recommendations.

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**Finding No. 3: Unmonitored Vendor System Access, Logical Access Control Weaknesses, and Internet Website Security Breach**

Finding Summary: The SASD uses software purchased from the Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance). CSIU has remote access into the SASD’s network servers.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the SASD’s data could occur and not be detected because the SASD was unable to provide supporting evidence that it is adequately monitoring all CSIU activity in its system. Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the SASD’s membership information and result in the SASD not receiving the funds to which it was entitled from the state.

Recommendations: Our audit finding recommended that the SASD:

1. Generate monitoring reports (including firewall logs) of CSIU and SASD employee remote access and activity on the system. Monitoring reports should include the date, time, and reason for access, change(s) made, and who made the change(s). The SASD should review these reports to determine that the access was

appropriate and that data was not improperly altered. The SASD should also ensure it is maintaining evidence to support this monitoring and review.

2. Require CSIU to assign unique userIDs and passwords to CSIU employees authorized to access the SASD system. Further, the SASD should obtain a list of CSIU employees with remote access to its data and ensure that changes to the data are made only by authorized CSIU representatives.
3. Store back-up tapes in a secure off-site location.
4. Ensure that SASD's Acceptable Use Policy includes provisions for authentication (e.g., password security and syntax requirements) and violations (what is to be reported and to whom).
5. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric, and special characters. Also, the SASD should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords), lock out users after three unsuccessful attempts, and log users off the system after a period of inactivity (i.e., 60 minutes maximum).
6. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage.
7. Consider an independent vulnerability assessment and testing of security over its information systems, including its website.

Current Status: During our current audit procedures, we found that the SASD did take corrective action to address our prior audit recommendations.

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**Finding No. 4: Continued Need for Department of Education to Provide Guidance on Contractual Arrangement between Shamokin Area School District and Northwestern Human Services of Pennsylvania, Inc.**

Finding Summary: Our audit report for the years ended June 30, 2000 and 1999 included a finding that the contractual arrangement between the SASD and Northwestern Human Services (NHS), whereby the SASD contracted out its obligation to educate non-resident adjudicated minors, is not authorized by the Public School Code. In our report for the years ended June 30, 2004, 2003, 2002 and 2001, we declined to cite the SASD for

failure to comply with the prior audit finding and recommendation in this regard. However, we reaffirmed the portion of the recommendation urging DE to provide specific guidance to SASD regarding such contractual arrangements. We recommended that DE immediately identify other similar arrangements that may exist within the Commonwealth and provide specific guidance to the parties.

Recommendations: Our audit finding recommended that the SASD:

Receive guidance from DE on the contractual arrangement.

Current Status: We have included this finding in our last three audit reports. We continue to encourage DE to follow our recommendations because we believe they will improve the SASD operations.

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**Finding No. 5: Continued Incorrect Reporting of Nonresident Membership, Resulting in the District Being Overpaid Reimbursements**

Finding Summary: During our prior audit, we determined that SASD personnel had not implemented all of our recommendations. SASD personnel failed to implement controls to help ensure that membership for out-of-state students educated at the Northwestern Academy is reported to DE correctly. The SASD also failed to review subsequent years and submit revised reports to DE if errors were found. However, the correct tuition rate was used by DE for the institutionalized children membership reimbursement.

Recommendations: Our audit finding recommended that the SASD:

1. Implement controls to help ensure that membership for out-of-state students educated at NHS is reported to DE correctly.
2. Review all institutionalized children membership reported to DE for students at NHS for subsequent years and submit revised reports to DE if errors are found.
3. Implement controls to help ensure that students that have been adopted by their foster parents are classified as resident students.
4. DE should adjust the SASD's allocations to resolve the reimbursement overpayments of \$87,909.
5. DE should provide the SASD with guidance to help eliminate this error from recurring in subsequent years.

**Current Status:** During our current audit procedures, we found that the SASD did not take corrective action to address our prior audit recommendations. A continuation finding will be cited.

Furthermore, as of our fieldwork completion date of December 7, 2010, DE had not adjusted the overpayment of \$27,748 for the 2003-04 and 2000-01 school years. Also, DE has not adjusted the overpayments of \$87,909 for the 2005-06 and 2004-05 school years.

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**Finding No. 6: Tuition Billings Erroneously Included a Lease Rental Fee, Which in the Opinion of DE is not Legally Authorized**

**Finding Summary** During our prior audits, we concluded that SASD personnel did not take appropriate corrective action to address this finding because the SASD continued to collect the lease rental fee. However, starting in September of 2003, the SASD opened an escrow account, depositing the lease rental fee in this account while waiting for court decision on the issue.

Our prior audit of tuition billings from SASD to resident school districts of students who attended Northwestern for the 2005-06 and 2004-05 school years found that the billings included a lease rental fee, which in the opinion of DE, is not legally authorized. The lease rental fee was calculated by NHS based on Northwestern's determined cost, and added to the tuition rates. SASD billed the resident school districts for regular education costs (based on SASD's tuition rate) and for special education costs (based on NHS's special education costs).

**Recommendations:** Our audit finding recommended that the SASD:

1. Unless the court decides the issue to the contrary, SASD should contact DE for instructions as to how to recover all lease rental fees remitted to NHS and return them to the districts that paid them.
2. In March of 2008, the court ruling ordered the SASD to release \$1.7 million to NHS for the lease rental fees.

**Current Status:** During our current audit procedures, we found that the District did take corrective action to address our prior audit recommendations because the court ordered the money to be released to NHS in March of 2008. From March of 2008 until May of 2010, the SASD collected and paid the lease rental fee to NHS.

However, on May 17, 2010, the SASD received a letter from the Governor's Office of General Counsel stating that notwithstanding the judge's decision and order, the Department stood by its existing interpretation of the law and its position that school districts with resident students at Northwestern Academy are not obligated to pay SASD or Northwestern lease rental payments.

Therefore, starting in July 2010, the SASD began escrowing the lease rental fee again based on the letter from the Commonwealth of Pennsylvania.

We have included this finding in our last three audit reports, and DE and the SASD have not come to a resolution. We continue to encourage the SASD and DE to make a final determination because we believe it will improve the SASD's operations.

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**Finding No. 7: Deficiencies in Shamokin's Oversight of its Contractual Arrangement with Northwestern Human Services of Pennsylvania, Inc.**

Finding Summary: During our previous three audits, our auditors found deficiencies in the SASD oversight of NHS under the contractual arrangement whereby NHS was to provide educational services to the residents of the Northwestern Academy. Specifically, Northwestern's school nurses lacked certification.

Recommendations: Our audit finding recommended that the SASD receive a determination from DE and/or DH whether the nursing services arrangement with Northwestern is acceptable and if Northwestern must have its own certified nurse.

Current Status: During our current audit procedures, we found that neither DE nor DH has made a determination whether the nursing services arrangement with Northwestern is acceptable and if Northwestern must have their own certified nurse.

We have included this finding in our last three audit reports. We continue to encourage DE and/or DH to follow our recommendations because we believe they will improve the SASD operations.

**Observation No. 1: Continued Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications**

Observation

Summary:

Our prior audit of personnel records of a random sample of 25 of 58 bus drivers currently employed by the SASD and the SASD's transportation contractors found that these individuals possessed the minimum requirements to be employed as bus drivers and that the SASD had on file the required report of criminal history record information and an official child abuse clearance statement for all drivers' files that we reviewed. There was no information contained in these reports that would have prohibited the SASD from hiring any of the drivers. Therefore, we concluded that the SASD has satisfied the minimum legal requirements set forth in both the Public School Code and the Child Protective Services Law. Additionally, there were no serious crimes identified or other information that called into question an applicant's suitability to have direct contact with children.

However, neither the SASD nor the transportation contractors have written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses which were to be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

Recommendations:

Our audit observation recommended that the SASD:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District or the District's transportation contractors have been charged with or convicted of crimes that, even though not barred by state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children

Current Status:

During our current audit procedures, we found that the SASD did not take corrective action to address our prior audit recommendations. A continuation observation will be cited.



**Observation No. 2: Memorandum of Understanding Not Updated Timely**

Observation

Summary:

Our prior audit of the SASD's records found that the current Memorandum of Understanding (MOU) between the SASD, Coal Township, and the Shamokin City police departments was signed on June 1, 2001, and has not been updated since that time.

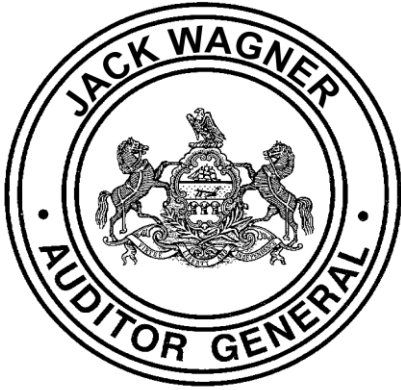
Recommendations:

Our audit observation recommended that the SASD:

1. SASD should continue to review, update, and re-execute the current MOU between the SASD, Coal Township, and the Shamokin City police departments.
2. Adopt a policy requiring the administration to review and re-execute the MOUs every two years.

Current Status:

During our current audit procedures, we found that the SASD did take corrective action to address our prior audit recommendations.



## **Distribution List**

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