



SHAMOKIN AREA SCHOOL DISTRICT
NORTHUMBERLAND COUNTY,
PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JULY 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Brian G. Persing, Board President
Shamokin Area School District
2000 West State Street
Coal Township, Pennsylvania 17866

Dear Governor Corbett and Mr. Persing:

We conducted a performance audit of the Shamokin Area School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period December 7, 2010 through February 22, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies 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 District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

July 18, 2013

cc: **SHAMOKIN AREA SCHOOL DISTRICT** Board of School Directors

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	2
Findings and Observations	5
Status of Prior Audit Findings and Observations	6
Distribution List	9

Executive Summary

Audit Work

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

Our audit scope covered the period December 7, 2010 through February 22, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

District Background

The District encompasses 65 square miles. According to 2010 federal census data, it serves a resident population of 20,695. According to District officials, the District provided basic educational services to 2,759 pupils through the employment of 166 teachers, 126 full-time and part-time support personnel, and 12 administrators during the 2009-10 school year. Lastly, the District received \$15.7 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with applicable state laws, 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 Shamokin Area School District (District) from an audit released on January 23, 2012, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to District personnel incorrectly reporting data to the Pennsylvania Department of Education for out-of-state students and internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 6).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania 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 Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period December 7, 2010 through February 22, 2013.

Regarding state subsidy and reimbursements, our audit covered the 2009-10 and 2008-09 school years.

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 (PDE) 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 District'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:

- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?

- ✓ In areas where the District received transportation subsidies, were the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a 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 did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the District take 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 Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

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.

The District's 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. In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives 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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus pupil membership, driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 23, 2012, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Shamokin Area School District (District) released on January 23, 2012, resulted in one finding and one observation. The finding pertained to incorrectly reporting data for nonresident out-of-state students. The observation pertained to internal control weaknesses in administrative policies regarding bus drivers' qualifications. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures, and interviewed District personnel regarding the prior finding and observation. As shown below, we found that the District did implement recommendations related to reporting nonresident out-of-state students and administrative policies regarding bus drivers' qualifications.

Auditor General Performance Audit Report Released on January 23, 2012

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

Finding Summary: Our prior audit of the Shamokin Area School District (District) found that District personnel incorrectly reported data to the Pennsylvania Department of Education (PDE) for out-of-state students at Northwestern Academy for the 2007-08 and 2006-07 school years. The errors resulted in the District 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 PDE using a preliminary report for nonresident students to calculate the District's reimbursement.

Recommendations: Our audit finding recommended that the District:

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

We also recommended that PDE:

4. Reimburse the District based on final school reports and if changes are made, make adjustments as soon as necessary.
5. Provide guidance to the District for reporting membership days for out-of-state students educated at Northwestern Academy to eliminate errors from recurring in subsequent years.
6. Adjust the District's allocations to resolve the reimbursement overpayment of \$73,586 for the 2007-08 and 2006-07 school years.
7. Adjust the District'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.

Current Status:

During our current audit, we found that the District did implement our recommendations. Likewise, PDE did deduct \$34,352 from the District's basic education funding subsidy dated June 1, 2011. However, as of April 30, 2013, PDE has not deducted the overpayments of \$29,645 and \$9,589. We again recommend that PDE adjust the District's allocations.

Observation:

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

Observation

Summary:

Our prior audit found that neither the District nor its transportation contractors had written policies or procedures in place to ensure that they were notified if current employees have been charged with or convicted of serious criminal offenses, which should 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 District:

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 were 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, we found that the District did implement our recommendations listed above.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditor.gen.state.pa.us, and the following stakeholders:

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

The Honorable William E. Harner
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Lori Graham
Acting Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Tom Templeton
Assistant Executive Director
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.

