

SOUTH BUTLER COUNTY SCHOOL DISTRICT
BUTLER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2010

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

Ms. Nelda Burd, Board President
South Butler County School District
328 Knoch Road
Saxonburg, Pennsylvania 16056

Dear Governor Rendell and Ms. Burd:

We conducted a performance audit of the South Butler County School District (SBCSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 31, 2008 through February 5, 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 SBCSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

August 31, 2010

cc: **SOUTH BUTLER COUNTY 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 South Butler County School District (SBCSD). 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 SBCSD in response to our prior audit recommendations.

Our audit scope covered the period March 31, 2008 through February 5, 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 SBCSD encompasses approximately 97 square miles. According to 2005 local census data, it serves a resident population of 19,701. According to District officials, in school year 2007-08 the SBCSD provided basic educational services to 2,888 pupils through the employment of 186 teachers, 82 full-time and part-time support personnel, and 16 administrators. Lastly, the SBCSD received more than \$12.1 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the SBCSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. For the audited period, our audit of the SBCSD resulted in no findings or observations.

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the SBCSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the SBCSD had taken appropriate corrective action in implementing our recommendations pertaining to tuition billing (see page 7), reporting Social Security and Medicare wages and pupil membership (see page 8), health services data, and timely update of Memoranda of Understanding (see page 9).



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 31, 2008 through February 5, 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 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.

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 SBCSD'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?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?

- ✓ 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, 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.

SBCSD 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, 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 SBCSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on September 19, 2008, we reviewed the SBCSD's response to DE dated November 4, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the South Butler County School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the South Butler County School District (SBCSD) for the school years 2005-06 and 2004-05 resulted in four reported findings and one observation as shown in the following table. 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 SBCSD Board’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 SBCSD did implement our recommendations related to the four findings and one observation.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	Implementation Status	
<p><u><i>I. Finding No. 1: Errors in Tuition Billings Totaling \$5,863</i></u></p> <ol style="list-style-type: none"> 1. Bill the nonresident students’ home districts the correct tuition rate for the educational time provided by the District. 2. Ensure accuracy of tuition bills submitted to neighboring school districts. 3. Review subsequent school years’ nonresident students’ tuition billing to ensure the proper tuition rates were used and that no clerical errors occurred in calculation for the total tuition due the District. 	<p>Background:</p> <p>Our prior audit of the District’s 2005-06 and 2004-05 school years membership records and nonresident tuition billings found that the District under billed neighboring districts for the time that their students were educated in the SBCSD in the amounts of \$3,270 and \$2,593, respectively.</p>	<p>Current Status:</p> <p>Our current audit found no errors in the billing of nonresident tuition. The District sent corrected billings as recommended to the affected districts and received payments from the districts.</p> <p>Based on our current audit, we concluded the District had taken appropriate corrective action.</p>

<p><u>II. Finding No. 2:</u> <u>Continued Errors in Reporting Social Security and Medicare Wages</u></p> <ol style="list-style-type: none"> 1. Ensure District personnel comply with DE instructions when reporting wages paid by federal funds. 2. Review reports submitted after our audit period for inclusion of federal wages and resubmit to DE, if necessary. 3. Reaffirm the board’s corrective actions and ensure the actions are implemented to avoid future reimbursement errors. 4. DE should adjust the District’s allocations to resolve the reimbursement overpayments totaling \$35,172. 	<p>Background:</p> <p>Our prior audit of District records found that Social Security and Medicare wages for the 2005-06 and 2004-05 school years were incorrectly reported to DE, resulting in reimbursement overpayments of \$17,860 and \$17,312, respectively.</p>	<p>Current Status:</p> <p>Our current audit of the 2007-08 and 2006-07 school years found no errors in the reporting of Social Security and Medicare wages. Revised reports were submitted by the District as recommended in our prior report.</p> <p>Therefore, we concluded the District had taken corrective action for this finding.</p> <p>As of February 5, 2010, the overpayments of \$35,172 were pending processing by DE.</p>
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<p><u>III. Finding No. 3:</u> <u>Continued Errors in Reporting Pupil Membership Data</u></p> <ol style="list-style-type: none"> 1. Perform an internal audit prior to submission of pupil membership reports to DE to ensure all students are classified correctly. 2. Perform a review of subsequent years’ data to ensure that the reported information is accurate, and resubmit if necessary. 	<p>Background:</p> <p>Our prior audit of pupil membership reports submitted to DE for the 2005-06 and 2004-05 school years found the reports were inaccurate. However, only one reporting error in 2005-06 had a monetary effect on the District’s reimbursement. The inaccuracy resulted in an overpayment of \$1,191 in tuition for children placed in private homes.</p>	<p>Current Status:</p> <p>Our current audit did not find any errors in the reporting of nonresident pupil membership.</p> <p>Therefore, we concluded the District had taken corrective action for this finding.</p> <p>As of February 5, 2010, the overpayment of \$1,191 was pending processing by DE.</p>
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<p><u>IV. Finding No. 4:</u> <u>Continued Health Services Reimbursement Underpayment</u></p> <ol style="list-style-type: none"> 1. Comply with Department of Health (DH) instructions when reporting average daily membership (ADM) to DH. 2. Review subsequent years' applications for accuracy and resubmit to DH, as necessary. 3. DH should adjust the District's future health services reimbursement to resolve the reimbursement underpayment of \$1,066. 	<p>Background:</p> <p>Our prior audit of the 2005-06 school year health services reimbursement application found no significant errors in reporting health services data. However, our audit of the 2004-05 health services reimbursement application found that District personnel incorrectly reported the ADM of pupils eligible for health services reimbursement to DH. The errors resulted in a reimbursement underpayment of \$1,066.</p>	<p>Current Status:</p> <p>Our current audit procedures found no significant problem with health services reimbursements.</p> <p>As of February 5, 2010, DH had not yet resolved the underpayment to the District.</p>
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<p><u>V. Observation:</u> <u>Memoranda of Understanding Not Updated Timely</u></p> <ol style="list-style-type: none"> 1. Review, update and re-execute the current Memoranda of Understanding (MOU) with all law enforcement agencies. 2. Adopt a policy requiring the administration to review and re-execute the MOU every two years. 	<p>Background:</p> <p>Our prior audit of the District's records found that the MOU between the District and two local law enforcement agencies were signed January 2, 2002 and March 6, 2002, and had not been updated.</p>	<p>Current Status:</p> <p>Our current audit found that the MOUs were updated on March 12, and 22, 2008, respectively.</p> <p>Therefore, we concluded the District had taken corrective action for this observation.</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:

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