

SOUTH MIDDLETON SCHOOL DISTRICT  
CUMBERLAND COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

NOVEMBER 2010



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

Ms. Elizabeth A. Knouse, Board President  
South Middleton School District  
4 Forge Road  
Boiling Springs, Pennsylvania 17007

Dear Governor Rendell and Ms. Knouse:

We conducted a performance audit of the South Middleton School District (SMSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period April 18, 2007 through March 24, 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 SMSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We appreciate the SMSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER  
Auditor General

November 29, 2010

cc: **SOUTH MIDDLETON 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 South Middleton School District (SMSD). 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 SMSD in response to our prior audit recommendations.

Our audit scope covered the period April 18, 2007 through March 24, 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 SMSD encompasses approximately 51 square miles. According to 2000 federal census data, it serves a resident population of 12,939. According to District officials, in school year 2007-08 the SMSD provided basic educational services to 2,227 pupils through the employment of 183 teachers, 118 full-time and part-time support personnel, and 16 administrators. Lastly, the SMSD received more than \$7.6 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the SMSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. For the audited period, our audit 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 SMSD from an audit we conducted of the 2005-06, 2004-05, 2003-04 and 2002-03 school years, we found the SMSD had taken appropriate corrective action in implementing our recommendations pertaining to the failure to file Statements of Financial Interests (see page 7).





## 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 April 18, 2007 through March 24, 2010, except for the verification of professional employee certification which was performed for the period April 10, 2007 through March 17, 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 SMSD'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?
- ✓ 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 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.

SMSD 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 and pupil transportation.

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.

Additionally, we interviewed selected administrators and support personnel associated with SMSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 17, 2007, we reviewed the SMSD's response to DE dated August 4, 2008. We then performed additional audit procedures targeting the previously reported matters.

## **Findings and Observations**

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**F**or the audited period, our audit of the South Middleton School District resulted in no findings or observations.

## Status of Prior Audit Findings and Observations

Our prior audit of the South Middleton School District (SMSD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in one reported finding. The finding pertained to failure to file Statements of Financial Interests. 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 SMSD superintendent's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the SMSD did implement recommendations related to the failure to file Statements of Financial Interests.

<i>School Years 2005-06, 2004-05, 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Board Members Failed to File Statements of Financial Interests in Violation of the Public Official and Employee Ethics Act</i></u></p> <ol style="list-style-type: none"> <li>1. Seek the advice of its solicitor in regard to the board's responsibility when a board member fails to file a Statement of Financial Interests.</li> <li>2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the District's Statements of Financial Interests found that one board member failed to file a Statement of Financial Interests for the 2005 calendar year and another board member failed to file the document for the 2004 calendar year. As a result of our prior audit, the board member who did not file for the 2005 year belatedly submitted a statement to the District on April 16, 2007.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the District consulted its solicitor regarding the board's responsibility when board members fail to file Statements of Financial Interests. During the 2006-07 school year, the District improved its procedures pertaining to requesting, tracking and reviewing the statements.</p> <p>However, our current audit found that one board member did not file her Statement of Financial Interests for the 2007 year. District personnel noted this was a clerical oversight. The individual subsequently submitted a completed statement to the District dated March 1, 2010.</p>



## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

The Honorable Edward G. Rendell  
Governor  
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The Honorable Thomas E. Gluck  
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