

SOUTHEASTERN GREENE SCHOOL DISTRICT
GREENE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JULY 2010

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

Mr. Rick Varzanti, Board President
Southeastern Greene School District
Box 110-B
Greensboro, Pennsylvania 15338

Dear Governor Rendell and Mr. Verzanti:

We conducted a performance audit of the Southeastern Greene School District (SGSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period June 20, 2006 through May 6, 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 SGSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

July 1, 2010

cc: **SOUTHEASTERN GREENE 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 Southeastern Greene School District (SGSD). 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 SGSD in response to our prior audit recommendations.

Our audit scope covered the period June 20, 2006 through May 6, 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.

District Background

The SGSD encompasses approximately 68 square miles. According to 2000 federal census data, it serves a resident population of 4,812. According to District officials, in school year 2007-08 the SGSD provided basic educational services to 763 pupils through the employment of 55 teachers, 19 full-time and part-time support personnel, and 6 administrators. Lastly, the SGSD received more than \$6.6 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the SGSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. For the audit period, our audit of the SGSD 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 SGSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the SGSD had taken appropriate corrective action in implementing our recommendations pertaining to professional certification (see page 7), lack of documentation necessary to verify bus drivers' qualifications (see page 7), lack of internal control over student activity funds (see page 8), violations of the Public Official and Employee Ethics Act (see page 8), internal control weaknesses in the employment of school bus drivers (see page 8), and the SGSD's agreement with the National School Fitness Foundation (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 June 20, 2006 through May 6, 2009, except for the verification of professional employee certification which was performed for the period April 4, 2006 through April 1, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06, and 2004-05.

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 SGSD'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?

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.

- ✓ 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?
- ✓ 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?
- ✓ 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 take appropriate corrective action to address recommendations made in our prior audits?

Methodology

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.

SGSD 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 SGSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 5, 2007, we reviewed the SGSD's response to DE dated January 22, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our current audit of the Southeastern Greene School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Southeastern Greene School District (SGSD) for the school years 2003-04 and 2002-03 resulted in four 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 District to implement our prior recommendations. We analyzed the SGSD 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 SGSD implemented our recommendations related to the four findings and two observations. However, for the observation regarding bus drivers’ qualifications, we make a further recommendation.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Certification Deficiency</i></u></p> <ol style="list-style-type: none"> Put procedures in place to ensure all employees receive permanent certification before the expiration of provisional certification. DE should adjust future District allocations to recover the subsidy forfeiture of \$1,251 	<p>Background:</p> <p>Our prior audit of professional employees’ certificates and assignments for the period June 1, 2003 through April 3, 2006, found one employee was assigned to an administrative position with lapsed certification during part of the 2005-06 school year.</p>	<p>Current Status:</p> <p>Our current audit found that all professional personnel were properly certified.</p> <p>The employee cited in the prior audit received permanent certification in May of 2006.</p> <p>Based on our current audit, we determined the District had taken appropriate corrective action.</p> <p>DE adjusted the District’s December 2007 basic education funding payment to recover the subsidy forfeiture of \$1,251.</p>
<p><u><i>II. Finding No. 2: Lack of Documentation Necessary to Verify Bus Drivers’ Qualifications</i></u></p> <ol style="list-style-type: none"> Again attempt to obtain from the transportation contractor the missing documentation referred to in our finding in order to ensure that drivers transporting students in the District possessed proper 	<p>Background:</p> <p>Our prior audit of the documentation for bus drivers employed by the District’s transportation contractors during the 2005-06 school year found a lack of documentation needed to verify bus drivers’ qualifications.</p>	<p>Current Status:</p> <p>Our audit of documentation for the 2008-09 school year found that the District now maintains the required documentation on all bus drivers.</p> <p>Based on our current audit, we determined the District had taken appropriate corrective action.</p>

<p>qualifications.</p> <p>2. Ensure the District’s transportation coordinator reviews each driver’s qualifications before he/she transports students.</p> <p>3. Maintain files, separate from transportation contractors, for all District drivers and work with the contractors to ensure that all District files are up-to-date and complete.</p>		
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<p><u>III. Finding No 3: Lack of Internal Control Over Student Activity Funds</u></p> <p>1. Develop and adopt a comprehensive, written policy for the management of the student activity fund that will correct the internal control weaknesses noted in the finding.</p>	<p>Background:</p> <p>Our prior audit of the District’s student activity fund operations for the 2004-05 school year found various internal control weaknesses.</p>	<p>Current Status:</p> <p>The District has improved internal controls over student activity funds. All weaknesses noted in the prior audit have been addressed and corrected.</p> <p>Based on our current audit, we determined the District had taken appropriate corrective action.</p>
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<p><u>IV. Finding No. 4: Violations of the Public Official and Employee Ethics Act</u></p> <p>1. Seek the advice of its solicitor regarding the board’s responsibility when a board member fails to file a Statement of Financial Interests.</p> <p>2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Public Official and Employee Ethics Act.</p>	<p>Background:</p> <p>Our prior audit of District records for the 2003 and 2004 calendar years found that five and four board members, respectively, failed to file Statements of Financial Interests; nine and two board members, respectively, filed their Statements of Financial Interests late.</p>	<p>Current Status:</p> <p>For the 2005, 2006, 2007, and 2008 calendar years, all board members filed their Statements of Financial Interests in a timely manner.</p> <p>Based on our current audit, we determined the District had taken appropriate corrective action.</p>
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<p><u>I. Observation No. 1:</u> <u>Internal Control</u> <u>Weaknesses in</u> <u>Administrative Policies</u> <u>Regarding Bus Drivers'</u> <u>Qualifications</u></p> <ol style="list-style-type: none"> 1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District's transportation contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children. 2. Implement written policies and procedures to ensure the District is notified when current employees of the District's transportation contractors are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children and to ensure that the District considers on a case-by-case basis whether any convictions of a current employee should lead to an employment action. 	<p>Background:</p> <p>The District and the bus contractors did not have any written policies or procedures in place to notify them if their current employees were charged with or convicted of a criminal offense which would not legally prohibit the District from continuing to employ the individual, but should be considered for the purpose of determining an individual's suitability to be in direct contact with children.</p>	<p>Current Status:</p> <p>The District's current contract with its transportation contractor contains a provision that requires all bus drivers to update their clearances every three years.</p> <p>This provision, if adhered to, will increase internal controls regarding bus qualifications. However, the District should further consider implementing procedures to ensure the District is <i>immediately</i> informed of any charges and convictions, so that there is no delay in the District's determination regarding any individual's suitability to be in direct contact with children.</p>
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<p><u><i>II. Observation No. 2: The District Received Less Than Full Reimbursement from the National School Fitness Foundation</i></u></p> <p>1. The District should exercise caution and due diligence in the future when considering purchases of this nature, particularly when representations are made that the costs would be offset so that acquisition of the program and equipment would be “free.”</p>	<p>Background:</p> <p>On January 22, 2003, the District entered into an agreement with the National School Fitness Foundation (NSFF) for the purchase of exercise equipment. The program cost was to be offset by voluntary contributions from NSFF to the District.</p> <p>The District borrowed \$192,401 from a financial institution to purchase the equipment and made 17 monthly payments on the loan. The District received 12 voluntary contributions from NSFF totaling \$57,452.</p> <p>On June 1, 2004, NSFF filed for bankruptcy and fired its president, who was accused of misappropriating NSFF funds.</p> <p>On June 30, 2004, the SGSD school board voted to exercise a clause in its agreement with the financial institution allowing it to suspend the agreement and turn the equipment over to the financial institution.</p>	<p>Current Status:</p> <p>The principal payments the SGSD made before suspending the agreement with the financial institution exceeded the voluntary contributions received from NSFF by approximately \$28,000. The District participated in a class action lawsuit against NSFF; payouts received as a result of the lawsuit at the time of our current audit totaled \$1,500.</p> <p>No other purchases of this nature were noted during the current audit.</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
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Thomas E. Gluck
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

Senator Jeffrey Piccola
Chair
Senate Education Committee
173 Main Capitol Building
Harrisburg, PA 17120

Senator Andrew Dinniman
Democratic Chair
Senate Education Committee
183 Main Capitol Building
Harrisburg, PA 17120

Representative James Roebuck
Chair
House Education Committee
208 Irvis Office Building
Harrisburg, PA 17120

Representative Paul Clymer
Republican Chair
House Education Committee
216 Ryan Office Building
Harrisburg, PA 17120

Ms. Barbara Nelson
Director, Bureau of Budget and
Fiscal Management
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

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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