

TUNKHANNOCK AREA SCHOOL DISTRICT
WYOMING COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2012

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

Mr. Robert J. Parry III, Board President
Tunkhannock Area School District
41 Philadelphia Avenue
Tunkhannock, Pennsylvania 18657

Dear Governor Corbett and Mr. Parry:

We conducted a performance audit of the Tunkhannock Area School District (TASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period October 26, 2009 through January 9, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy 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 TASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit findings and recommendations have been discussed with TASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve TASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the TASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

April 25, 2012

cc: **TUNKHANNOCK AREA SCHOOL DISTRICT** Board Members

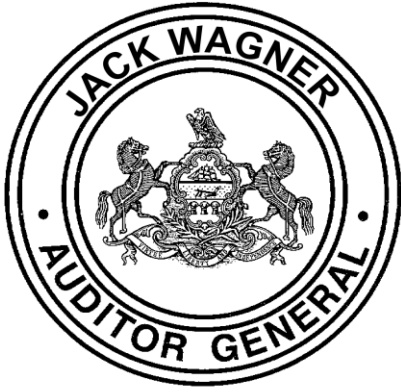
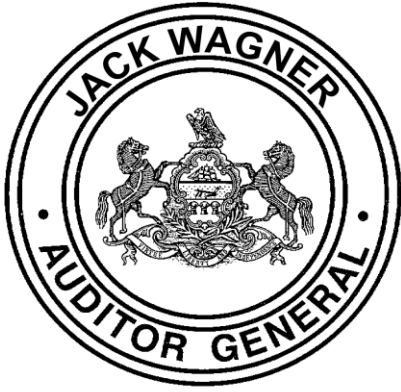


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Executive Summary

Audit Work

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

Our audit scope covered the period October 26, 2009 through January 9, 2012, 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 2009-10 and 2008-09.

District Background

The TASD encompasses approximately 397 square miles. According to 2010 federal census data, it serves a resident population of 28,276. According to District officials, in school year 2009-10 the TASD provided basic educational services to 2,892 pupils through the employment of 229 teachers, 164 full-time and part-time support personnel, and 24 administrators. Lastly, the TASD received more than \$18.3 million in state funding in school year 2009-10.

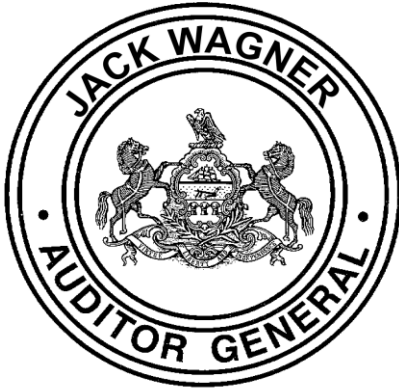
Audit Conclusion and Results

Our audit found that the TASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified two compliance-related matters reported as findings.

Finding No. 1: Continued Nonresident Membership Errors Resulted in a Net Overpayment of \$12,771 in Subsidies and Reimbursements. Our current audit of the TASD's pupil membership reports submitted to the Department of Education for the 2009-10 and 2008-09 school years found TASD personnel continued to incorrectly report nonresident students in both years resulting in a net overpayment of \$12,771 (see page 6).

Finding No. 2: Lack of Documentation for Bus Driver Qualifications. Our current audit found that the TASD failed to obtain and retain the required documentation/clearances for two contracted drivers (see page 9).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the TASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the TASD had not taken appropriate corrective action in implementing our recommendations pertaining to their continued incorrect reporting of nonresident membership (see page 11).



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 October 26, 2009 through January 9, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011 through September 22, 2011.

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

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 T ASD'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?

- ✓ Does the LEA have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ 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, and any contracted vendors, ensure that its current bus drivers are properly qualified, and does it have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose 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 does 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?
- ✓ Is the District taking 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 District's Board members free from apparent conflicts of interest?
- ✓ 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 findings 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.

TASD 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. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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 transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to 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 TASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 26, 2010, we reviewed the TASD's response to DE dated February 25, 2011. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1 →

Continued Nonresident Membership Errors Resulted in a Net Overpayment of \$12,771 in Subsidies and Reimbursements

Criteria and Public School Code section relevant to the finding:

According to PDE's 2009-10 PIMS User Manual, all Pennsylvania LEAs must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; LEP Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the Federal Information Systems Control Manual (FISCAM), a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

Our previous three audits found the Tunkhannock Area School District's (TASD) pupil membership reports submitted to the Department of Education (DE) were inaccurate.

Beginning with the 2009-10 school year, DE now bases all local education agencies' state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems. PIMS replaces DE's previous reporting system, the Child Accounting Database (CAD), which DE ran concurrently until it brought PIMS completely online. DE no longer accepts child accounting data through the CAD system.

Our current audit of the TASD's pupil membership reports submitted to DE for the 2009-10 and 2008-09 school years found District personnel, for the fourth consecutive audit, continued to incorrectly report nonresident students in both years resulting in a net overpayment of \$12,771.

The errors in the 2009-10 school year occurred when District personnel underreported membership days for nonresident secondary students by 847 days. These errors resulted in the District being underpaid \$13,623.

The errors in the 2008-09 school year occurred when District personnel overreported membership days for nonresident kindergarten students by 182 days; over reported membership days for nonresident elementary students by 102 days; over reported membership days for secondary students by 542 days; and over reported membership days for one ward of state by 180 days. These errors resulted in the District being overpaid \$26,394.

Criteria relevant to the finding:

Section 2503(c) of the Public School Code (PSC) provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court when such resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

Membership data for nonresident children placed in private homes must be maintained and reported accurately and in accordance with DE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

After the auditors arrived at the audit site, they were informed by the Child Accounting Coordinator (CAC) that he was contacting DE about changes he wanted to make to the years they were auditing. The auditors asked him to inform DE that the audit was in progress and they were on site. The CAC contacted DE and said that DE allowed him to make the changes to the 2008-09 school year. However, the auditors could not obtain the PDE 4602 final summary report with those changes made during our audit. The auditors then requested that the CAC provide us with the original data that was reported prior to the auditors arriving at the audit site. District personnel should not make revisions to their child accounting data once our audit starts.

The errors continue to be due to District personnel's failure to communicate between child accounting personnel since the child accounting function is decentralized.

The net overstatement of resident membership days during the 2009-10 and 2008-09 school years did not have an effect on the basic education funding.

Recommendations

The Tunkhannock Area School District should:

1. Establish internal controls that include reconciliations of the data that is uploaded in PIMS.
2. Strengthen controls to ensure pupil membership is reported in accordance with DE guidelines and instructions.
3. Implement controls to verify actual membership days to computer generated reports.
4. Perform an internal review of membership reports and summaries prior to submission of final reports to DE.
5. Review subsequent year reports and if errors are found, submit revised reports to DE.
6. Adjust pupil membership data in a timely manner, prior to the audit.

The *Department of Education* should:

7. Adjust the District's allocations to resolve the overpayments in the amount of \$12,771 for the 2009-10 and 2008-09 school years and \$47,403 for the 2007-08 and 2006-07 school years.

Management Response

Management stated the following:

Management implemented new procedures in the 2009-10 school year to address this issue. These measures included establishing a centralized registration process for all new students under the auspices of the district's Director of Transportation, sending key staff to Child Accounting seminars offered by A/CAPA and conducting in-service training for all administrators (e.g. Principals, building secretaries, PIMS Coordinator etc.) involved in the Child Accounting process.

Although these new measures have improved accuracy and completeness of our Child Accounting, it appears that we continue to have gaps in the process. Management will implement additional measures to address the remaining issues once the specific errors communicated and the root cause identified.

Finding No. 2 →

Lack of Documentation for Bus Driver Qualifications

Criteria relevant to the finding:

Section 111 of the Public School Code, 24 P.S. § 1-111 (Act 34 of 1985, as amended) requires prospective school employees who 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.

Additionally, as of April 1, 2007, under Act 114 of 2006 as amended, (see 24 P.S. § 1-111(c.1), public and private schools have been required to review federal criminal history record information (CHRI) records for all prospective employees and independent contractors who will have contact with children, and make a determination regarding the fitness of the individual to have contact with children. The Act requires the report to be reviewed in a manner prescribed by PDE. The review of CHRI reports is required prior to employment, and includes school bus drivers and other employees hired by independent contractors who have contact with children.

Our audit found that the Tunkhannock Area School District (TASD) failed to obtain and retain the required documentation/clearances for two contracted drivers.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. We reviewed the following six requirements:

1. Possession of a valid driver's license;
2. Completion of school bus driver skills and safety training;
3. Passing a physical examination;
4. Lack of convictions for certain criminal offenses;
5. Federal Criminal History Record; and
6. Official child abuse clearance statement.

The first three requirements were set by regulations issued by the Pennsylvania Department of Transportation. As explained further under criteria, the fourth and fifth requirements were set by the Public School Code of 1949, as amended. The sixth requirement was set by the Child Protective Services Law.

We reviewed the personnel records of 26 drivers currently employed by the TASD and its current contractors. Our review found two contracted drivers did not have the Act 151 child abuse clearance. The District's failure to verify the required clearances could result in the employment of individuals who may pose a risk if allowed to have direct contact with the District's students.

Criteria relevant to the finding:

Similarly, Section 6355 of the Child Protective Services Law, 23 Pa C.S. §6355, known as Act 151, requires prospective school employees to submit an official clearance statement obtained from the Department of Public Welfare. The CPSL prohibits the hiring of an individual named as the perpetrator of a founded report of child abuse or is named as the individual responsible for injury or abuse in a founded report for school employee.

Lack of policy and procedures to monitor contracted driver qualifications resulted in the absence of this documentation. District personnel were informed about the lack of documentation and did provide this documentation, with no discrepancies noted, prior to our departure from the audit site.

Recommendations

The Tunkhannock Area School District should:

1. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
2. Maintain files, separate from the transportation contractors, for all District drivers and contact the contractors to ensure that the District's files are up-to-date and complete.

Management Response

Management stated the following:

The cause of the finding is that the Director of Transportation allowed contractors to add drivers to be board approved "pending" paperwork and did not follow up in a timely manner.

Effective immediately driver's names will not be submitted for board approval until all paperwork is received. A check list was created to ensure all paperwork has been received. All items must be checked off before a driver's name will be submitted for approval by the board.

Status of Prior Audit Findings and Observations

Our prior audit of the Tunkhannock Area School District (TASD) for the school years 2007-08 and 2006-07 resulted in one finding. The finding pertained to continued nonresident membership reporting errors. 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 TASD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the TASD did not implement recommendations related to continued nonresident membership reporting errors.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Finding: **Continued Nonresident Membership Errors Resulted in a Net Overpayment of \$47,403 in Subsidies and Reimbursements**

Finding Summary: Our prior audit of the District's pupil membership reports submitted to DE for the 2007-08 and 2006-07 schools years found District personnel continued to incorrectly report nonresident students in both years resulting in a net overpayment of \$47,403.

Recommendations: Our audit finding recommended that the TASD:

1. Provide regular in-service training to staff responsible for recording and reporting membership. This training should emphasize the importance of maintaining accurate records and the relationship of membership data to state subsidies and reimbursements.
2. Strengthen controls to ensure pupil membership is reported in accordance with DE guidelines and instructions.
3. Implement controls to verify actual membership days to computer generated reports.
4. Perform an internal review of membership reports and summaries prior to submission of final reports to DE.
5. Review subsequent year reports and if errors are found, submit revised reports to DE.

The *Department of Education* should:

6. Adjust the District's allocations to resolve the overpayment in the amount of \$47,403 for the 2007-08 and 2006-07 school years, and the underpayment of \$43,772 for the 2005-06 and 2004-05 school years.

Current Status:

During our current audit procedures we found that the TASD stated that they did provide training within the District and outside seminars, but did not implement the remainder of the recommendations as found in Finding No. 1 on page 6. In June of 2011, DE adjusted the underpayment of \$43,772 for the 2005-06 and 2004-05 school years. As of our fieldwork completion date of January 9, 2012, DE had not adjusted the overpayment of \$47,403 for the 2007-08 and 2006-07 school years.

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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