

UNITED SCHOOL DISTRICT
INDIANA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2010

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

Ms. Gertrude DeRubis, Board President
United School District
10780 Route 56 East
Armagh, Pennsylvania 15920

Dear Governor Rendell and Ms. DeRubis:

We conducted a performance audit of the United School District (USD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period August 4, 2008 through May 14, 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 USD complied, in all significant respects, with applicable state laws, regulations, 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 USD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve USD's operations and facilitate compliance with legal and administrative requirements. We appreciate the USD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

November 5, 2010

cc: **UNITED 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 United School District (USD). 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 USD in response to our prior audit recommendations.

Our audit scope covered the period August 4, 2008 through May 14, 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 USD encompasses approximately 131 square miles. According to 2000 federal census data, it serves a resident population of 8,269. According to District officials, in school year 2007-08 the USD provided basic educational services to 1,301 pupils through the employment of 106 teachers, 46 full-time and part-time support personnel, and 9 administrators. Lastly, the USD received more than \$11.1 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the USD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedure, except for two compliance-related matters reported as findings.

Finding No. 1: Internal Control Weaknesses and Errors in Pupil Transportation Reports Resulted in a Net Subsidy Underpayment of \$37,363.

Internal control weaknesses and errors in pupil transportation were due to lack of documentation and not correctly reporting data. This resulted in a net underpayment of \$37,363 (see page 6).

Finding No. 2: Errors in Reporting Pupil Membership Resulted in an Overpayment of \$23,694.

Errors in pupil membership were due to USD not properly reporting nonresident membership days. This resulted in an overpayment of \$23,694 (see page 9).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the USD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the USD had not taken appropriate corrective action in implementing our recommendations pertaining to pupil membership (see page 11) and pupil transportation (see page 12). We found the USD had taken appropriate corrective action in implementing our recommendations pertaining to reporting of Social Security and Medicare wages (see page 12).



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 August 4, 2008 through May 14, 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 USD'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:

- ✓ 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?
- ✓ 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

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.

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.

USD 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, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 30, 2009, we reviewed the USD's response to DE dated January 12, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Internal Control Weaknesses and Errors in Pupil Transportation Reports Resulted in a Net Subsidy Underpayment of \$37,363

Criteria relevant to the finding:

Chapter 23 of the State Board of Education Regulations, Section 23.4 provides, in part:

The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following: . . .

(5) The furnishing of rosters of pupils to be transported on each school bus run and trip.

(6) The maintenance of a record of pupils transported to and from school, including determination of pupils' distances from home to pertinent school bus loading zones.

In addition, Section 518 of the Public School Code required retention of these records for a period of not less than six years.

Instruction for completing DE's End-Of-Year Pupil Transportation reports provides that the local agency (LEA) must maintain records of miles with pupils, miles without pupils, and the largest number of pupils assigned to each vehicle. Additionally, the instructions provide that procedures, information, and data used by the LEA should be retained for audit purpose.

Our audit of pupil transportation records and reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found errors which resulted in a subsidy underpayment of \$41,284 for the 2007-08 school year and an overpayment of \$3,921 for the 2006-07 school year.

In school year 2007-08 the District did not correctly report daily mileage data, non-reimbursable pupils, and the days of service the buses ran for the year.

In school year 2006-07 the District did not correctly report non-reimbursable and nonpublic students.

Nonpublic pupils, non-reimbursable pupils, and daily mileage are integral parts of the transportation subsidy formula and must be reported accurately and in accordance with DE instructions to ensure the correct subsidy is received.

Internal control weaknesses were:

- District personnel failed to retain backup documentation to support the miles travelled with and without pupils reported to DE for each bus for the 2006-07 school year. As a result we could not verify that the District received the correct public pupil transportation subsidy;
- District personnel failed to retain backup documentation to support the weighted average calculation of greatest number of pupils assigned for each bus for the 2007-08 and 2006-07 school years. No documentation was available to support students that entered, withdrew, or relocated during the school years;

Criteria relevant to the finding:

Non-reimbursable pupils are elementary pupils residing less than one and one-half miles from the school they are assigned and secondary pupils residing less than two miles from the school they are assigned, excluding special education, vocational-technical students and student determined to live on hazardous routes.

- No documentation was available to verify the number of hazardous route pupils reported for the 2007-08 and 2006-07 school years. Hazardous route pupils are any pupil living in an area where the highway, road, or traffic conditions are such that walking constitutes a hazard to the safety of the child, as so certified by Pennsylvania's Department of Transportation; and
- No documentation was available to support the number of nonpublic pupils transported reported for the 2007-08 school year.

The errors and internal control weaknesses were the result of District personnel's failure to ensure the accuracy of data submitted and to prepare and retain documentation necessary for the pupil transportation audit.

We have provided DE with reports to be used for the recalculation of the District's pupil transportation reimbursement.

Recommendations

The *United School District* should:

1. Conduct an internal review to ensure the daily mileage, pupil count, non-reimbursable pupils, hazardous pupils, and nonpublic pupils are accurately recorded and reported to DE.
2. Prepare and retain on file the source data used to report pupil transportation data to DE.
3. Prepare and maintain records on file, of odometer readings between all bus stops and school, as required by Chapter 23 regulations.
4. Perform a review of subsequent years' data for accuracy and resubmit reports if necessary.

The *Department of Education* should:

5. Adjust the District's future allocations to correct the net underpayment of \$37,363.

Management Response

Management provided a written response indicating agreement with the finding and making no further comment.

Finding No. 2

Errors in Reporting Pupil Membership Resulted in an Overpayment of \$23,694

Criteria relevant to the finding:

Pupil membership classifications must be maintained and reported in accordance with DE guidelines and instructions, since this is a major factor in determining the district's subsidies and reimbursement.

Our audit found that the District's pupil membership reports submitted to DE for the 2006-07 school year were inaccurate. Clerical errors resulted in an overpayment of \$23,694 in Commonwealth-paid tuition for children placed in private homes.

The errors were caused by the following:

- Incorrectly reporting a resident student as a nonresident foster student;
- Incorrectly reporting a nonresident foster student as a resident student;
- Reporting membership for a student who withdrew from school before the 2006-07 school year; and
- Reporting membership for multiple nonresident foster students for whom no documentation could be provided.

We have provided DE with reports detailing the errors for use in recalculating the District's tuition for children placed in private homes.

Recommendations

The *United School District* should:

1. Perform an internal review of all pupil membership reports and supporting documentation before submission to DE.
2. Review subsequent school year's membership reports for accuracy and resubmit if necessary.

The *Department of Education* should:

3. Adjust the District's future allocations to correct the overpayment of \$23,694.

Management Response

Management provided a written response indicating agreement with the finding but making no further comment.

Status of Prior Audit Findings and Observations

Our prior audit of the United School District (USD) for the school years 2005-06 and 2004-05 resulted in three reported findings. The first finding pertained to pupil membership, the second to Social Security and Medicare wages, and the third to pupil transportation. 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 USD 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 USD did implement recommendations related to Social Security and Medicare wages but did not implement recommendations related to pupil membership and pupil transportation.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Errors in Reporting Pupil Membership Resulted in a Net Underpayment of \$6,711</i></u></p> <ol style="list-style-type: none"> 1. Perform an internal review of all pupil membership reports and supporting documentation before submission to DE. 2. Ensure the District does not report days for students attending another District. 3. Ensure membership days for District students educated in intermediate unit classrooms outside of the District are reported. 4. Review subsequent school years’ membership reports for accuracy, and resubmit if necessary. 5. DE should adjust the District’s future allocations to correct the net underpayment of \$6,711. 	<p>Background:</p> <p>Our prior audit found the District’s pupil membership reports submitted to DE for the 2005-06 and 2004-05 school years were inaccurate. This is a continuation of errors found in our prior audit and resulted in a net underpayment of \$6,711.</p>	<p>Current Status:</p> <p>Our current audit of the 2007-08 and 2006-07 school years again found errors in reporting resident and nonresident pupil membership (see page 9).</p> <p>Based on our current audit we concluded the District did not take appropriate corrective action.</p> <p>As of May 14, 2010, DE had not yet adjusted the District’s allocations. We again recommend that DE correct the net underpayment of \$6,711.</p>

<p><u>II. Finding No. 2: Errors in Reporting Social Security and Medicare Wages Resulted in Overpayments of \$6,195</u></p> <ol style="list-style-type: none"> 1. Comply with DE instructions for reporting wages paid with federal funds. 2. Review reports submitted for years subsequent to our audit period for correct inclusion of federal wages and submit revised reports to DE, if necessary. 3. DE should adjust the District's future allocations to correct the overpayments of \$6,195. 	<p>Background:</p> <p>Our prior audit found Social Security and Medicare wages for the 2005-06 and 2004-05 school years were incorrectly reported to DE, resulting in reimbursement overpayments totaling \$6,195.</p>	<p>Current Status:</p> <p>Our current audit of the 2007-08 and 2006-07 school years found the District correctly reported Social Security and Medicare wages.</p> <p>Based on our current audit we concluded the District did take appropriate corrective action.</p> <p>As of May 14, 2010, DE had not yet adjusted the District's allocations. We again recommend that DE correct the overpayments of \$6,195.</p>
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<p><u>III. Finding No. 3: Errors in Pupil Transportation Reports Resulted in a Net Underpayment of \$10,323</u></p> <ol style="list-style-type: none"> 1. Accurately report all data elements used in the calculation of pupil transportation reimbursement. 2. Review subsequent school years' transportation reports for accuracy, and resubmit them if necessary. 3. DE should adjust the District's future allocations to correct the net underpayment of \$10,323. 	<p>Background:</p> <p>Our prior audit of pupil transportation data for the 2005-06 and 2004-05 school years found errors in the daily mileage and the greatest number of pupils transported as reported to DE. These errors resulted in a transportation subsidy underpayment of \$12,424 for the 2005-06 school year and an overpayment of \$2,101 for the 2004-05 school year.</p>	<p>Current Status:</p> <p>Our current audit of the 2007-08 and 2006-07 school years again found errors in reporting pupil transportation data (see page 6). Based on our current audit we concluded the District did not take appropriate corrective action.</p> <p>As of May 14, 2010, DE had not yet adjusted the District's allocations. We again recommend that DE correct the net underpayment of \$10,323.</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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