

WILKES-BARRE AREA SCHOOL DISTRICT  
LUZERNE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

NOVEMBER 2010



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

Mrs. Teresa C. McGuire, Board President  
Wilkes-Barre Area School District  
730 South Main Street  
Wilkes-Barre, Pennsylvania 18711

Dear Governor Rendell and Mrs. McGuire:

We conducted a performance audit of the Wilkes-Barre Area School District (WBASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period January 27, 2009 through June 9, 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 WBASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with WBASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve WBASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the WBASD'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: **WILKES-BARRE AREA 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 Wilkes-Barre Area School District (WBASD). 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 WBASD in response to our prior audit recommendations.

Our audit scope covered the period January 27, 2009 through June 9, 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 WBASD encompasses approximately 123 square miles. According to 2000 federal census data, it serves a resident population of 62,749. According to District officials, in school year 2007-08 the WBASD provided basic educational services to 6,696 pupils through the employment of 524 teachers, 244 full-time and part-time support personnel, and 33 administrators. Lastly, the WBASD received more than \$32.7 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

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

#### **Finding: Continued Errors in Reporting Pupil Membership Resulted in Subsidy and Reimbursement Net Overpayments.**

BASD continued to incorrectly report pupil membership to the Department of Education. By not adhering to our recommendations from the previous audit of the 2005-06 and 2004-05 school years, errors again occurred in the reporting of membership for resident and nonresident students resulting in a net overpayment of \$15,005 in the 2006-07 school year (see page 6).

#### **Status of Prior Audit Findings and Observations.**

With regard to the status of our prior audit recommendations to the WBASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the WBASD had not taken appropriate corrective action in implementing our recommendations pertaining to continued errors in the reporting of pupil membership (see page 8).





## 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 January 27, 2009 through June 9, 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 WBASD'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?

- ✓ 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?
- ✓ 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 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

WBASD 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 bus driver qualifications, professional employee certification, 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 WBASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 21, 2009, we reviewed the WBASD's response to DE dated November 18, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Continued Errors in Reporting Pupil Membership Resulted in Subsidy and Reimbursement Net Overpayments

*Public School Code section relevant to the finding:*

Child accounting guidelines and instructions require accurate reporting of pupil membership days, student classification, and residency information, since these are major factors in calculating various district subsidies and reimbursements.

Section 2503(c) provides that the Commonwealth pay tuition to districts providing education to nonresident children placed in private homes. The payments are based on the membership days reported for such children.

Under the special education subsidy formula, districts are reimbursed for special education expenditures through a funding formula, which utilizes the district's total membership days. Therefore, resident and nonresident membership errors also affected special education funding based on the 2005-06 and 2004-05 school years.

Our prior audit of the Wilkes-Barre Area School District (WBASD) found that the pupil membership reports submitted to the Department of Education (DE) for the 2005-06 and 2004-05 school years were inaccurate. Errors in reporting resident and nonresident membership days resulted in a net overpayment of \$51,933 in subsidies and reimbursements.

Our current audit of the WBASD's membership reports submitted to DE and other financial data for the 2007-08 and 2006-07 school years found District personnel did not implement our recommendations and again incorrectly reported pupil membership in the 2006-07 school year resulting in a net overpayment of \$15,005.

The reporting errors in the 2006-07 school year occurred when district personnel over reported 1305 nonresident membership in grade five by 180 days, in grade seven by 30 days, in grade nine by 37 days and in area vocational-technical school by 90 days. These errors resulted in the District being overpaid \$15,005 for the 2006-07 school year.

These errors in days should have been reported as resident membership, but did not have a significant effect on basic education funding for the 2006-07 school year.

### Recommendations

The *Wilkes-Barre Area School District* should again:

1. Review membership data thoroughly for nonresidency classifications and supporting documentation prior to submitting reports to DE.
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. 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 subsidies and reimbursements.

The *Department of Education* should:

6. Adjust the District allocations to recover the overpayments of \$15,005 for the 2006-07 school year and \$51,933 for the 2005-06 and 2004-05 school years.

**Management Response**

Management stated the following:

Although there have been significant improvements in the process of reporting pupil membership, it is clear that further refinement of the system is necessary.

## Status of Prior Audit Findings and Observations

Our prior audit of the Wilkes-Barre Area School District (WBASD) for the school years 2005-06 and 2004-05 resulted in one reported finding. The finding pertained to pupil membership. 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 WBASD Superintendent’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 WBASD did not implement recommendations related to pupil membership.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<b>Implementation Status</b>	
<p><u><i>I. Finding: Errors in Reporting Nonresident Membership Resulted in Overpayments of \$51,933 in Tuition for Children Placed in Private Homes</i></u></p> <ol style="list-style-type: none"> <li>1. Review membership data thoroughly for nonresidency classifications and supporting documentation prior to submitting reports to DE.</li> <li>2. Review reports submitted subsequent to the years audited, and submit revised reports to DE if errors are found.</li> <li>3. DE should adjust the District’s future allocations to resolve the overpayments of \$51,933.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that the WBASD reported resident and nonresident membership incorrectly. The errors resulted in overpayments of \$51,933.</p>	<p><b>Current Status:</b></p> <p>We followed up on the WBASD pupil membership reports and found that the WBASD did not take the corrective action to address our prior audit recommendations (See the finding on page 6).</p> <p>As of our fieldwork completion date of June 9, 2010, DE had not adjusted the District’s allocations to resolve the overpayments of \$51,933 for the 2005-06 and 2004-05 school years.</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:

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