

PERFORMANCE AUDIT

Karns City Area School District Butler County, Pennsylvania

July 2015



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Eric Ritzert, Superintendent
Karns City Area School District
1446 Kittanning Pike
Karns City, Pennsylvania 16041

Mr. Bryan Fleeger, Board President
Karns City Area School District
1446 Kittanning Pike
Karns City, Pennsylvania 16041

Dear Mr. Ritzert and Mr. Fleeger:

Our performance audit of the Karns City Area School District (District) evaluated the application of best practices in the areas of governance, safety, contracts, bus driver requirements, and other operational areas as noted. In addition, this audit determined the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). This audit covered the period January 12, 2012 through May 12, 2015, except as otherwise stated and was conducted pursuant to Section 403 of The Fiscal Code and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those 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.

Our audit found that the District effectively applied best practices in the areas listed above. In addition, we determined that the District complied, in all significant respects, with relevant requirements.

We appreciate the District's cooperation during the course of the audit.

Sincerely,

A handwritten signature in cursive script, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale
Auditor General

July 30, 2015

cc: **KARNS CITY AREA SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the District. Our audit sought to answer certain questions regarding the District's application of best practices and compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period January 12, 2012 through May 12, 2015, except as otherwise indicated in the audit scope, objectives, and methodology section of the report.

Audit Conclusion and Results

Our audit found that the District, in all significant respects, applied best practices and complied with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. 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 District from an audit released on November 12, 2012, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to reporting errors in pupil membership (see page 6) and transportation data (see page 7). The District also implemented the recommendations related to internal controls over its student record data (see page 7).

Background Informationⁱ

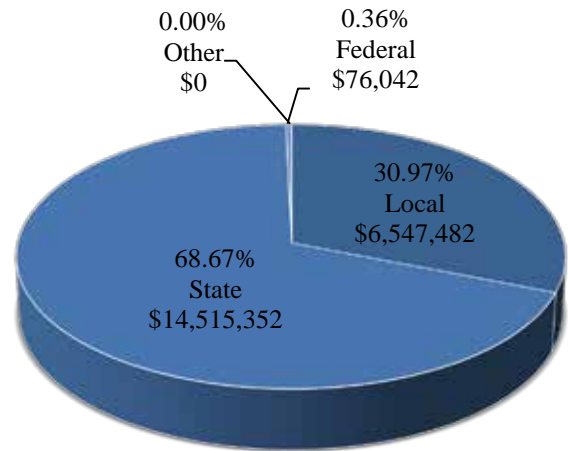
School Characteristics 2013-14 School Year ⁱⁱ	
County	Butler
Total Square Miles	125
Resident Population ⁱⁱⁱ	10,460
Number of School Buildings	3
Total Teachers	112
Total Full or Part-Time Support Staff	49
Total Administrators	8
Total Enrollment for Most Recent School Year	1,550
Intermediate Unit Number	4
District Vo-Tech School	Butler County Area Vocational-Technical School

Mission Statement

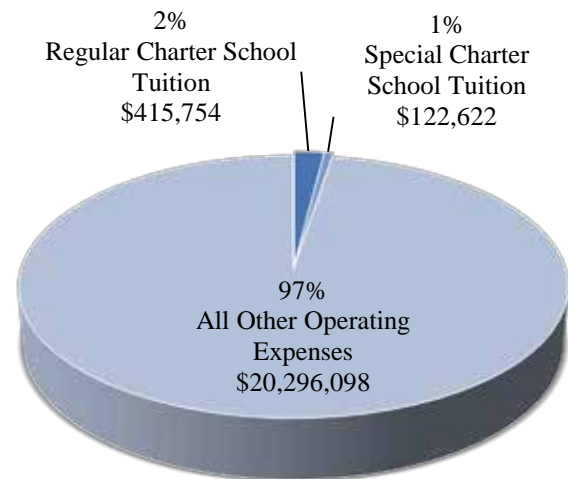
The mission of the District, together with the community, is to provide a quality education, in a safe, caring environment which enable the student to become a lifelong learner and a responsible member of the family and society.

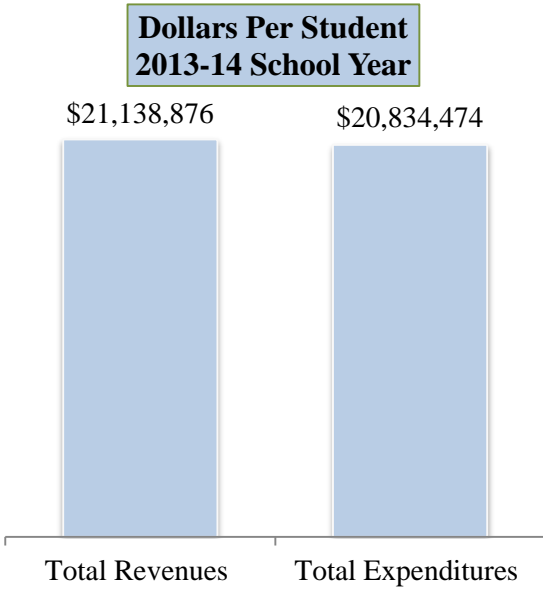
Financial Information

Revenue by Source for 2013-14 School Year



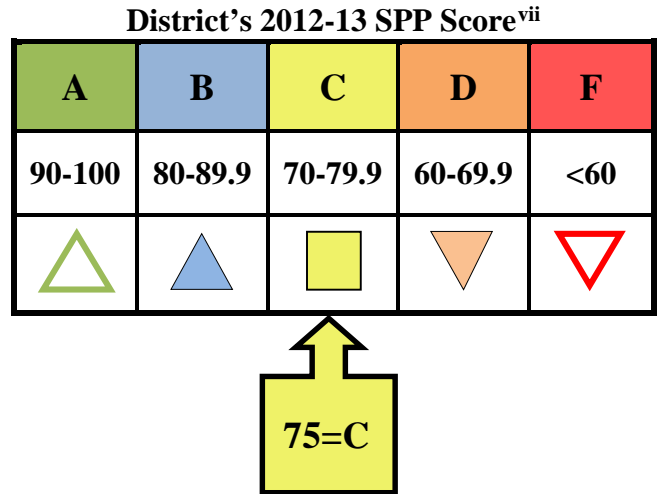
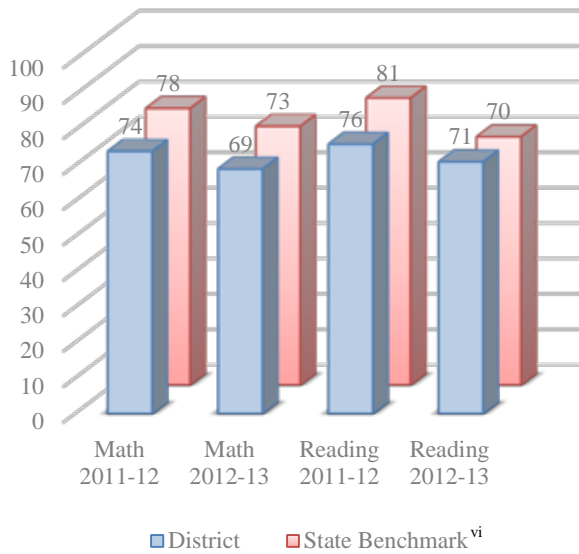
Select Expenditures for 2013-14 School Year





Academic Information

Percentage of District Students Who Scored "Proficient" or "Advanced" on 2011-12 and 2012-13 PSSA^{iv v}



**Individual Building SPP and PSSA Scores^{viii}
2012-13 School Year**

School Building	SPP Score	PSSA % School Proficient and Advanced in Math	PSSA % Statewide Benchmark Proficient and Advanced in Math	PSSA % School Proficient and Advanced in Reading	PSSA % Statewide Benchmark Proficient and Advanced in Reading	Federal Title I Designation (Reward, Priority, Focus, No Designation)^{ix}
Karns City High School	83.8	74	73	80	70	No Designation
Chicora Elementary School	67.4	70	73	72	70	No Designation
Sugarcreek Elementary School	73.5	64	73	62	70	No Designation

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the District released on November 12, 2012, resulted in two findings and one observation. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We reviewed the District's written response provided to the Pennsylvania Department of Education (PDE), interviewed District personnel, and performed audit procedures as detailed in each status section below.

Auditor General Performance Audit Report Released in November 12, 2012

Finding No. 1: Errors in Reporting Pupil Membership Resulted in a Reimbursement Underpayment of \$34,142

Finding Summary: Our prior audit of the District found errors in the pupil membership reports submitted to PDE for the 2009-10 school year. District personnel inaccurately classified students in the reporting category "resident students" instead of "non-resident students placed in private homes (foster children)." In addition, other reporting errors (special education and vocational education students not reported correctly) were noted that were not large enough to impact the District's basic education funding or special education reimbursement.

Recommendations: We recommended that the District should:

1. Strengthen internal controls to ensure the accuracy of membership data reported to PDE.
2. Review reports for subsequent school years and submit revised reports to PDE if errors are found.

We also recommended that PDE should:

3. Adjust the District's future allocations to resolve the reimbursement underpayment of \$34,142.

Current Status: During our current audit, we reviewed the District's in house reports and compared those reports to the data submitted to PDE. The District implemented a procedure to perform a review of all data uploaded into the Pennsylvania Information Management System. We also verified that all non-resident students were properly classified and special education and vocational education students' membership was properly reported. We found that the District did implement our prior

recommendations. As of May 12, 2015, PDE has not resolved the underpayment.

Finding No. 2: Errors in Reporting Transportation Data Resulted in an Underpayment of \$8,432

Finding Summary: Our prior audit found that the District failed to report data for one contractor who provided special education transportation during the 2009-10 school year for reimbursement. The District received this invoice after the school year and did not submit to PDE.

Recommendations: We recommended that the District should:

1. Strengthen controls to ensure all eligible buses and data are reported correctly.
2. Review subsequent school years' pupil transportation reports submitted to PDE for accuracy to ensure the District has received all the reimbursement it is entitled to receive.

We also recommended that PDE should:

3. Adjust the District's allocations to correct the underpayment of \$8,432.

Current Status: During our current audit, we reviewed all invoices submitted by the transportation contractor for payment to the data submitted to PDE to ensure all vehicles were reported for reimbursement. We found that the District did implement our prior recommendations. As of May 12, 2015, PDE has not corrected the underpayment.

Observation: The Karns City Area School District Lacks Sufficient Internal Controls Over Its Student Record Data

Observation Summary: Our prior audit found that the District did not have sufficient internal controls over its student record data which resulted in errors that could cause the District to receive incorrect reimbursement and subsidy amount.

Recommendations: We recommended that the District should:

1. Maintain adequate evidence of manual compensating controls (i.e. supporting documentation) to support its student registrations.

2. Have adequate written procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.
3. Submit revised reports to PIMS to account for membership for students enrolled in intermediate unit classes.

Current Status:

During our current audit, we reviewed the membership data submitted to PDE and found no deficiencies. Several District staff members attended training sessions regarding PIMS and the registration process. However, we were not provided any written procedures that would ensure continuity in the event of a sudden change in personnel or child accounting vendors. Based on our review, we stress the importance of written procedures.

Appendix: Audit Scope, Objectives, and Methodology

School performance audits allow the Pennsylvania 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, PDE, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code¹, is not a substitute for the local annual financial 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. Those 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.

Scope

Overall, our audit covered the period January 12, 2012 through May 12, 2015. In addition, the scope of each individual audit objective is detailed on the next page.

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 PDE 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.

The District's management is responsible for establishing and maintaining effective internal controls² to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

¹ 72 P.S. § 403

² 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; and compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, financial reports, annual budgets, and new or amended policies and procedures. We also determined if the District had key personnel or software vendor changes since the prior audit.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies, and best business practices. Our audit focused on the District's efficiency and effectiveness in the following areas:

- Ü Governance
- Ü Contracting
- Ü School Safety
- Ü Bus Driver Requirements

As we conducted our audit procedures, we sought to determine answers to the following questions, which served as our audit objectives:

- Ü Did the LEA's Board of School Directors (Board) and administration maintain best practices in overall organizational governance?
 - To address this objective, we surveyed the District's current Board, conducted in-depth interviews with the current Superintendent and his or her staff, reviewed board meeting books, policies and procedures, and reports used to inform the Board about student performance, progress in meeting student achievement goals, budgeting and financial position, and school violence data to determine if the Board was provided sufficient information for making informed decisions.
- Ü Did the District ensure that its significant contracts were current and were properly obtained, approved, executed, and monitored?
 - To address this objective, we reviewed the District's procurement and contract monitoring policies and procedures. We reviewed the board meeting minutes for approved contracts for goods and services that were in effect during the 2013-14 and 2014-15 school years. We selected 6 out of 13 significant contracts for detailed testing. Testing included a review of the procurement documents to determine if the contract was procured in accordance with the Public School Code and District policies. We also reviewed documents to determine if the District properly monitored the selected contracts. Finally, we reviewed board meeting minutes and the Board's Statements of Financial Interest to determine if any board member had a conflict of interest in approving the selected contracts.

- Ü Did the District take appropriate actions to ensure it provided a safe school environment?
 - To address this objective, we reviewed a variety of documentation including safety plans, policy and procedures related to safety, and how these are communicated with stakeholders (parents and students).

- Ü Did the District ensure that bus drivers transporting District children at the time of the audit have the required driver's license, physical exam, training, background checks, and clearances as outlined in applicable laws?³ Also, did the District have written policies and procedures governing the hiring of new bus drivers?
 - To address this objective, we selected 5 of the 22 bus drivers hired by either the District or a contractor during the 2013-2014 and 2014-15 school years and reviewed documentation to ensure that the District complied with the requirements noted above. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures were sufficient to ensure compliance with bus driver hiring requirements.

- Ü Did the District take appropriate corrective action to address findings and implement recommendations made in our prior audit?
 - To address this objective, we interviewed District administrators to determine what corrective action, if any, was taken to address prior audit recommendations. Where appropriate, we obtained documentary evidence and performed audit procedures to verify that corrective action was actually taken and those actions were sufficient to address the prior finding.

³ 24 P.S. § 1-111, 24 P.S. § 2070, 67 P.S. § 71.1, 22 PA Code Chapter 8, and 23 PA C.S. § 58-6354.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

The Honorable Tom W. Wolf

Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Pedro A. Rivera

Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Timothy Reese

State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Mrs. Danielle Mariano

Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter

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400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Lin Carpenter

Assistant Executive Director for Member Services
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.

ⁱ Source: School district, PDE, and U.S. Census data.

ⁱⁱ Source: Information provided by the District administration.

ⁱⁱⁱ Source: United States Census <http://www.census.gov/2010census>

^{iv} PSSA stands for the Pennsylvania System of School Assessment (PSSA), which is composed of statewide, standardized tests administered by PDE to all public schools and the reporting associated with the results of those assessments. PSSA scores in the tables in this report reflect Reading and Math results for the “All Students” group for the 2011-12 and 2012-13 school years.

^v PSSA scores, which are Pennsylvania’s mandatory, statewide academic test scores, are issued by PDE. However, the PSSA scores issued by PDE are collected by an outside vendor, Data Recognition Corporation (DRC). The Pennsylvania Department of the Auditor General and KPMG issued a material weakness in internal controls over PDE’s compilation of this academic data in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014, citing insufficient review procedures at PDE to ensure the accuracy of test score data received from DRC.

^{vi} In the 2011-12 school year, the state benchmarks reflect the Adequate Yearly Progress targets established under No Child Left Behind. In the 2012-13 school year, the state benchmarks reflect the statewide goals based on annual measurable objectives established by PDE.

^{vii} SPP stands for School Performance Profile, which is Pennsylvania’s new method for reporting academic performance scores for all public schools based on a scale from 0% to 100% implemented in the 2012-13 school year by PDE.

^{viii} *Id.* Additionally, federal Title I designations of Priority, Focus, Reward, and No Designation are new federal accountability designations issued by PDE to Title I schools only beginning in the 2012-13 school year. Priority schools are the lowest 5%, focus schools are the lowest 10%, and reward schools are the highest 5% of Title I schools. All Title I schools not falling into one of the aforementioned percentage groups are considered “No Designation” schools. The criteria used to calculate the percentage rates is determined on an annual basis by PDE.

^{ix} Title I Federal accountability designations for Title I schools originate from PDE and are determined based on the number of students at the school who receive free and/or reduced price lunches. School lunch data is accumulated in PDE’s CN-PEARS system, which is customized software developed jointly with an outside vendor, Colyar, Inc. The Pennsylvania Department of the Auditor General and KPMG issued a significant deficiency in internal controls over the CN-PEARS system in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014.