

COATESVILLE AREA SCHOOL DISTRICT
CHESTER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2010

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

Mr. J. Neil Campbell, Board President
Coatesville Area School District
545 East Lincoln Highway
Coatesville, Pennsylvania 19320

Dear Governor Rendell and Mr. Campbell:

We conducted a performance audit of the Coatesville Area School District (CASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period May 29, 2007 through June 3, 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, 2007, 2006 and 2005. 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 CASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

December 13, 2010

cc: **COATESVILLE 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 Coatesville Area School District (CASD). 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 CASD in response to our prior audit recommendations.

Our audit scope covered the period May 29, 2007 through June 3, 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, 2006-07, 2005-06 and 2004-05.

District Background

The CASD encompasses approximately 75 square miles. According to 2000 federal census data, it serves a resident population of 50,341. According to District officials, in school year 2007-08 the CASD provided basic educational services to 6,717 pupils through the employment of 546 teachers, 356 full-time and part-time support personnel, and 31 administrators. Lastly, the CASD received more than \$39.8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the CASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the CASD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the CASD:

- had taken appropriate corrective action in implementing our recommendations pertaining to the CASD not including adequate provisions in its employment contracts with the superintendent and the chief financial and operations officer, (see page 7).
- had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting pupil transportation data (see page 8).
- had taken appropriate corrective action in implementing our recommendations pertaining to the failure to obtain Memoranda of Understanding (see page 9).
- had taken appropriate corrective action in implementing our recommendations pertaining to late submission of applications for rental and sinking fund payments reimbursement (see page 9).

- had taken appropriate corrective action in implementing our recommendations pertaining to errors in Social Security and Medicare taxes reimbursement (see page 10).
- had taken appropriate corrective action in implementing our recommendations pertaining to certification deficiencies (see page 10).
- had taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses noted in student activity fund operations (see page 11).

- had taken appropriate corrective action in implementing our recommendations pertaining to board members failing to file Statements of Financial Interests (see page 12).
- had taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses regarding Memoranda of Understanding (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 May 29, 2007 through June 3, 2010, except for the verification of professional employee certification which was performed for the period June 14, 2006 through September 8, 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 Coatesville Area School District'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 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?
- ✓ 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

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 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.

CASD 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 area of comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 7, 2009, we reviewed the CASD's response to DE dated August 28, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Coatesville Area School District (CASD) for the school years 2003-04 and 2002-03 resulted in eight findings and one observation 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 CASD Board’s written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings and observation. As shown below, we found that the CASD did implement recommendations related to the findings and observation.

<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: The District Did Not Include Adequate Provisions in Its Employment Contracts with the Superintendent and the Chief Financial and Operations Officer, Leading to Costly Buy-Outs of the Contracts and Additional Costs to the School District, Totaling \$367,607</i></u></p> <ol style="list-style-type: none"> 1. Enter into employment contracts with prospective superintendents at a three-year minimum term permitted by state law, in order to limit potential financial liability by the District and its taxpayers. 2. Ensure that future employment contracts with prospective administrators contain adequate termination provisions sufficient to protect the interests of the District and its taxpayers in the event that the employment ends prematurely for any reason. 	<p>Background:</p> <p>Our prior audit found that after the Superintendent had served only three years and eight and one-half months of his four years and eleven and one-half months contract, and that after the Chief Financial and Operations Officer (CFOO) had served only three years and five months of her four years and eight months contract, the Board approved separate Severance Agreement and Mutual Releases for each individual.</p> <p>We found that CASD did not include adequate provisions in its employment contracts with the Superintendent and the CFOO, leading to costly buy-outs of the contracts and additional costs to CASD totaling \$367,607.</p>	<p>Current Status:</p> <p>Our current audit found that the current Superintendent’s contract was negotiated and agreed upon prior to the release of our prior audit report.</p> <p>The current contract for the Director of Administration (the position formerly known as the CFOO) contract contains proper termination provisions.</p> <p>District personnel attempted to recover the funds that the former Superintendent and the CFOO were overpaid; however, phone calls were not returned. The District felt that the cost of trying to recover the funds would exceed the amount recovered. Nevertheless, we still continue to encourage the District to recover these funds.</p>

<p>3. Provide as much information as possible to the taxpayers of the District explaining the reasons for the termination of the Superintendent and CFOO and justifying the District's expenditure of public funds to buy out both contracts.</p> <p>4. Work with successors to the Superintendent and the CFOO to include in their current and future employment contracts provisions that address the compensation and benefits payable to, or on behalf of, these administrators in the event of premature terminations of their contracts.</p> <p>5. Recover the \$5,154 and \$5,043 erroneously paid to the Superintendent and CFOO, respectively, for the double payments of pay for one day.</p> <p>6. Recover the \$10,087 erroneously paid to the CFOO for the 20 unearned vacation days.</p>		
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<p><u><i>II. Finding No. 2: Errors in Reporting Pupil Transportation Data Resulted in a Net Subsidy Overpayment of \$59,947</i></u></p> <p>1. Accurately report daily mileage, pupil counts, contractor costs and vehicle data in accordance with DE instructions.</p> <p>2. Establish procedures to ensure that all</p>	<p>Background:</p> <p>Our prior audit of transportation data for the 2003-04 and 2002-03 school years found errors in daily mileage, pupils, contractor costs and vehicle data reported to the DE. These errors resulted in a net subsidy overpayment of \$59,947.</p>	<p>Current Status:</p> <p>Our current audit found that District personnel complied with our recommendations. No significant errors were found, and the District provided adequate documentation to support data reported for the current audit.</p> <p>DE recovered the net subsidy overpayment of \$59,947 in February 2010.</p>
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<p>transportation data is reconciled before submitting the end-of-year report to DE.</p> <p>3. Reconcile the contractor cost expenditure account for transportation to and from school to the final contracted services summary report received from DE to ensure that all contracted services are reported for reimbursement.</p> <p>4. Ensure all vehicle mileage, pupil counts and vehicle data are obtained from all contractors who provide transportation to and from school.</p> <p>5. Review reports for years subsequent to the audit period and submit revised reports if errors are found.</p> <p>6. DE should recover the net subsidy overpayments of \$59,947.</p>		
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<p><u>III. Finding No. 3: Failure to Obtain Memoranda of Understanding</u></p> <p>1. Develop and obtain current Memoranda of Understanding (MOU) between the school and the four police departments.</p>	<p>Background:</p> <p>Our prior audit of the District's records found that the District did not have current MOUs with four of the six police departments servicing the District.</p>	<p>Current Status:</p> <p>Our current audit found that the District obtained current MOUs with all its local police departments in January 2009.</p>
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<p><u>IV. Finding No. 4: Late Submission of Applications for Rental and Sinking Fund Payments Reimbursement</u></p>	<p>Background:</p> <p>Our prior audit found that, beginning with the 2005-06 school year, District personnel implemented a review process which resulted in the timely and accurate filing of rental and sinking fund</p>	<p>Current Status:</p> <p>Our current audit found that the District put the procedures in writing for the 2006-07 school year.</p>
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<p>1. Put the procedures implemented for the filing of rental and sinking fund reimbursement applications in writing. This should include deadlines when various actions should take place and what actions are to be taken if a deadline is not met by the District, trustee, or anyone else involved in the process.</p>	<p>applications. However, as of May 17, 2006, the District did not have these procedures in written form.</p>	<p>Additionally, our current audit of the District's applications for rental reimbursement found that all applications were filed in a timely manner.</p>
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<p><u>V. Finding No. 5: Errors in Social Security and Medicare Taxes Reimbursement</u></p> <ol style="list-style-type: none"> 1. Establish reconciliation procedures for verification of Social Security and Medicare wages paid from federal funds. 2. Review reports submitted for years subsequent to our audit and, if similar errors occurred, submit revised reports to DE. 3. DE should adjust the District's future allocations to recover the Social Security and Medicare taxes reimbursement overpayments of \$66,950 found in our current audit, as well as the overpayments of \$20,046 found in the previous audit. 	<p>Background:</p> <p>Our prior audit of the District's 2003-04 and 2002-03 Reconciliation of Social Security and Medicare Tax Contributions reimbursement applications found errors in federal wages reported to DE. The errors resulted in reimbursement overpayments of \$66,950.</p>	<p>Current Status:</p> <p>Our current audit found that reconciliation procedures were put in place and reports for years subsequent to our prior audit were reviewed. Our current audit did not find any significant errors.</p> <p>DE recovered the reimbursement overpayments of \$66,950 in April 2009 and of \$20,046 in August 2006.</p>
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<p><u>VI. Finding No. 6: Certification Deficiencies</u></p> <ol style="list-style-type: none"> 1. Take the necessary action required, based on DE's Bureau of School Leadership and Teacher 	<p>Background:</p> <p>Our prior audit of the professional employees' certification and assignments for the period September 23, 2003 to June 14, 2006, was performed to determine compliance with the Public School Code and BSLTQ's Certification and</p>	<p>Current Status:</p> <p>Our current audit found that the prior deficiencies were resolved either through reassignment or resignation, and no additional certification</p>
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<p>Quality's (BSLTQ) determination, to ensure compliance with certification regulations.</p> <ol style="list-style-type: none"> 2. Establish a review process to ensure that all professional employees' certificates are current and valid. 3. Ensure all teachers obtain proper certification prior to assignment. 4. DE should take action to recover the subsidy forfeitures of \$73,469. 	<p>Staffing Policies Guidelines. We found 20 deficiencies resulting in subsidy forfeitures of \$73,469.</p>	<p>deficiencies were found.</p> <p>DE and CASD executed a Settlement and Release Agreement in May 2010 reducing the subsidy forfeitures from \$73,469 to \$36,230, which have not yet been withheld.</p>
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<p><u>VII. Finding No. 7:</u> <u>Internal Control</u> <u>Weaknesses Noted in</u> <u>Student Activity Fund</u> <u>Operations</u></p> <ol style="list-style-type: none"> 1. Develop written procedures to ensure that negative balances are not permitted to occur in accounts. 2. Close graduated class student activity accounts in accordance with board policy. 3. Close inactive student activity accounts in accordance with board policy. 4. Establish procedures to ensure scholarship/memorial fund accounts are properly accounted for as trust and agency funds. 5. Determine the distribution and proper accounting for monies in activity accounts that are not student-related. 	<p>Background:</p> <p>Our prior audit of the District's high school, middle school, and elementary school student activity funds for the 2004-05 and 2003-04 school years found continued weaknesses in the management and control of student activity funds. The District again failed to implement most of our recommendations as detailed in two previous audits.</p>	<p>Current Status:</p> <p>Our current audit found that District personnel complied with all of our recommendations.</p>
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<p>6. Establish a policy for distribution of interest, and distribute the interest in accordance with that policy.</p> <p>7. Develop written procedures to ensure that standard accounting, reporting, review and reconciliation methods exist throughout the District.</p>		
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<p><u>VIII. Finding No. 8: Board Members Failed to File Statements of Financial Interests in Violation of the Public Official and Employees Ethics Act and Board Policy</u></p> <p>1. Seek the advice of its solicitor in regard to its responsibility when an administrator or elected member fails to file a Statement of Financial Interests.</p> <p>2. Develop procedures to ensure all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act.</p>	<p>Background:</p> <p>Our prior audit of Statements of Financial Interests found that three board members in 2005, one administrator and one board member in 2004, and two board members in 2003 failed to file their statements. Also, one administrator and one board member in 2005, one board member in 2004, and two board members in 2003 filed their statements late.</p>	<p>Current Status:</p> <p>Our current audit found that the District personnel complied with our recommendations and Statements of Financial Interests were filed properly.</p>
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<p><u>IX. Observation: Internal Control Weakness Regarding Memoranda of Understanding</u></p> <p>1. Review, update and re-execute the current MOU with its local law enforcement agencies.</p>	<p>Background:</p> <p>Our prior audit of the District's records found that the District had on file properly signed MOUs between the district and two of its six local law enforcement agencies. However, the MOUs had not been updated since August 1998 and May 2002, respectively.</p>	<p>Current Status:</p> <p>Our current audit found that the District obtained current MOUs in January 2009 with all of its local police departments.</p> <p>Additionally, the District developed procedures to ensure that they will continue to update them every two years.</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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