

DALLASTOWN AREA SCHOOL DISTRICT
YORK COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2011

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

Mr. Frederick E. Botterbusch, II, Board President
Dallastown Area School District
700 New School Lane
Dallastown, Pennsylvania 17313

Dear Governor Corbett and Mr. Botterbusch:

We conducted a performance audit of the Dallastown Area School District (DASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period October 10, 2008 through October 15, 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 DASD 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 DASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve DASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the DASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

April 13, 2011

cc: **DALLASTOWN 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 Dallastown Area School District (DASD). 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 DASD in response to our prior audit recommendations.

Our audit scope covered the period October 10, 2008 through October 15, 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 DASD encompasses approximately 53 square miles. According to 2000 federal census data, it serves a resident population of 34,746. According to District officials, in school year 2007-08 the DASD provided basic educational services to 5,977 pupils through the employment of 424 teachers, 232 full-time and part-time support personnel, and 31 administrators. Lastly, the DASD received more than \$16.1 million in state funding in school year 2007-08.

Audit Conclusion and Results

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

Finding No. 1: Transportation Reimbursement Underpayments. Our audit of transportation data found that the CASD did not report activity runs to the Department of Education (DE) for three vehicles in both the 2007-08 and 2006-07 school years, resulting in underpayments to the DASD totaling \$60,197 (see page 6).

Finding No. 2: Internal Control Weakness Regarding Memoranda of Understanding. Our audit of the District's records found that the current Memoranda of Understanding between the DASD and its two law enforcement agencies were dated August 25, 2006 and have not been updated since (see page 8).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the DASD, we found the DASD had taken appropriate corrective action in implementing our recommendations pertaining to membership reporting errors (see page 10) and largely implemented our recommendations regarding inadequate transportation documentation and failure to follow DE instructions (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 10, 2008 through October 15, 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 DASD'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?
- ✓ 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

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.

DASD 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.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 24, 2009, we reviewed the DASD's response to DE dated September 23, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Criteria relevant to the finding:

DE's instructions for the completion of transportation service forms state:

For pupils who stay after the end of the regular school day and are transported home on an "Activity Run," sometime referred to as a "late run," eTran [DE's data reporting system] allows entry of this information by checking the "Activity Run" box. Three data entry boxes will appear to enter the "Daily Miles With," "Daily Miles Without" and "Number of Days" for the late run service only.

Transportation Reimbursement Underpayments

Our audit of the District's transportation data for the 2007-08 and 2006-07 school years found that the District had not reported activity runs for three vehicles to the Department of Education (DE) for either year, resulting in underpayments to the District totaling \$60,197. The District employee responsible for transportation reporting did not realize that activity runs were reimbursable.

For the 2007-08 school year, District personnel failed to report three vehicles for 170 days, each resulting in an understatement of daily miles with and without pupils of 63 and 17 miles, respectively. These errors resulted in an underpayment of \$31,148.

For the 2006-07 school year, District personnel failed to report three vehicles, two of which transported pupils for 171 days and the third of which transported pupils for 169 days, resulting in an understatement of daily miles with and without pupils of 65.8 and 11, respectively. These errors resulted in an underpayment of \$29,049.

Recommendations

The *Dallastown Area School District* should:

1. Establish an internal review procedure to ensure that all vehicles and routes eligible for reimbursement are reported to DE.
2. Obtain and review DE's annual end of the year reporting instructions.
3. Review reports for years subsequent to the current audit period and, if errors are found, submit revised reports to DE.

The *Department of Education* should:

4. Adjust the District's allocations to resolve the underpayments of \$60,197.

Management Response

Management stated the following:

The individual responsible for transportation reporting did not realize that activity runs were reimbursable. The district has not submitted activity runs for the past several years and it has never been an audit finding.

As a result of this finding, the district will check with the Department of Education to see how far back it is permitted to submit revised reports to include the activity runs. The district will resubmit year 08/09. The district submitted activity runs for 09/10 and will continue to do so for all future years.

Finding No. 2

Internal Control Weakness Regarding Memoranda of Understanding

Criteria relevant to the finding:

The MOUs with the police departments at section VI, B state:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter (emphasis added).

Our audit of the District's records found that the current Memoranda of Understanding (MOU) between the District and the two local law enforcement agencies were dated August 25, 2006 and have not been updated since.

The failure to update MOUs with all law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

Recommendations

The *Dallastown Area School District* should:

1. Review, update and re-execute the current MOUs between the District and the law enforcement agencies.
2. Follow the General Provisions of the District's MOU requiring that the MOUs be reviewed and re-executed within two years of the date of their original execution and every two years thereafter.
3. Adopt an official board policy requiring the administration to review and re-execute the MOU every two years, as stated in the current MOU.

Management Response

Management stated the following:

The district feels that the executed School Resource Officer Agreement, which was approved by the Board of School Directors on November 12, 2009, between the [law enforcement agencies] and the Dallastown Area School District is sufficient in meeting the Memorandum of Understanding requirements.

Auditor Conclusion

The last MOUs signed by the District and the two law enforcement agencies named in the document were signed in August 2006. The MOUs stated that they must be reviewed and re-executed within two years of the date of their original execution and every two years thereafter. Since this action was not taken, the finding will stand as written.

Status of Prior Audit Findings and Observations

Our prior audit of the Dallastown Area School District (DASD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in two reported findings. The first finding pertained to membership reporting errors, and the second finding pertained to inadequate transportation documentation and failure to follow Department of Education (DE) instructions. 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 DASD Board's written response provided to the DE, performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the DASD did implement recommendations related to membership and largely implemented our recommendations related to transportation.

<i>School Years 2005-06, 2004-05, 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: Membership Reporting Errors Resulted in a Net Underpayment of \$87,455</i></u></p> <ol style="list-style-type: none"> 1. Develop review procedures to ensure that membership for children placed in private homes on Lincoln Intermediate Unit #12 (LIU) printouts is accurately reported. 2. Compare data to be submitted to DE with membership printouts from the LIU to ensure that all includable membership is being reported to DE and that the data is being reported under the correct term. 3. Develop review procedures to ensure that membership for children placed in private homes from other districts, who are mainstreamed into District classes while attending LIU classes located in the District, is reported as membership for children placed into private homes, instead of 	<p>Background:</p> <p>Our prior audit of pupil membership records for the 2005-06, 2004-05, 2003-04 and 2002-03 school years found errors in data reported to the DE for the 2004-05, 2003-04 and 2002-03 school years. We calculated that these errors resulted in a net underpayment of \$87,455.</p>	<p>Current Status:</p> <p>Our current audit found that DASD implemented our recommendations beginning with the 2008-09 school year.</p> <p>On June 1, 2010, DE paid the District \$87,352 to resolve the net underpayment. The revised net underpayment was due to additional information provided to DE subsequent to our prior audit.</p>

<p>as district-paid tuition membership.</p> <p>4. Review membership data for years subsequent to the audit, and if errors are found, submit revised reports to DE.</p> <p>5. DE should adjust District allocations to resolve the net underpayment of \$87,455.</p>		
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<p><u>II. Finding No. 2:</u> <u>Inadequate Transportation Documentation and Failure to Follow Department of Education Instructions Resulted in Unverifiable Transportation Reimbursements of \$3,542,590</u></p> <p>1. Review DE instructions.</p> <p>2. Ensure that calculations for miles with and without pupils are completed in accordance with DE instructions.</p> <p>3. Review odometer readings when they are received to ensure that they are complete and accurate.</p> <p>4. Retain odometer readings and District calculations for all vehicles to support mileage data reported to DE and to document that calculations are in accordance with DE instructions.</p> <p>5. Compare data being submitted to DE with District calculations to ensure that they are in agreement.</p> <p>6. Maintain pupil rosters that</p>	<p>Background:</p> <p>Our prior audit of transportation data for the 2005-06, 2004-05, 2003-04 and 2002-03 school years found that the District did not retain adequate documentation to support the mileage and pupil data reported to DE for each year. Additionally, District personnel did not follow instructions from DE for the calculation of mileage averages.</p> <p>This resulted in our inability to confirm miles with and without pupils, and the number of pupils assigned to each vehicle. As a result, transportation reimbursements of \$1,017,650, \$885,375, \$851,286 and \$788,279, respectively, were unverifiable.</p>	<p>Current Status:</p> <p>Our current audit found that the DASD implemented most of our recommendations.</p> <p>However, while the District had all odometer readings and District spreadsheets to support the data that they reported to DE, DASD used only one mileage reading for each vehicle in the 2007-08 and 2006-07 school years; this is not compliant with DE instructions, and resulted in a verbal comment to the District in the current audit.</p>
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<p>support the number of pupils used in calculations of the number of pupils assigned to ride each vehicle.</p> <p>7. Develop procedures to ensure that a.m. and p.m. kindergarten students are not both shown on the pupil roster for the same run, unless both groups of kindergarten students are in fact assigned to ride the vehicle at the same time.</p> <p>8. Review documentation supporting subsequent years' reports and, if errors are noted, submit revised reports.</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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