

NORWIN SCHOOL DISTRICT
WESTMORELAND COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2011

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

Mr. Robert Perkins, Board President
Norwin School District
281 McMahan Drive
North Huntingdon, Pennsylvania 15642

Dear Governor Rendell and Mr. Perkins:

We conducted a performance audit of the Norwin School District (NSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period July 27, 2007 through June 16, 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 NSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the 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 NSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve NSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the NSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 4, 2011

cc: **NORWIN 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 Norwin School District (NSD). 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 NSD in response to our prior audit recommendations.

Our audit scope covered the period July 27, 2007 through June 16, 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 NSD encompasses approximately 28 square miles. According to 2000 federal census data, it serves a resident population of 34,368. According to District officials, in school year 2007-08 the NSD provided basic educational services to 5,289 pupils through the employment of 325 teachers, 225 full-time and part-time support personnel, and 27 administrators. Lastly, the NSD received more than \$22.1 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the NSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: Errors in Reporting Nonresident Membership Resulted in a \$10,774 Underpayment in Tuition for Children Placed in Private Homes. Our audit of the NSD's nonresident pupil membership records submitted to Department of Education (DE) for the 2007-08 school year found errors in the reporting of nonresident membership. The errors resulted in DE underpaying the NSD \$10,744 in tuition for children placed in private homes (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the NSD from an audit we conducted of the 2005-06, 2004-05, 2003-04 and 2002-03 school years, we found the NSD had not taken appropriate corrective action in implementing our recommendations pertaining to the reporting of the nonresident membership (see page 8). However, the NSD did take appropriate corrective action in implementing our recommendations pertaining to the certification deficiencies (see page 8), errors in health services data (see page 9), and internal control weaknesses over the student activity fund (see page 10).



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 July 27, 2007 through June 16, 2010, except for the verification of professional employee certification which was performed for the period July 1, 2009 through June 30, 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 NSD'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?
- ✓ 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.

NSD 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.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on February 19, 2008, we reviewed the NSD's response to DE dated January 19, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Errors in Reporting Nonresident Membership Resulted in a \$10,774 Underpayment in Tuition for Children Placed in Private Homes

Criteria relevant to the finding:

Section 2503(c) of the Public School Code states that the Commonwealth will 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.

Nonresident pupil membership data must be maintained and reported in accordance with DE guidelines and instructions, since it is a major factor in determining the Commonwealth's payments of tuition for children placed in private homes.

Our audit of the District's nonresident pupil membership records submitted to Department of Education (DE) for the 2007-08 school year found errors in the reporting of nonresident membership. The errors resulted in DE underpaying the District \$10,744 in tuition for children placed in private homes.

The District understated elementary nonresident membership by 180 days and understated secondary nonresident membership by 103 days. Similar errors were noted in our prior audit report (see page 8).

No problems were noted in the 2006-07 school year.

We have provided DE with reports detailing the nonresident membership errors for use in recalculating the District's tuition payment.

Recommendations

The Norwin School District should:

1. Review membership data thoroughly to ensure students are properly classified prior to submitting reports to DE.
2. Review reports submitted subsequent to the years audited and submit revised reports to DE, if errors are found.

The Department of Education should:

3. Adjust the District's allocations to correct the underpayment of \$10,774 in tuition for children placed in private homes.

Management Response

Management stated the following:

In response to this finding, the District has implemented additional tracking procedures and provided training to personnel to ensure that nonresident students are reported accurately to the state. The reporting of nonresident students is also monitored annually by a District administrator.

Status of Prior Audit Findings and Observations

Our prior audit of the Norwin School District (NSD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in four reported findings, 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 NSD 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 District did implement recommendations related to three of the four prior findings.

<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: Certification Deficiencies</i></u></p> <ol style="list-style-type: none"> 1. Establish a review process that ensures that certificates do not lapse. 2. Ensure that any teachers requiring emergency certifications obtain them prior to being assigned to their positions. 3. DE should adjust the District's allocations to recover the subsidy forfeiture of \$2,469. 	<p>Background:</p> <p>Our prior audit of professional employees' certificates and assignments for the period May 11, 2004 through March 19, 2007, found two certification deficiencies.</p>	<p>Current Status:</p> <p>Our current audit of certification found that the two previously cited professionals are now properly certified. We also verified that all newly hired professionals were properly certified for their assignments.</p> <p>Based on the results of our current audit, we concluded that the District did take appropriate corrective action to address this finding.</p> <p>DE adjusted the District's allocations to assess the subsidy forfeiture in June of 2009.</p>
<p><u><i>II. Finding No. 2: Errors in Reporting Nonresident Membership Resulted in Underpayments of \$25,053 in Tuition for Children Placed in Private Homes</i></u></p> <ol style="list-style-type: none"> 1. Review membership data thoroughly to ensure students are properly classified prior to submitting reports to DE. 2. Review reports submitted 	<p>Background:</p> <p>Our prior audit of pupil membership reports submitted to DE found that membership for nonresident children placed in private homes was understated for the 2005-06, 2004-05 and 2003-04 school years.</p>	<p>Current Status:</p> <p>Our current audit of the District's nonresident membership found that the District correctly reported nonresident membership for the 2006-07 school year. However, the 2007-08 nonresident membership was reported incorrectly (see finding, page 6).</p>

<p>subsequent to the years audited and submit revised reports to DE if errors are found.</p> <p>3. DE should adjust the District's allocations to reimburse the underpayments of \$25,053 in tuition for children placed in private homes.</p>		<p>Based on the results of our current audit, we concluded that the District did not take sufficient corrective action to address the prior audit's finding in nonresident membership.</p> <p>As of June 16, 2010, DE had not yet adjusted the District's allocations to correct the underpayments of \$25,053 in tuition for children placed in private homes. We again recommend that DE do so.</p>
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<p><u>III. Finding No. 3: Errors in Reporting Health Services Data Resulted in a Net Underpayment of \$4,109</u></p> <p>1. Strengthen controls to ensure that final average daily membership (ADM) data is accurately reported for reimbursement.</p> <p>2. Review subsequent years' applications submitted to the Department of Health (DH) for accuracy and revise reports, if necessary.</p> <p>3. DH should adjust the District's health services reimbursement to resolve the net underpayment of \$4,109.</p>	<p>Background:</p> <p>Our prior audit of the District's health services reimbursement data for the 2005-06, 2004-05, 2003-04 and 2002-03 school years found that District personnel incorrectly reported ADM data to DH. The errors resulted in a net reimbursement underpayment of \$4,109.</p>	<p>Current Status:</p> <p>Our current audit of reported health services ADM's found only insignificant errors for the 2007-08 and 2006-07 school years.</p> <p>These errors and appropriate corrective measures were discussed with District personnel.</p> <p>DH adjusted the District's net underpayment of \$4,109 in June of 2009.</p>
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<p><u>IV. Finding No. 4:</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. Follow board policy and procedures to ensure that negative balances are not permitted in student activity accounts. 2. Close out graduating class accounts and disperse the remaining monies in the accounts in accordance with board policy. 3. Close out inactive student activity accounts in accordance with board policy. 4. Include procedures for collecting revenue and disbursing funds from student body activities accounts. 5. Issue Internal Revenue Service (IRS) Form 1099 for payments made to nonemployees for services paid for through the student activity fund. 	<p>Background:</p> <p>Our prior audit of the District’s high school activity fund for the 2005-06 school year found weaknesses in the management and control of student activity funds.</p>	<p>Current Status:</p> <p>Our current audit of the District’s student activity fund operations found that:</p> <ol style="list-style-type: none"> 1. The District had no negative balances in student activity accounts. 2. Graduating classes closed out their accounts and dispersed monies into other accounts. 3. New procedures are in place to close out all inactive student activity accounts in accordance with board policy. 4. New procedures were instituted for collecting revenue and disbursing funds. 5. IRS Form 1099 was issued to nonemployees for services paid through activity fund. <p>Based on the results of our current audit, we concluded that the District did take appropriate corrective action to address this finding.</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:

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

The Honorable Thomas E. Gluck
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Barbara Nelson
Director, Bureau of Budget and
Fiscal Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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