

TUSSEY MOUNTAIN SCHOOL DISTRICT
BEDFORD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2010

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

Mr. Aaron Martin, Board President
Tussey Mountain School District
199 Front Street
Saxton, Pennsylvania 16678

Dear Governor Rendell and Mr. Martin:

We conducted a performance audit of the Tussey Mountain School District (TMSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period January 18, 2008 through June 11, 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 TMSD 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 TMSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve TMSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the TMSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

November 29, 2010

cc: **TUSSEY MOUNTAIN 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 Tussey Mountain School District (TMSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period January 18, 2008 through June 11, 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 TMSD encompasses approximately 173 square miles. According to 2000 federal census data, it serves a resident population of 7,689. According to District officials, in school year 2007-08 the TMSD provided basic educational services to 1,277 pupils through the employment of 99 teachers, 61 full-time and part-time support personnel, and 6 administrators. Lastly, the TMSD received more than \$10.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the TMSD 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 District-Operated Vocational Education Membership Resulted in a Subsidy Underpayment of 8,295. District-operated vocational education membership reports submitted to the Department of Education for the 2007-08 school year were inaccurate, resulting in a vocational education subsidy underpayment of \$8,295 (see page 6).

Status of Prior Audit Findings and Observations. There were no findings or observations issued in our prior audit for the school years 2005-06, 2004-05, 2003-04 and 2002-03.



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 January 18, 2008 through June 11, 2010, except for the verification of professional employee certification which was performed for the period July 1, 2009 through March 31, 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 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 TMSD'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?

- ✓ 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 use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?

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.

TMSD 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 TMSD operations.

Findings and Observations

Finding

Errors in Reporting District-Operated Vocational Education Membership Resulted in a Subsidy Underpayment of \$8,295

Criteria relevant to the finding:

Section 25-2502.8 (b) of the Public School Code provides, in part:

[E]ach school district . . . shall be paid, in addition to any other subsidy to which it is entitled, an amount on account of students enrolled in vocational curriculums. . . .

District-operated vocational education membership reports submitted to the Department of Education (DE) for the 2007-08 school year were inaccurate, resulting in a vocational education subsidy (VES) underpayment of \$8,295.

Membership for students in district-operated vocational programs was understated by 2,886 days. District personnel erroneously reported the days of attendance for students enrolled in these programs instead of their days of membership. In addition, District personnel failed to report the membership days of four part-time students who were enrolled in district-operated vocational programs.

The understatement occurred because District personnel misinterpreted DE's instructions.

District-operated vocational education membership must be reported in accordance with DE instructions, since it is a major factor in determining the District's VES. We have provided DE with a report detailing the errors for use in recalculating the District's VES.

Recommendations

The *Tussey Mountain School District* should:

1. Require District personnel responsible for reporting district-operated vocational education membership to familiarize themselves with DE instructions.
2. Review reports submitted to DE subsequent to the years audited and submit revised reports if errors are found.

The *Department of Education* should:

3. Adjust the District's future allocations to correct the underpayment of VES.

Management Response

Management stated the following:

The Business Manager reported Days Attendance for vocational students for 2007-08 instead of membership days due to misinterpretation of the instructions, which resulted in understating vocational student enrollment. This error occurred in part, due to vocational student membership not being calculated by the District's Child Accounting software. The Business Manager also did not report membership for four (4) students enrolled in vocational programs during 2007-08, resulting in additional understating of vocational student enrollment. This error occurred because the report provided to the Business Manager for these students reflected "0" hours, which the Business Manager believed meant they were not enrolled in the vocational program for 2007-08. In future years, personnel responsible for reporting district-operated membership will research each student in the vocational program and track their membership and report accordingly. Responsible personnel will analyze vocational student membership for 2008-09 to insure accurate reporting. Beginning with the 2009-10 school year, district-operated vocational program students will be reported via the District's child accounting software.

Status of Prior Audit Findings and Observations

Our prior audit of the Tussey Mountain School District for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in no findings or observations.

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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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

