



**FORT CHERRY SCHOOL DISTRICT
WASHINGTON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JUNE 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Ms. Tina Cottrill, Board President
Fort Cherry School District
110 Fort Cherry Road
McDonald, Pennsylvania 15057

Dear Governor Corbett and Ms. Cottrill:

We conducted a performance audit of the Fort Cherry School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period May 13, 2010 through March 12, 2014, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2009, 2010, 2011, and 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 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 District complied, in all significant respects, with relevant requirements, except as detailed in one (1) finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report. It should be noted that this audit engagement was extended for several months because of an unusually large number of inquiries our department received from taxpayers. This topic is further addressed in the *Management Response* and *Auditor Conclusion* sections of the finding (see pages 7-8).

Our audit finding and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements. We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

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

EUGENE A. DEPASQUALE
Auditor General

June 5, 2014

cc: **FORT CHERRY SCHOOL DISTRICT** Board of School Directors

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	2
Findings and Observations	5
Finding – Computer Inventory Control Deficiencies	5
Status of Prior Audit Findings and Observations	9
Distribution List	10

Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Fort Cherry School District (District) in Washington County. Our audit sought to answer certain questions regarding the District's 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 May 13, 2010 through March 12, 2014, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2008-09, 2009-10, 2010-11, and 2011-12 school years.

District Background

The District encompasses approximately 58 square miles. According to 2010 federal census data, it serves a resident population of 8,508. According to District officials, the District provided basic educational services to 1,137 pupils through the employment of 90 teachers, 32 full-time and part-time support personnel, and eleven (11) administrators during the 2011-12 school year. The District received \$9.2 million in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one (1) compliance related matter reported as a finding.

Finding – Computer Inventory Control Deficiencies. Our review of the Fort Cherry School District's (District) computer inventory internal control procedures and the District's board policy disclosed weaknesses in the updating of the District's computer inventory records and a failure to adhere to board policy (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Fort Cherry School District (District) from an audit released on December 23, 2010, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting pupil transportation data (see page 9).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 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 13, 2010 through March 12, 2014, except for the verification of professional employee certification, which was performed for the period April 1, 2010 through June 30, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2008-09, 2009-10, 2010-11, and 2011-12 school years.

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 Pennsylvania Department of Education (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.

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 statute, regulation, policy, 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 and defined business practices. Our audit focused on assessing the District's compliance with certain relevant 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 received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District received transportation subsidies, were the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

The District's management is responsible for establishing and maintaining effective internal controls 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.

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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, and professional employee certification.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

To determine the status of our audit recommendations made in a prior audit report released on December 23, 2010, we reviewed the District's response to PDE dated January 24, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Computer Inventory Control Deficiencies

Criteria relevant to the finding:

Board Policy #706, entitled Property Records, provides in part:

The board directs that a complete inventory be maintained by physical count of all district-owned equipment. It further directs that property records be maintained of all buildings and grounds under the control of the district.

Such records shall be updated at such intervals to coincide with property insurance renewal.

It shall be the duty of the Business Administrator/Board Secretary to ensure that inventories of equipment are systematically and accurately recorded and are updated and adjusted annually by reference to purchase orders and withdrawal reports. Property records of facilities shall be maintained on an ongoing basis.

Major items of equipment shall be subject to annual physical spot check inventory to determine loss, mislocation or depreciation; any major loss shall be reported to the Board.

Property records of consumable supplies shall be maintained on a continuous inventory basis.

No equipment shall be removed for personal or nonschool use except in accordance with board policy.

Equipment shall be identified with a permanent tag that provides appropriate school district and equipment identification.

Our audit found that the Fort Cherry School District's (District) personnel failed to adhere to the District's approved computer inventory policies for ensuring that fixed assets are accurately recorded and tracked. In addition, the audit found that the District's procedures did not require staff to periodically review inventory records for accuracy, nor did staff establish a procedure for tracking additions and removals of assets from the inventory list. These weaknesses in internal control increase the risk that District personnel would not know if computers were lost or stolen.

The District hires an appraisal company to compile an annual inventory list of its fixed assets, including computers. The detailed listings of computers and related assets (monitors, printers, and keyboards) were maintained at the District. When reviewing the 2012 detailed listing, the auditors found that the list included six (6) laptops with acquisition dates of 2004 assigned to administrators. However, the six (6) laptops were actually no longer in use and should have been removed from the fixed asset list. In addition, the District purchased six (6) new laptops in 2010, which had also been assigned to administrators. However, none of these new laptops were included on the 2012 fixed asset list.

When auditors reviewed the 2013 detailed listing of computers, they found that the appraisal company had removed the six (6) older laptops and added the six (6) replacement laptops purchased in 2010.

To avoid these types of errors, the District should have established a strong system of internal controls. Good business practices regarding internal controls over assets indicate that a tracking form should be used when fixed assets are added or removed from inventory. This form should also document who equipment is assigned to and when assets are moved between buildings. In addition, organizations should conduct frequent reviews of their asset inventories, including comparing the internal asset tracking forms to the detailed listing.

If the District had conducted such a review of the independent appraisal company's compilation report, the inaccuracies on its annual detailed listings of computers and related assets could have been identified. Furthermore, if District personnel had used a system of tracking additions and removals to the fixed asset inventory, they could have provided the independent appraisal company with any changes before it began its annual review. This information would have decreased the likelihood of mistakes.

Without accurate, detailed, and current inventory records, the District cannot guarantee that it is safeguarding taxpayer purchased assets. In particular, such weaknesses in control procedures can make it more difficult for District personnel to know if fixed assets are lost or stolen. If such events are not discovered quickly, it can increase the likelihood that they will not be recovered. This result is particularly true when dealing with portable assets, such as computers and keyboards, which can easily be removed.

Recommendations

The *Fort Cherry School District* should:

1. Establish a system of internal controls to track the removal and adding of fixed assets. This process should include an equipment transfer form, which must be used for the tracking of all computer equipment and portable assets within the District.
2. Provide any removals or additions of fixed assets to the independent appraisal company before it conducts its annual fixed asset inventory.
3. Establish a procedure that requires District administrators to review and approve all inventory adjustments and investigate any discrepancies immediately.

Management Response

“The Management of the Fort Cherry School District disagrees with the Finding of Computer Inventory Control Deficiencies. The Fort Cherry School District does agree there was a clerical error totaling approximately one-one thousands of one percent (1/1,000)% of total assets, with no loss of funds or assets, in the Fixed Inventory. That clerical error was immediately corrected when brought to the attention of the District. The process used and information gained leading to this finding does not approach materiality, nor rise to the level of a deficiency or finding. Albeit, the recommendations provided by the Office of the Auditor General will assist the District in strengthening internal controls.

Over the course of the last 15 months, the Department of the Auditor General’s Office has spent hundreds of hours scouring countless numbers of records, documents and artifacts of the district in what has been depicted as a political witch-hunt. Combined with the countless hours spent by district personnel – in complete cooperation with the audit team and supervisors – of information that was apparently reported as part of the district internal control procedures, the ensuing correction process clearly resulted in wasted effort of both time and money.

In accordance with Fort Cherry School District Policy #706, the District already has in place procedures for ensuring that fixed assets are accurately recorded and tracked. Significantly, the District retains an [Outside Appraisal Company], and has for years, to conduct annual inventories (through a Fixed Asset Accounting Report), tag assets, and provide updates. This inventory includes 1) Account Classifications, 2) Fixed Asset Summary, 3) Fixed Asset Accounting Ledger, 4) Fixed Asset Additions, 5) Fixed Asset Retirements, 6) Cost Roll-forward Analysis, and 7) Inventory List. Importantly, this inventory includes historical costs, depreciation, and net book values. This information coincides with property insurance renewal and annual audits.

All provisions of Policy #706 are complied with, though in accordance with the Auditor General recommendations the District plans to:

1. Strengthen already in place fixed asset internal controls to include creating an equipment transfer form for computer equipment and portable assets.
2. Cross-level the list of removals and additions of fixed assets provided to the appraisal company prior to inventory.
3. Strengthen already in place procedures for review and approval of all inventory adjustments, and investigate any discrepancies immediately.

The District Administration has also made a budget recommendation to add a Technology Assistant, to among other duties strengthen controls.

The District thanks the Audit Team for their professionalism throughout this trying process.”

Auditor Conclusion

We are encouraged that the District has taken action on our recommendations in regards to strengthening the inventory controls over fixed assets. We also appreciate the District’s personnel for assisting in the audit process.

As for the allegation that our department has undertaken a 15-month long “political witch hunt,” our audits are conducted according to *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require us to examine the validity of additional information received that could affect conclusions included in our audit report, regardless of when said information is received. Moreover, as the Constitutionally-designated overseer of the taxpayers’ funds of this Commonwealth, our department is charged with the responsibility to ensure that the concerns of the citizens are followed up on and to answer those concerns based on appropriately supporting documentation.

We will follow up on the status of our recommendations during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Fort Cherry School District (District) released on December 23, 2010, resulted in one (1) reported finding. The finding pertained to errors in reporting pupil transportation data. 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 District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior finding. As shown below, we found that the District did not implement recommendations related to reporting pupil transportation data.

Auditor General Performance Audit Report Released on December 23, 2010

Finding	Error in Reporting Pupil Transportation Data Resulted in an \$115,424 Underpayment to the District
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<u>Finding Summary:</u>	Our audit of pupil transportation data for 2007-08 school year found errors in the contractor cost data reported to PDE. The District inaccurately reported the total payments made to a contracted transportation carrier, resulting in an \$115,424 underpayment in pupil reimbursement.
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<u>Recommendations:</u>	Our audit finding recommended that the District:
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1. Review the accuracy of all electronic spreadsheets before relying on their accuracy.

We also recommended that PDE:

2. Adjust future District allocations to correct the \$115,424 underpayment.

<u>Current Status:</u>	During our current audit, we found that the District did not implement the recommendations. However, the errors resulted in insignificant amounts and do not appear in the current audit as a finding.
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We again recommend the District review the accuracy of all electronic spreadsheets before relying on their accuracy. In addition, during our audit, the District implemented restructured spreadsheets for contractor costs that should support accurate reporting of transportation data.

According to District personnel, on February 28, 2014, PDE adjusted the District's allocation to correct the \$115,424 underpayment.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following stakeholders:

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This report is a matter of public record and is available online at www.auditorgen.state.pa.us. 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@auditorgen.state.pa.us.