

PERFORMANCE AUDIT

Shade-Central City School District Somerset County, Pennsylvania

December 2014



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Robert Mulcahy, Board President
Shade-Central City School District
203 McGregor Avenue
Cairnbrook, Pennsylvania 15924

Dear Governor Corbett and Mr. Mulcahy:

We conducted a performance audit of the Shade-Central City 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 July 11, 2012 through August 13, 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, 2011 and June 30, 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.

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 black ink, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale
Auditor General

December 11, 2014

cc: **SHADE-CENTRAL CITY SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Shade-Central City School District (District) in Somerset 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 July 11, 2012 through August 13, 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 2010-11 and 2011-12 school years.

District Background

The District encompasses approximately 67 square miles. According to 2010 federal census data, it serves a resident population of 2,776. According to District officials, the District provided basic educational services to 559 pupils through the employment of 41 teachers, 35 full-time and part-time support personnel, and two (2) administrators during the 2011-12 school year. The District received \$5,374,650 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: Continuing Pupil Transportation Reporting Errors Resulted in a Net Subsidy Overpayment to the District of \$11,019. Our audit of the Shade-Central City School District's pupil transportation reports submitted to the Pennsylvania Department of Education found errors resulting in a net overpayment of \$11,019 in transportation subsidy (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Shade-Central City School District's (District) from an audit released on January 14, 2013, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses with regards to membership data being reported through the local education agencies student information system software and uploaded to the Pennsylvania Information Management System (see page 8). The District had not taken appropriate corrective action in implementing our recommendations pertaining to pupil transportation errors that resulted in a net subsidy underpayment to the District of \$13,974 (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 July 11, 2012 through August 13, 2014.

Regarding state subsidies and reimbursements, our audit covered the 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:

- ✓ In areas where the District received transportation subsidies, was 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?

- ✓ 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?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

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 certain relevant state 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 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.

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, bus driver qualifications, financial stability, and deposited state funds.
- 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 January 14, 2013, we reviewed the District's response to PDE dated March 4, 2013. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Continuing Pupil Transportation Reporting Errors Resulted in a Net Subsidy Overpayment to the District of \$11,019

Criteria relevant to the finding:

The Public School Code, 24 P.S. § 2541, provides for payments for pupil transportation.

The instructions provided by the Pennsylvania Department of Education for completing end-of-year transportation reports provides guidance for reporting the daily miles vehicles traveled with and without pupils and the number of pupils assigned to ride vehicles.

Our audit of the Shade-Central City School District's (District) pupil transportation records for the 2010-11 and 2011-12 school years submitted to the Pennsylvania Department of Education (PDE) found reporting errors, resulting in a net subsidy overpayment to the District of \$11,019.

Our audit found that District personnel failed to perform an internal review of transportation documents prior to submission of its end-of-year reports to PDE for the 2010-11 school year. This resulted in an error in the number of pupils being reported going unnoticed.

By not having the appropriate internal review procedures in place, the District cannot guarantee that it is reporting accurate transportation data to PDE. Our audit found errors for the 2010-11 school year, which are broken out by bus and contractor and detailed as follows:

Transportation Data Overreported			
	Number of Pupils		
Contractor/Bus	Audited	Reported	Difference
<u>Contractor 1</u>			
Bus 001	40	72	32
Bus 003	54	72	18
Bus 015	1	2	1
Bus 016	2	5	3
<u>Contractor 2</u>			
Bus 002	<u>38</u>	<u>70</u>	<u>32</u>
Total	<u>135</u>	<u>221</u>	<u>86</u>

Number of Pupils Assigned to Ride Vehicles

We found that for the 2010-11 school year, the number of pupils assigned to ride each vehicle was incorrectly reported for five (5) vehicles for two (2) contractors, which resulted in a net overstatement of 86 pupils. The errors were due to District personnel combining the number of pupils assigned to each bus for the morning and afternoon

bus runs. PDE instructions require districts to report the greatest number of pupils, per any given bus run, who were assigned to ride throughout the school year for each bus.

Failure to Comply with PDE's Reporting Instructions

PDE's reporting instructions provide for two (2) different methods of computing the miles vehicles travel with pupils and without pupils.

- The first method, known as the weighted average method, consists of recording the number of miles vehicles travel with pupils and without pupils once per year and again when changes occur. The weighted average of all measurements for each variable is reported to PDE.
- The second method, known as the sample average method, consists of recording the number of miles vehicles travel with pupils and without pupils once during each month from October through May. At the end of the school year, the average of the eight (8) measurements for each variable is reported to PDE.

During each year of our audit, odometer readings for vehicles used by the District's major contractors were recorded only once and these readings were reported to PDE. Obtaining only one (1) odometer reading does not comply with either of PDE's approved methods of computing miles vehicles travel with and without pupils.

Pupil transportation data must be maintained in accordance with PDE's guidelines and instructions to ensure the District receives the correct subsidy.

We have provided PDE with reports detailing the errors for use in recalculating the District's transportation subsidy.

Recommendations

The *Shade-Central City School District* should:

1. Conduct an internal review to ensure pupil counts are reported accurately.
2. Attend PDE-sponsored workshops on compiling and completing transportation reports accurately.
3. Calculate the number of miles vehicles travel in accordance with either the weighted average or sample average methods as approved by PDE.
4. Review reports submitted to PDE subsequent to the years audited and submit revised reports if errors are found.

The *Pennsylvania Department of Education* should:

5. Adjust the District's future allocations to correct the overpayment of \$11,019.

Management Response

Management stated the following:

“Management agrees with the findings. The District did not correctly report the number of pupils due to the fact there were 2 runs on the buses, which were reported incorrectly. Since the 2010-2011 audit, the District has taken the proper steps to correct the mistake and is currently in compliance. Listed below are the proper measures the district has taken to correct the problem:

- Eliminated all double runs
- Complete pupil counts each month
- Implemented sample average method of recording number of miles with and without pupils
- Any and all suggestions recommended by P.D.E.”

Auditor Conclusion

We are encouraged that the District agrees with our finding, and is putting internal controls in place to address the deficiency. 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 Shade-Central City School District (District) released on January 14, 2013, resulted in one (1) finding and one (1) observation. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit 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 and observation. As shown below, we found that the District did implement our recommendations related to internal control weaknesses with regard to membership data being uploaded to the Pennsylvania Information Management System (PIMS), but did not implement our recommendations related to pupil transportation reporting errors.

Auditor General Performance Audit Report Released on January 14, 2013

Finding: **Pupil Transportation Reporting Errors Resulted in a Net Subsidy Underpayment to the District of \$13,974**

Finding Summary: Our prior audit of the District's pupil transportation reports, for the 2006-07, 2007-08, 2008-09, and 2009-10 school years, submitted to PDE found reporting errors that resulted in a net subsidy underpayment to the District of \$13,974.

Recommendations: Our audit finding recommended that the District should:

1. Conduct an internal review to ensure daily mileage, pupil counts, and amounts paid to contractors are reported accurately.
2. Attend PDE-sponsored workshops on compiling and completing transportation reports.
3. Calculate the number of miles vehicles travel in accordance with either the weighted average or sample average methods approved by PDE.
4. Review reports submitted to PDE subsequent to the years audited and submit revised reports if errors are found.
5. Discontinue reporting the extended school year payments in the amount paid to contractors reported to PDE.

We also recommended that PDE should:

6. Adjust the District future allocations to correct the net underpayment of \$13,974.

Current Status:

During our current audit, we found that the District did implement recommendation No. 5. However, the District did not implement recommendations No. 1 through No. 4 (the District did implement No. 4 for the 2011-12 school year). Continuing errors in these areas are detailed in the finding in the current report (see page 5). As of August 13, 2014, PDE had not yet adjusted the District's allocations. We again recommend that PDE adjust the District's allocations to correct the \$13,974 net underpayment.

Observation:

Internal Control Weaknesses Noted With Regard to Membership Data Being Reported Through the Local Education Agencies Student Information System Software and Uploaded to the Pennsylvania Information Management System

Observation Summary:

Our prior audit found that District personnel did not receive sufficient training in their Student Information Software (SIS). District personnel incorrectly coded the "Home AVTS" membership for part-time area vocational-technical school (AVTS) student's time at the District. District personnel also incorrectly reported non-resident tuition waiver students as residents. Finally, the District does not have adequate documented procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.

Recommendations:

Our audit observation recommended that the District should:

1. Contact their SIS software vendor to determine whether the vendor can offer training to District personnel in charge of child accounting and PIMS. Participate in the PIMS webinars that are offered to District personnel by PDE.
2. Reference the SIS manual of reporting for instructions in the proper coding for the home portion of AVTS students' membership.
3. Report tuition waiver students as non-resident tuition waiver students.

4. Review membership reports submitted to PDE for years subsequent to the audit, and if similar errors are found, submit revised reports to PDE.
5. Develop documented procedures (e.g., procedure manuals, policies, or other written instructions) to ensure continuity over PIMS data submission if those involved persons were to leave the local education agency suddenly or otherwise be unable to upload PIMS data to PDE.

Current Status:

During our current audit, we found that the District did implement our prior recommendations.

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:

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

The Honorable Carolyn Dumaesq
Acting Secretary of Education
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333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
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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.