



**EAST PENNSBORO AREA SCHOOL DISTRICT
CUMBERLAND COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JULY 2013

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. Kimberly J. Grundon, Board President
East Pennsboro Area School District
890 Valley Street
Enola, Pennsylvania 17025

Dear Governor Corbett and Ms. Grundon:

We conducted a performance audit of the East Pennsboro Area School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period August 28, 2009 through December 31, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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 District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures.

We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

July 15, 2013

cc: **EAST PENNSBORO AREA 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 East Pennsboro Area School District (District). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, 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 August 28, 2009 through December 31, 2012, 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 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 40 square miles. According to 2010 federal census data, it serves a resident population of 18,254. According to District officials, the District provided basic educational services to 2,830 pupils through the employment of 233 teachers, 122 full-time and part-time support personnel, and 14 administrators during the 2009-10 school year. Lastly, the District received \$9 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and Observations

With regard to the status of our prior audit recommendations to the District from an audit we released on June 17, 2010, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to the inaccurate reporting of membership days (see page 6) and the internal controls surrounding the District's Memorandum of Understanding (see page 7).

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 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 August 28, 2009 through December 31, 2012, except for the verification of professional employee certification which was performed for the period August 28, 2009 through December 19, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 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 applicable state laws, 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?

- ✓ 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?
- ✓ 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 their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ 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 local 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 applicable laws, 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 applicable laws, contracts, grant requirements, and administrative procedures. 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 applicable state laws, regulations, contracts, grant requirements, and administrative procedures 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 control 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, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, 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.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 17, 2010, we reviewed the District's response to PDE dated November 15, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the East Pennsboro Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the East Pennsboro Area School District (District) released on June 17, 2010, resulted in two findings. The first finding pertained to membership, and the second finding pertained to the internal controls surrounding the District's Memorandum of Understanding with local law enforcement. 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 findings. As shown below, we found that the District did implement our recommendations related to both findings.

Auditor General Performance Audit Report Released on June 17, 2010

Finding No. 1: Inaccurate Reporting of Membership Days Resulted in a Net Subsidy and Reimbursement Underpayment of \$55,536

Finding Summary: Our prior audit of the documentation supporting pupil membership reports submitted to PDE for the 2007-08, 2006-07, 2005-06 and 2004-05 school years found errors in resident and nonresident membership data for all four years. The errors resulted in a net underpayment of \$55,536 to the District.

Recommendations: Our prior audit finding recommended that the District:

1. Perform a final reconciliation of nonresident membership by classification to nonresident membership reported to PDE, and ensure the appropriate supporting documentation is obtained and retained for audit verification.
2. Establish review procedures to ensure the accuracy of membership for students educated by the Capital Area Intermediate Unit 15 prior to submission to PDE.
3. Perform a final reconciliation of the final detailed membership reports to ensure agreement with membership reports to be submitted to PDE.
4. Contact PDE for guidance regarding any questionable issues prior to reporting end-of-year child accounting data.
5. Review reports for years subsequent to the audit, and if errors were found, submit revisions to PDE.

We also recommended that PDE:

6. Resolve the \$55,536 net underpayment.

Current Status: During our current audit, we found that the District, starting with the 2009-10 school year, performed a full reconciliation of membership data reported to PDE, established review procedures to ensure the accuracy of membership for students educated by the Capital Area Intermediate Unit 15, contacted PDE immediately if they could not resolve an issue, and reviewed reports subsequent to our prior audit. As of November 11, 2012, PDE had not processed the underpayment. Therefore, we again recommend PDE resolve the \$55,536 net underpayment.

Finding No. 2: Internal Control Weaknesses Regarding Memorandum of Understanding

Finding Summary: Our prior audit found that the Memorandum of Understanding (MOU) between the District and its local law enforcement agency was last signed September 24, 2004. The District was not aware of the provision requiring re-execution of the MOU at least every two years.

Recommendations: Our prior audit finding recommended that the District:

1. Review, update and re-execute the current MOU between the District and the local law enforcement agency.
2. Follow the General Provisions of the District's MOU, which states that the MOU must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.
3. Adopt a policy requiring the administration to review and re-execute the MOU every two years as stated in the current MOU.

Current Status: During our current audit, we found that the District implemented the recommendations by re-executing the District's MOU on May 17, 2010, and then again on November 21, 2011. Although the District did not adopt a policy requiring the administration to review and re-execute the MOU every two years, the MOU states that it must be reviewed and re-executed every two years. The District is following this provision as evidenced by its re-executing of the May 10, 2010, MOU on November 21, 2011.

Distribution List

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

The Honorable Tom Corbett
Governor
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Harrisburg, PA 17120

The Honorable William E. Harner
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