

FREEPORT AREA SCHOOL DISTRICT
ARMSTRONG COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2012

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

Mr. Mark Shoaf, Board President
Freeport Area School District
P.O. Box C
Freeport, Pennsylvania 16229

Dear Governor Corbett and Mr. Shoaf:

We conducted a performance audit of the Freeport Area School District (FASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period March 26, 2010 through January 23, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy 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 FASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

November 1, 2012

cc: **FREEPORT AREA 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 Freeport Area School District (FASD). Our audit sought to answer certain questions regarding the FASD's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the FASD in response to our prior audit recommendations.

Our audit scope covered the period March 26, 2010 through January 23, 2012, 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 2009-10 and 2008-09.

District Background

The FASD encompasses approximately 54 square miles. According to 2000 federal census data, it serves a resident population of 11,574. According to District officials, in school year 2009-10 the FASD provided basic educational services to 2,006 pupils through the employment of 141 teachers, 105 full-time and part-time support personnel, and 8 administrators. Lastly, the FASD received more than \$9.5 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the FASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings.

Finding No. 1: Errors in Reporting Pupil Membership Resulted in Overpayments of \$17,837.

Our audit found that the FASD's pupil membership reports submitted to the Pennsylvania Department of Education for the 2009-10 and 2008-09 school years were inaccurate. The errors resulted in overpayments in Commonwealth-paid tuition for children placed in private homes of \$10,591 and \$7,246 for the 2009-10 and 2008-09 school years, respectively (see page 6).

Finding No. 2: Internal Control Weaknesses and Errors in Reporting Pupil Transportation Data.

Our audit of the FASD's pupil transportation data submitted to PDE for the 2009-10 and 2008-09 school years found internal control weaknesses and errors in reporting the number of nonpublic pupils transported (see page 7).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the FASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the FASD had taken appropriate corrective action in implementing one of three recommendations pertaining to unmonitored vendor system access and logical control weaknesses (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 March 26, 2010 through January 23, 2012, except for the verification of professional employee certification which was performed for the period March 4, 2010 through January 11, 2012.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 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 FASD'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 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?

- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security), did it follow applicable laws and procedures?
- ✓ In areas where the District receives transportation subsidies, are 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 are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose 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 does 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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board members free from apparent conflicts of interest?
- ✓ 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, 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, observations and conclusions based on our audit objectives.

FASD 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. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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 transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, 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 FASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 4, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1 →

Errors in Reporting Pupil Membership Resulted in Overpayments of \$17,837

Criteria relevant to the finding:

Section 2503 of the Public School Code provides for Commonwealth payment of tuition for children placed in private homes.

Our audit found that the District's pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years were inaccurate. The errors resulted in overpayments in Commonwealth-paid tuition for children placed in private homes of \$10,591 and \$7,246 for the 2009-10 and 2008-09 school years, respectively.

The errors were the result of District personnel misclassifying resident students as nonresident children placed in private homes. In the 2009-10 school year, nonresident elementary and secondary membership days were overstated by 178 days and 64 days, respectively. For the 2008-09 school year, elementary membership days were overstated by 178 days.

We have provided PDE with reports detailing the errors for use in recalculating the District's tuition for children placed in private home reimbursement.

Recommendations

The *Freeport Area School District* should:

1. Perform an internal review of all pupil membership reports and supporting documentation before submission to PDE.
2. Review subsequent school years' membership reports for accuracy and resubmit if necessary.

The *Pennsylvania Department of Education* should:

3. Adjust the District's future allocations to correct the overpayments of \$17,837.

Management Response

At the time of the audit, management waived the opportunity to reply.

Finding No. 2 →

Internal Control Weaknesses and Errors in Reporting Pupil Transportation Data

Chapter 23 of the State Board of Education Regulations, Section 23.4, provides, in part:

“The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following: . . .

“(5) The furnishing of rosters of pupils to be transported on each school bus run and trip.

(6) The maintenance of a record of pupils transported to and from school, including determination of pupils’ distances from home to pertinent school bus loading zones.”

Pupil transportation data is an integral part of the transportation subsidy formula and must be accurately reported to PDE, since they are major factors in determining the District’s transportation reimbursement.

Instructions for completing PDE’s End-Of-Year Pupil Transportation reports provide that the local education agency must maintain records of miles with pupils, miles without pupils, and the largest number of pupils assigned to each vehicle.

Section 2509.3 of the Public School Code provides that school districts shall be paid by the Commonwealth \$385 for each nonpublic school pupil transported.

Our audit of the District’s pupil transportation data submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years found internal control weaknesses and errors in reporting the number of nonpublic pupils transported.

Background

According to PDE instructions, districts can use either the sample average method or the weighted average method to report miles with and without pupils and the greatest number of pupils assigned to a vehicle at any one time.

The sample average method is based on the drivers recording odometer readings on a stop-by-stop basis, to a tenth of a mile. This reading is to be done once a month for eight months. In addition to mileage, the drivers record the number of pupils assigned to the vehicle.

The weighted average method is based on the drivers recording daily odometer readings, again on a stop-by-stop, tenth of a mile basis. Mileage is then multiplied by the number of days in the period and divided by the total number of days in the school year to obtain the weighted average.

The Freeport Area School District uses neither of these methods.

Mileage

Our auditors found that at the end of both school years the District received only one mileage reading from each of the contractors. This one reading was used to report total miles with pupils and without pupils for the entire school year. Receiving only one mileage reading does not allow the District to account for any fluctuations that may occur in the routes during the school year, and does not provide a true picture of the mileage traveled with and without pupils.

In addition, using one reading is in violation of the instructions provided by PDE.

Pupils

For the 2009-10 school year the auditors could not determine the accuracy of the pupil counts that were reported for reimbursement. The auditor found that the District used a transportation software program that did not reflect pupils that entered late or withdrew early during the school year.

As a result of the internal control weaknesses noted during the audit of mileage and pupils transported, the auditors could not determine whether or not the District received the appropriate reimbursement for pupil transportation they were entitled to.

No problems were noted during the detailed testwork of pupils for the 2008-09 school year.

Nonpublic Pupil Count

Our auditors found that District personnel made clerical errors when they reported the number of nonpublic pupils transported. In both the 2009-10 and 2008-09 school years the District reported four students that had not been transported at least once during the school year. The errors resulted in the District receiving an overpayment in nonpublic pupil transportation reimbursement of \$1,540 in each school year, for a total overpayment of \$3,080.

In Conclusion

It should also be noted that for the 2009-10 and 2008-09 school years the board did not approve a roster of pupils and bus routes for each bus that included mileage between all bus stops and schools. State Board of Education Regulations, state that the board is responsible for all aspects of the pupil transportation program, and it is good business practice for the Board to approve the routes and rosters as acknowledgement of that responsibility.

Recommendations

The *Freeport Area School District* should:

1. Have a system in place to verify bus mileage has not changed by taking a monthly mileage reading.
2. Correct the transportation software program for pupil counts so it will include all pupils who entered late or withdrew during the year.
3. Report only those nonpublic pupils that the District actually transports.
4. Perform a review of subsequent years' data for accuracy and resubmit reports if necessary.

The *Pennsylvania Department of Education* should:

5. Adjust the District's future allocations to correct the overpayments \$3,080.

Management Response

At the time of the audit, management waived the opportunity to reply.

Status of Prior Audit Findings and Observations

Our prior audit of the Freeport Area School District (FASD) for the school years 2007-08 and 2006-07 resulted in one reported observation. The observation pertained to unmonitored vendor system access and logical control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and questioned District personnel regarding the prior observation. As shown below, we found that the FASD implemented one of three recommendations related to unmonitored vendor system access and logical control weaknesses.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Observation: **Unmonitored Vendor System Access and Logical Access Control Weaknesses**

Observation

Summary: During our prior audit, we found the District had weaknesses over remote vendor access to its student accounting system.

Recommendations: Our audit observation recommended that the FASD:

1. Require the vendor to assign unique userID and passwords to vendor employees authorized to access the District's system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
2. Either establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's own Acceptable Use Policy.
3. Generate monitoring reports of all the vendor activity on the system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate.

Current Status: During our current audit procedures we found that the FASD has instituted recommendation two. However, no action has been taken on recommendations one and three. We again recommend that the District consider implementing our recommendations.

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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The Honorable Ronald J. Tomalis
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