

SOUTH BUTLER COUNTY SCHOOL DISTRICT
BUTLER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FEBRUARY 2012

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

Ms. Nelda Burd, Board President
South Butler County School District
328 Knoch Road
Saxonburg, Pennsylvania 16056

Dear Governor Corbett and Ms. Burd:

We conducted a performance audit of the South Butler County School District (SBCSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period February 5, 2010 through August 4, 2011, 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 SBCSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit observation and recommendations have been discussed with SBCSD's management and their response is included in the audit report. We believe the implementation of our recommendations will improve SBCSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the SBCSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

February 24, 2012

cc: **SOUTH BUTLER COUNTY 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 South Butler County School District (SBCSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period February 5, 2010 through August 4, 2011, 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 SBCSD encompasses approximately 97 square miles. According to 2009 local census data, it serves a resident population of 19,401. According to District officials, in school year 2009-10 the SBCSD provided basic educational services to 2,747 pupils through the employment of 186 teachers, 82 full-time and part-time support personnel, and 16 administrators. Lastly, the SBCSD received more than \$13.5 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the SBCSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

Observation: General Fund Balance Over-Reported for the 2009-10 School Year. Our review of state revenue received in the 2009-10 school year found the SBCSD overstated state revenue received by \$1,064,424, which affected the general fund balance and caused it to be over-reported by the same amount (see page 6).

Status of Prior Audit Findings and Observations. There were no findings or observations in our prior audit report.



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 February 5, 2010 through August 4, 2011.

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 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 SBCSD'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:

- ✓ 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, 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.

SBCSD 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.

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 pupil transportation, bus driver qualifications, 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 SBCSD operations.

Findings and Observations

Observation

General Fund Balance Over-Reported for the 2009-10 School Year

Criteria relevant to the observation:

Department of Education instructions for the AFR User Manual state that it is imperative that the initial report submitted be as accurate as possible so as to ensure that anyone retrieving data from the AFR on file at the state will be accessing the most accurate figures.

Through our analytical review of state revenue, we discovered an unusual variance in the reporting of basic education funding (BEF) received in the 2009-10 school year. Upon further review we found that on June 30, 2010, District personnel posted an accrual for funds due to the District for the 2010-11 school year to the 2009-10 school year. The accrual was for a BEF payment received by the District on August 26, 2010, in the amount of \$1,045,642.

Further review also found an incorrect accrual of \$18,782 for a charter school expense reimbursement payment, also received by the District on August 26, 2010.

Both of these payments were the District's initial allotments for the 2010-11 school year and should not have been accrued to the 2009-10 school year.

These accounting errors resulted in the District's end of year general fund balance to be overstated by \$1,064,424 on both the annual financial report (AFR) and the local auditor's report (LAR).

It is important that the data reported on the AFR be as accurate as possible to ensure that anyone retrieving data from the AFR will be accessing the most accurate figures.

Recommendations

The *South Butler County School District* should:

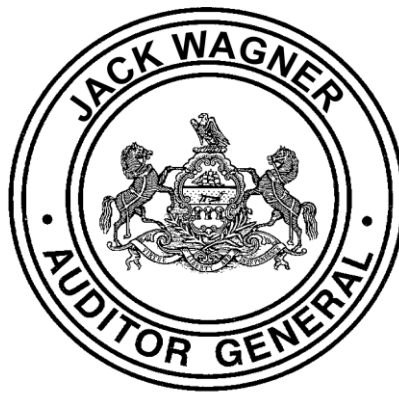
1. Revise and resubmit the 2009-10 AFR to the Department of Education according to instructions on page 13 of the Department of Education's AFR User Manual.
2. Require their local auditor to revise and resubmit their 2009-10 LAR.

Management Response

Management stated they "have made all necessary corrections as requested by the Department of Education."

Status of Prior Audit Findings and Observations

Our prior audit of the South Butler County School District 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:

The Honorable Tom Corbett
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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.

