

WILKES-BARRE AREA SCHOOL DISTRICT
LUZERNE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JULY 2009

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. James M. Height, Board President
Wilkes-Barre Area School District
730 South Main Street
Wilkes-Barre, Pennsylvania 18711

Dear Governor Rendell and Mr. Height:

We conducted a performance audit of the Wilkes-Barre Area School District (WBASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period March 10, 2006 through January 27, 2009, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2006, and June 30, 2005, as they were the most recent reimbursements subject to audit. 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 WBASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

July 21, 2009

cc: **WILKES-BARRE 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 Wilkes-Barre Area School District (WBASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period March 10, 2006 through January 27, 2009, 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 2005-06 and 2004-05 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

District Background

The WBASD encompasses approximately 123 square miles. According to 2000 federal census data, it serves a resident population of 62,749. According to District officials, in school year 2005-06 the WBASD provided basic educational services to 7,063 pupils through the employment of 518 teachers, 240 full-time and part-time support personnel, and 33 administrators. Lastly, the WBASD received more than \$27.9 million in state funding in school year 2005-06.

Audit Conclusion and Results

Our audit found that the WBASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

Finding: Errors in Reporting Nonresident Membership Resulted in Overpayments of \$51,933 in Tuition for Children Placed in Private Homes. WBASD reported several nonresident students placed in private homes and were unable to provide supporting documentation to justify the tuition reimbursement (see page 6).

Status of Prior Audit Findings and Observations. Our prior audit of the WBASD that was conducted of the 2003-04 and 2002-03 school years reported no findings or observations (see page 8).



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 10, 2006 through January 27, 2009, except for the verification of professional employee certification which was performed for the period February 18, 2006 through December 17, 2008.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 DE 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

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the WBASD's compliance with applicable 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?

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 law, regulation, 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.

- ✓ In areas where the District receives state subsidy 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 receives state subsidy reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ 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 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, 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

WBASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, 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 bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

Additionally, we interviewed selected administrators and support personnel associated with WBASD operations.

Findings and Observations

Finding

Errors in Reporting Nonresident Membership Resulted in Overpayments of \$51,933 in Tuition for Children Placed in Private Homes.

Criteria relevant to this finding:

Section 2503(c) provides that:

The Commonwealth will pay tuition to districts providing education to nonresident children placed in private homes. The payments are based on the membership days reported for such children.

Pupil membership data must be maintained and reported in accordance with DE guidelines and instructions, since it is a major factor in determining the district's tuition for children placed in private homes.

Our audit found inaccuracies in the District's pupil membership reports submitted to the Department of Education (DE) for the 2005-06 and 2004-05 school years. The District made errors in reporting nonresident days for children placed in private homes resulting in an overpayments of \$51,933 in subsidies and reimbursements.

The errors in the 2005-06 school year occurred when District personnel over reported the membership days for nonresident elementary children placed in private homes students by 180 days and secondary students by 223 days. The errors resulted in the District being overpaid \$17,512 for the 2005-06 school year.

The errors in the 2004-05 school year occurred when District personnel over reported the membership days for nonresident elementary children placed in private homes students by 420 days and secondary students by 390 days. The errors resulted in the District being overpaid \$34,421 for the 2004-05 school year.

The errors occurred because District personnel failed to verify and retain supporting documentation for the nonresident children placed in private homes students.

Recommendations

The *Wilkes-Barre Area School District* should:

1. Review membership data thoroughly for nonresidency classifications and supporting documentation prior to submitting reports to DE.
2. Review reports submitted subsequent to the years audited, and submit revised reports to DE if errors are found.

The *Department of Education* should:

3. Adjust the District allocations to resolve the overpayments of \$51,933.

Management Response

Management stated the following:

I am deeply troubled and concerned that our Child Accounting Office was unable to provide the appropriate documentation regarding Non Resident Membership. We have implemented new procedures that will rectify this issue immediately.

Status of Prior Audit Findings and Observations

Our prior audit of the Wilkes-Barre Area School District for the school years 2004-03 and 2003-02 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 Edward G. Rendell
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