



LACKAWANNA TRAIL SCHOOL
DISTRICT

WYOMING 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

Dr. Mark Lombardi, Board President
Lackawanna Trail School District
P.O. Box 85
Factoryville, Pennsylvania 18419

Dear Governor Corbett and Dr. Lombardi:

We conducted a performance audit of the Lackawanna Trail School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period January 29, 2010 through September 7, 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, except as detailed in two findings noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit findings 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 cursive script, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

July 18, 2013

cc: **LACKAWANNA TRAIL 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 Lackawanna Trail 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 January 29, 2010 through September 7, 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 74 square miles. According to 2010 federal census data, it serves a resident population of 8,668. According to District officials, the District provided basic educational services to 1,200 pupils through the employment of 98 teachers, 65 full-time and part-time support personnel, and 10 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, except for two compliance-related matters reported as findings.

Finding No. 1: Errors in Reporting Student Data to the Pennsylvania Department of Education Resulted in a Net Overpayment of \$57,581 to the District.

Our audit of Lackawanna Trail School District's pupil membership reports submitted to the Pennsylvania Department of Education for the 2009-10 and 2008-09 school years found reporting errors that resulted in a total net overpayment of state funding to the District of \$57,581 (see page 6).

Finding No. 2: The District's Board Violated the Sunshine Act. Our audit found that the Lackawanna Trail School District's Board of School Directors repeatedly violated the provisions of the Sunshine Act related to executive session (see page 9).

Status of Prior Audit Findings and Observations. With regard to the status of recommendations to the Lackawanna Trail School District (District) released on March 4, 2011, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to the Memorandum of Understanding with local law enforcement not being updated timely (see page 11).

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 January 29, 2010 through September 7, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011 through June 11, 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 state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable 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 does 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 votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ 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

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 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 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, 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 March 4, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Errors in Reporting Student Data to the Pennsylvania Department of Education Resulted in a Net Overpayment of \$57,581 to the District

Criteria relevant to the finding:

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Our audit of the Lackawanna Trail School District's (District) pupil membership reports submitted to PDE for the 2009-10 and 2008-09 school years found reporting errors for children placed in private homes (foster children) that resulted in overpayments of \$26,828 for the 2009-10 school year, and \$33,776 for the 2008-09 school year. The District also understated its resident membership days during the 2008-09 school year, which resulted in an underpayment of \$3,023 in basic education funding. The reporting errors amounted to a total net overpayment to the District of \$57,581.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

PDE began calculating the LEA's state subsidy using the data that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our audit test work found that during the 2009-10 school year the District's staff incorrectly reported membership days for resident children in PIMS as children placed in private homes (foster children).

These errors resulted in an overstatement of 624 secondary days for foster children, with a corresponding understatement of 624 resident days for resident children.

Additionally, according to the *Federal Information System Controls Audit Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

During the 2008-09 school year, District staff incorrectly reported membership days for resident children as foster children. These errors resulted in an overstatement of 177 nonresident days for elementary students and 427 nonresident days for secondary students, with a corresponding understatement of 177 resident days for elementary students and 427 resident days for secondary students.

The nonresident reporting errors during the 2009-10 and 2008-09 school years were also coupled with District personnel's failure to obtain and review placement documentation, which would have confirmed the students' residency status.

Furthermore, secondary resident membership days reported for students enrolled in the career technology center during the 2009-10 school year were overstated by 2,400 days for the portion of time the students were educated at the career technology center. This resulted in Secondary Average Daily Memberships being overstated by 14.1. These errors were caused by District personnel's failure to reconcile final reports submitted to PDE with District records and by their misunderstanding of the PIMS guidelines.

The overstatement of resident membership days during the 2009-10 school year did not have an effect on basic education funding. However, the understatement of resident membership days during the 2008-09 school year resulted in an underpayment of \$3,023 in basic education funding.

These types of student data reporting errors place the District's state funding at risk. It is management's responsibility to ensure that the District receives its appropriate state subsidy. Without the proper internal controls, the District is not assured that accurate student data is being collected and submitted to PDE.

We have provided PDE a report detailing the errors for use in recalculating the District's reimbursement.

Criteria relevant to the finding:

Section 2503(c) provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court when such resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

Membership data for nonresident children placed in private homes must be maintained and reported accurately and in accordance with PDE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

Recommendations

The *Lackawanna Trail School District* should:

1. Strengthen controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions.
2. Compare letters for children placed in private homes with District reports to ensure that student membership is properly classified.
3. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
4. Review subsequent year reports and if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

5. Adjust the District's allocations to resolve the net overpayments of \$57,581.

Management Response

Management provided a response agreeing with the finding and provided no further comment.

Finding No. 2

The District's Board Violated the Sunshine Act

Criteria relevant to the finding:

Pennsylvania Sunshine Act 65 PA C.S.A. § 703 provides, in part:

“Executive Session” is a meeting from which the public is excluded, although the agency may admit those persons necessary to carry out the purpose of the meeting.”

Section 708 - Executive sessions:

“(c) Limitation. Official action on discussions held pursuant to subsection (a) shall be taken at an open meeting. Nothing in this section or section 700 shall be construed to require that any meeting be closed to the public, nor shall any executive session be used as a subterfuge to defeat the purposes of section 704.”

Section 710.1 - Public participation:

“(c) Objection. Any person has the right to raise an objection at any time to a perceived violation of this act at any meeting of a board or council of a political subdivision or an authority created by a political subdivision.”

Our audit found that the Lackawanna Trail School District's (District) Board of School Directors (Board) repeatedly violated the provisions of the Sunshine Act related to executive session. Section 708 of the Sunshine Act requires executive session to be announced at an open meeting. Furthermore, according to Section 710.1 (c), the reason for the executive session must be announced immediately prior to, or subsequent to, the session.

The General Assembly passed the Sunshine Act to ensure the right of its citizens to have notice of, and the right to attend, all meetings of agencies at which any agency business is discussed or acted upon. The General Assembly determined that the public had the right to be present at all meetings of agencies and to witness the deliberation, policy formulation, and decision-making. In addition, the General Assembly found this access to be vital to the enhancement and proper functioning of the democratic process. Moreover, it found that “secrecy in public affairs undermines the faith of the public in government and the public's effectiveness in fulfilling its role in a democratic society.”

Our audit found that the meetings scheduled for January 9, 2012, February 13, 2012, March 12, 2012, April 10, 2012, and May 14, 2012, were to start at 7:30 p.m. Auditors compared this information, published in the legal notices in the local newspaper, as required, to the corresponding board meeting minutes. They found that the meetings for the above dates were called to order at 8:14 p.m., 7:53 p.m., 8:22 p.m., 8:04 p.m., and 8:06 p.m., respectively. Also, the board meeting minutes did not note that executive sessions were held, or the reasons for the executive sessions.

According to District personnel, the Board routinely gathered approximately one hour prior to the public meeting for executive session. Meetings then started following the executive session. Discussions with District personnel indicated that this violation was due to a misunderstanding of the Sunshine Act. Furthermore, upon learning of this violation, District personnel immediately took corrective action.

The public has the right to witness its elected officials conduct business. That right includes being notified when those officials or entities enter into executive session, and for what reason. Without this information, the public is denied the ability to appropriately evaluate the performance and fitness of the officials they have elected.

Recommendations

The *Lackawanna Trail School District* should:

1. Announce, at an open public board meeting, the date, time, and reason for executive session, in compliance with the Sunshine Act.
2. Ensure that executive sessions are held during an open meeting, at the conclusion of an open meeting, or announced for a future time.

Management Response

Management provided a response agreeing with the finding and provided no further comment.

Status of Prior Audit Findings and Observations

Our prior audit of the Lackawanna Trail School District (District) released on March 4, 2011, resulted in one reported observation pertaining to the Memorandum of Understanding not being updated timely. 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 interviewed District personnel regarding the observation. As shown below, we found that the District did implement our recommendations related to their Memorandum of Understanding.

Auditor General Performance Audit Report Released on March 4, 2011

Observation

Memorandum of Understanding Not Updated Timely

Observation Summary:

Our prior audit of the District's records found that the Memorandum of Understanding (MOU) between the District and local law enforcement agencies last signed on August 9, 2007, had not been updated since.

Recommendations:

Our audit observation recommended that the District:

1. In consultation with the solicitor, continue to review, update and re-execute the current MOU between the District and the local law enforcement agencies.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status:

During our current audit, we found that the District did implement the recommendations and has a current MOU, which was signed on July 22, 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
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable William E. Harner
Acting Secretary of Education
1010 Harristown Building #2
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.

