

PERFORMANCE AUDIT

Lackawanna Trail School District Wyoming County, Pennsylvania

July 2015



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Matthew Rakauskas, Superintendent
Lackawanna Trail School District
P.O. Box 85
Factoryville, Pennsylvania 18419

Mr. David Thorne, Board President
Lackawanna Trail School District
P.O. Box 85
Factoryville, Pennsylvania 18419

Dear Mr. Rakauskas and Mr. Thorne:

Our performance audit of the Lackawanna Trail School District (District) evaluated the application of best practices in the areas of academics, finance, governance, safety, contracts, hiring, and other operational areas as noted. In addition, this audit determined the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). This audit covered the period September 7, 2012 through March 11, 2015, except as otherwise stated and was conducted pursuant to Section 403 of The Fiscal Code and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

A summary of the results is presented in the Executive Summary section of the audit report. In addition, we determined that the District complied in all material respects, with relevant requirements.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale
Auditor General

July 2, 2015

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 District. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, 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 September 7, 2012 through March 11, 2015, except as otherwise stated in the audit scope, objectives, and methodology section of the report.

Audit Conclusion and Results

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.

Our audit found that the District complied, in all material respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit resulted in no findings or observations.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the District from an audit released on July 18, 2013, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to reporting student data (see page 6) and the Board of School Directors (Board) violation of the Sunshine Act (see page 7).

Background Informationⁱ

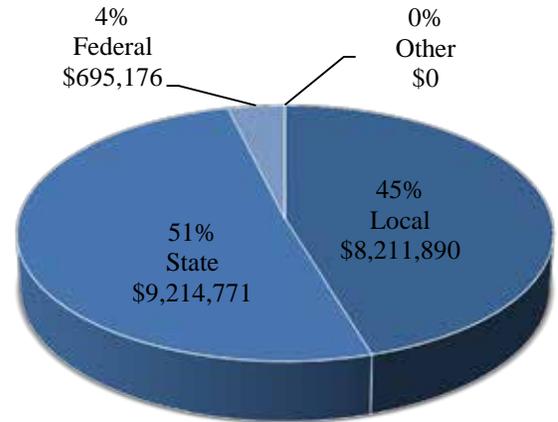
| School Characteristics 2013-14 School Year ⁱⁱ | |
|---|---|
| County | Lackawanna/Wyoming |
| Total Square Miles | 72 |
| Resident Population ⁱⁱⁱ | 8,350 |
| Number of School Buildings | 3 |
| Total Teachers | 93 |
| Total Full or Part-Time Support Staff | 57 |
| Total Administrators | 12 |
| Total Enrollment for Most Recent School Year | 1,044 |
| Intermediate Unit Number | 19 |
| District Vo-Tech School | Lackawanna and Susquehanna Counties Career & Technology Centers |

Mission Statement

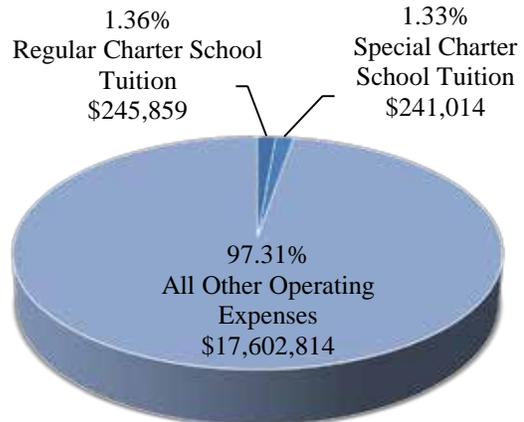
The Mission of the Lackawanna Trail School District, in partnership with our community, is to provide a safe and challenging learning environment where all students will develop to their fullest potential. The educational programs provided will enable students to become productive, responsible, technologically literate, contributing members of a global society who respond effectively to an ever changing world.

Financial Information

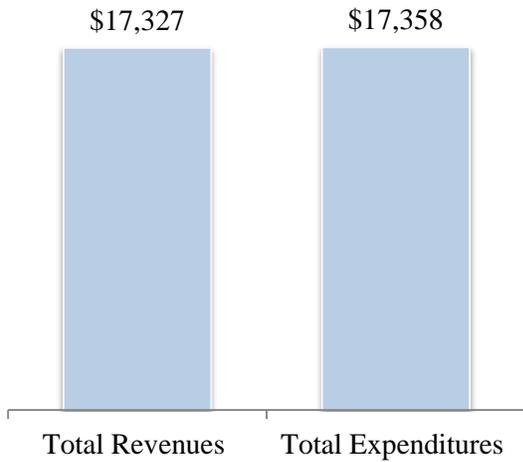
Revenue by Source for 2012-13 School Year



Select Expenditures for 2012-13 School Year

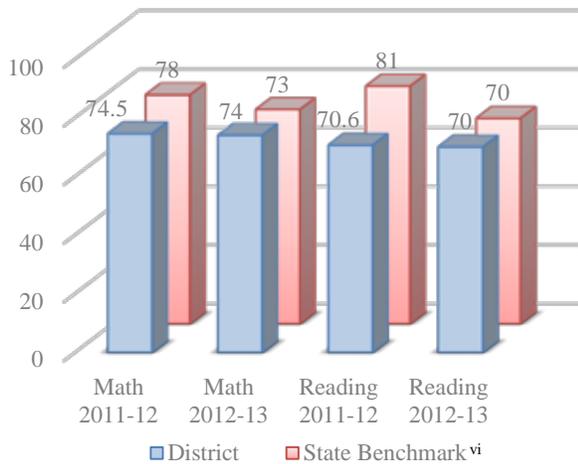


**Dollars Per Student
2012-13 School Year**



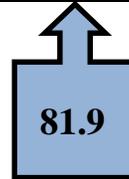
Academic Information

Percentage of District Students Who Scored "Proficient" or "Advanced" on 2011-12 and 2012-13 PSSA^{iv v}



District's 2012-13 SPP Score^{iv}

| A | B | C | D | F |
|--------|---------|---------|---------|-----|
| 90-100 | 80-89.9 | 70-79.9 | 60-69.9 | <60 |
| ▲ | ▲ | ■ | ▼ | ▼ |



**Individual Building SPP and PSSA Scores^{viii}
2012-13 School Year**

| School Building | SPP Score | PSSA % School Proficient and Advanced in Math | PSSA % Statewide Benchmark Proficient and Advanced in Math | PSSA % School Proficient and Advanced in Reading | PSSA % Statewide Benchmark Proficient and Advanced in Reading | Federal Title I Designation (Reward, Priority, Focus, No Designation)^{ix} |
|--|------------------|--|---|---|--|---|
| Lackawanna Trail Elementary | 84 | 76.5 | 73 | 64.76 | 70 | No Designation |
| Lackawanna Trail Junior Senior High School | 78.1 | 75.71 | 73 | 76.11 | 70 | N/A |

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the District released on July 18, 2013, resulted in two findings. The first finding pertained to errors in reporting student data, and the second finding pertained to the Board's violation of the Sunshine Act. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit 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 errors in reporting student data and the Board's violation of the Sunshine Act.

Auditor General Performance Audit Report Released on July 18, 2013

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

Finding Summary: The prior audit of the District's pupil membership reports submitted to PDE for the 2008-09 and 2009-10 school years found reporting errors that resulted in a total net overpayment of state funds to the District of \$57,581.

Recommendations: Our audit finding recommended that the 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 (foster children) 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.

We also recommended that PDE should:

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

Current Status: During our current audit, we found that the District took corrective action to implement our prior recommendations. As of March 11, 2015, PDE did not recover the net overpayment from the District. Therefore, the Department again recommends PDE recover the net overpayment of \$57,581.

Finding No. 2: The District’s Board Violated the Sunshine Act

Finding Summary: The prior audit of the District found that the District’s Board repeatedly violated the provisions of the Sunshine Act related to executive session.

Recommendations: Our audit finding recommended that the District should:

1. Announce at an open public 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.

Current Status: During our current audit, we found that the District took corrective action to implement our prior recommendations.

Appendix: Audit Scope, Objectives, and Methodology

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, PDE, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code¹, is not a substitute for the local annual financial 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. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

Scope

Overall, our audit covered the period September 7, 2012 through March 11, 2015. In addition, the scope of each individual audit objective is detailed on the next page.

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 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.

The District's management is responsible for establishing and maintaining effective internal controls² to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). 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 relevant requirements that we consider to be material within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be material within the context of our audit objectives are included in this report.

¹ 72 P.S. § 403

² 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; and compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, financial reports, annual budgets, and new or amended policies and procedures. We also determined if the District had key personnel or software vendor changes since the prior audit.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies, and best business practices. Our audit focused on the District's efficiency and effectiveness in the following areas:

- Ü Governance
- Ü Financial Stability
- Ü Contracting
- Ü Administrator Contract Buy-outs
- Ü School Safety
- Ü Bus Driver Requirements

As we conducted our audit procedures, we sought to determine answers to the following questions, which served as our audit objectives:

- Ü Did the LEA's Board and administration maintain best practices in overall organizational governance?
 - To address this objective, we surveyed the District's current Board, conducted in-depth interviews with the current Superintendent and his or her staff, reviewed board meeting books, policies and procedures, and reports used to inform the Board about student performance, progress in meeting student achievement goals, budgeting and financial position, and school violence data to determine if the Board was provided sufficient information for making informed decisions.
- Ü Based on an assessment of fiscal benchmarks, was the District in a declining financial position, and did it comply with all statutes prohibiting deficit fund balances and the over expending of the District's budget?
 - To address this objective, we reviewed the District's annual financial reports, budget, independent auditor's reports, summary of child accounting, and general ledger for fiscal years 2006-07 through 2011-12. The financial and statistical data was used to calculate ratios and trends for 22 benchmarks which were deemed appropriate for assessing the District's financial stability. Additionally, if the District had a negative fund balance(s), additional benchmarks were analyzed to determine the potential for the District to be placed on the Financial Watch List or in Financial Recovery Status by PDE.

- Ü Did the District ensure that its significant contracts were current and were properly obtained, approved, executed, and monitored?
 - To address this objective, we reviewed the District’s procurement and contract monitoring policies and procedures. We obtained a list of vendors who provided goods and/or services that were in effect for the 2013-14 school year. We selected 4 out of the 143 vendors that had material contracts for detailed testing. Testing included a review of the procurement documents to determine if the contract was procured in accordance with the Public School Code and District policies. We also reviewed documents to determine if the District properly monitored the selected contracts. Finally, we reviewed board meeting minutes and the Board’s Statements of Financial Interest to determine if any board member had a conflict of interest in approving the selected contracts.

- Ü Did the District pursue a contract buy-out with an administrator and, if it did, 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?
 - To address this objective, we reviewed the contract and settlement agreement for the only administrator who retired between 9/10/12 and 12/31/14. We also reviewed board meeting minutes, board policies, and payroll records for any contract buy-outs to ensure the District abided by the employment contract and termination provisions.

- Ü Did the District take appropriate actions to ensure it provided a safe school environment?
 - To address this objective, we reviewed a variety of documentation including safety plans, training schedules, anti-bullying policies, and after action reports. In addition, we did not conduct on-site reviews at any of the District’s three school buildings because we verified during our previous audit that the District addressed each area of concern that we previously identified.

- Ü Did the District ensure that bus drivers transporting District students had the required driver’s license, physical exam, training, background checks, and clearances as outline in applicable laws³? Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?
 - To address this objective, we identified the bus drivers hired by either the District or District bus contractor(s) during the period from July 1, 2014 through November 13, 2014, and reviewed documentation to ensure the District complied with bus driver hiring requirements for each of the drivers. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures were sufficient to ensure compliance with bus driver hiring requirements.

³ 24 P.S. § 1-111, 24 P.S. § 2070, 67 P.S. § 71.1, 22 PA Code Chapter 8, and 23 PA C.S. § 58-6354

Ü Did the District take appropriate corrective action to address findings and implement recommendations made in our prior audit?

- To address this objective, we interviewed District administrators to determine what corrective action, if any, was taken to address prior audit recommendations. Where appropriate, we obtained documentary evidence and/or performed audit procedures to verify that corrective action was actually taken and those actions were sufficient to address the prior finding.
- To address the finding regarding errors in student data reporting, we reviewed placing agency letters and membership data reported to PDE for the 2011-12 school year.
- To address the compliance with the Sunshine Act, we reviewed board meeting minutes, obtained the Board's current procedures for holding executive sessions, and reviewed documentation of executive session notification, purpose, and start times from September 7, 2012 until December 1, 2014.

Distribution List

This report was initially distributed to the Board of School Directors and the following stakeholders:

The Honorable Tom W. Wolf

Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Pedro A. Rivera

Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Timothy Reese

State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Mrs. Danielle Mariano

Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter

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Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Lin Carpenter

Assistant Executive Director for Member Services
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record and is available online at www.PaAuditor.gov. 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@PaAuditor.gov.

ⁱ Source: School district, PDE, and U.S. Census data.

ⁱⁱ Source: Information provided by the District administration.

ⁱⁱⁱ Source: United States Census <http://www.census.gov/2010census>

^{iv} SPP stands for School Performance Profile, which is Pennsylvania's new method for reporting academic performance scores for all public schools based on a scale from 0% to 100% implemented in the 2012-13 school year by PDE.

^v PSSA stands for the Pennsylvania System of School Assessment (PSSA), which is composed of statewide, standardized tests administered by PDE to all public schools and the reporting associated with the results of those assessments. PSSA scores in the tables in this report reflect Reading and Math results for the "All Students" group for the 2011-12 and 2012-13 school years.

^{vi} PSSA scores, which are Pennsylvania's mandatory, statewide academic test scores, are issued by PDE. However, the PSSA scores issued by PDE are collected by an outside vendor, Data Recognition Corporation (DRC). The Pennsylvania Department of the Auditor General and KPMG issued a material weakness in internal controls over PDE's compilation of this academic data in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014, citing insufficient review procedures at PDE to ensure the accuracy of test score data received from DRC.

^{vii} In the 2011-12 school year, the state benchmarks reflect the Adequate Yearly Progress targets established under No Child Left Behind. In the 2012-13 school year, the state benchmarks reflect the statewide goals based on annual measurable objectives established by PDE.

^{viii} *Id.* Additionally, federal Title I designations of Priority, Focus, Reward, and No Designation are new federal accountability designations issued by PDE to Title I schools only beginning in the 2012-13 school year. Priority schools are the lowest 5%, focus schools are the lowest 10%, and reward schools are the highest 5% of Title I schools. All Title I schools not falling into one of the aforementioned percentage groups are considered "No Designation" schools. The criteria used to calculate the percentage rates is determined on an annual basis by PDE.

^{ix} Title I Federal accountability designations for Title I schools originate from PDE and are determined based on the number of students at the school who receive free and/or reduced price lunches. School lunch data is accumulated in PDE's CN-PEARS system, which is customized software developed jointly with an outside vendor, Colyar, Inc. The Pennsylvania Department of the Auditor General and KPMG issued a material deficiency in internal controls over the CN-PEARS system in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014.