



**SHALER AREA SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

FEBRUARY 2014

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

Ms. Jeanne Petrovich, Board President
Shaler Area School District
1800 Mount Royal Boulevard
Glenshaw, Pennsylvania 15116

Dear Governor Corbett and Ms. Petrovich:

We conducted a performance audit of the Shaler Area School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period June 18, 2010 through August 27, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2012, 2011, 2010, and 2009. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found significant noncompliance with relevant requirements, as detailed in the three (3) audit findings within this report. A summary of the results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District and a number of different government entities, including the Pennsylvania Department of Education.

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 black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

February 21, 2014

cc: **SHALER AREA 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 Shaler Area School District (District) in Allegheny County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period June 18, 2010 through August 27, 2013, 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 2008-09, 2009-10, 2010-11, and 2011-12 school years.

District Background

The District encompasses approximately fourteen (14) square miles. According to 2010 federal census data, it serves a resident population of 39,285. According to District officials, the District provided basic educational services to 4,768 pupils through the employment of 390 teachers, 164 full-time and part-time support personnel, and 28 administrators during the 2011-12 school year. The District received \$22,144,085 in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found significant noncompliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, as detailed in the three (3) audit findings within this report.

Finding No. 1: Net Overpayment of \$29,260 in Nonpublic and Charter Pupil Transportation Subsidy. Our audit of the Shaler Area School District's (District) pupil transportation data found that the District incorrectly reported the number of nonpublic and charter pupils transported for all four (4) school years resulting in a net overpayment of \$29,260 (see page 5).

Finding No. 2: Inadequate Documentation to Support Commonwealth-Paid Tuition for Children Placed in Private Homes.

Our audit of the Shaler Area School District's (District) pupil membership records found that the District did not maintain adequate documentation to support the students reported to the Pennsylvania Department of Education as non-resident students placed in private homes (foster children) (see page 7).

Finding No. 3: The District Lacks Sufficient Internal Controls Over Its Student Data. Our review of the Shaler Area School District's controls over data integrity found that internal controls need to be improved (see page 9).

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 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 Section 403 of The Fiscal Code, 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 June 18, 2010 through August 27, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through June 30, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2011-12, 2010-11, 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 certain relevant 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?
- ✓ 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?

- ✓ In areas where the District received transportation subsidies, were the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ 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?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ 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 there any other areas of concern reported by independent auditors, citizens, or other interested parties?

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 certain relevant state 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 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 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 significant 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 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.

Findings and Observations

Finding No. 1 →

Criteria relevant to the finding:

Section 2509.3, 24 PS § 25-2509.3, of the Public School Code provides, in part:

“ . . . For the school year 2001-02 and each school year thereafter, each school district shall be paid the sum of three hundred eighty-five dollars (\$385) for each nonpublic school pupil transported.”

Net Overpayment of \$29,260 in Nonpublic and Charter Pupil Transportation Subsidy

Our audit of the Shaler Area School District’s (District) 2008-09, 2009-10, 2010-11, and 2011-12 school years’ pupil transportation data found that the District incorrectly reported the number of nonpublic and charter pupils transported for all four (4) school years, resulting in a net overpayment of \$29,260 in nonpublic pupil transportation subsidy.

Over the four (4) years under review, our auditors found the following errors:

Students Over/(Under) Reported				
School Year	Non-Public Pupils	Charter Pupils	Rate	(Over)/Under Payment
2011-12	4	3	\$ 385	\$ 2,695
2010-11	42	(2)	385	15,400
2009-10	(20)	2	385	(6,930)
2008-09	47	0	385	18,095
Total Net Overpayment:				\$ 29,260

These errors were the result of District personnel not verifying and reconciling the nonpublic and charter pupil rosters throughout the school year. The auditors could not determine how the District arrived at the totals reported to the Pennsylvania Department of Education (PDE).

The number of nonpublic pupils transported must be accurately reported because it is the basis for the District’s nonpublic pupil transportation subsidy.

It is the responsibility of District management to have internal policies and procedures in place to ensure that transportation data is accurately collected, verified, and reported timely to PDE. Without such internal controls, the District lacks the assurance that its reported transportation data is correct and that it receives the appropriate state subsidy.

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

Recommendations

The *Shaler Area School District* should:

Develop internal policies and procedures to ensure that transportation data is accurately collected, verified, and reported timely to PDE reimbursement.

The *Pennsylvania Department of Education* should:

Adjust the District's future allocations to correct the net overpayment of \$29,260.

Management Response

Management stated the following:

“The District recognizes the need to properly identify and accurately report all Non Public Pupils transported by the district. The district will now eliminate all students transported to Charter/Non-Public Schools and other outside placements not paid by parents' tuition. The Charter schools will be monitored by identifying a special code in the [District's] transportation software system.”

Auditor Conclusion

We are encouraged that the District recognizes the need to address this deficiency. We will follow up on this issue, as well as the steps the District has taken to ensure that transportation data is collected and reported correctly, during our next cyclical audit of the District.

Finding No. 2

Inadequate Documentation to Support Commonwealth-Paid Tuition for Children Placed in Private Homes

Criteria relevant to the finding:

Section 1305, of the Public School Code (PSC), 24 P.S. § 13-1305, provides for the Commonwealth payment of tuition for non-resident children placed in private homes.

Section 2503(c) of the PSC, 24 P.S. § 2503 (c), specifies the amount of Commonwealth-paid tuition on behalf of non-resident children placed in private homes by providing, in part:

“Each school district, regardless of classification, which accepts any non-resident child in its school under the provisions of section one thousand three hundred and five . . . shall be paid by the Commonwealth an amount equal to the tuition charge per elementary pupil or the tuition charge per secondary pupil as the case may be . . .”

Our audit of the Shaler Area School District’s (District) pupil membership records for the 2011-12, 2010-11, 2009-10, and 2008-09 school years found that the District did not maintain adequate documentation to support the students reported to the Pennsylvania Department of Education (PDE) as non-resident students placed in private homes (foster children). As a result, we were unable to verify the correctness of Commonwealth-paid tuition for the following school years: \$84,907 for 2008-09, \$90,207 for 2010-11, and \$76,466 for 2011-12.

Additionally, our audit found that in the 2009-10 school year, District personnel failed to report any membership days for foster children, and as a result received no Commonwealth-paid tuition for the foster children educated in that year (see Finding No. 3). Tuition calculations based on the District’s child accounting student listings showed tuition that the District might have been entitled to as much as \$114,752 for the 2009-10 school year.

The deficiencies occurred because the District failed to obtain and retain confirmation letters from child placement agencies to verify the residences of the natural parents and/or legal guardians of the students, and to verify that these foster parents were being compensated.

Pupil membership must be maintained in accordance with PDE guidelines and instructions, since this data is a major factor in determining the District’s receipt of tuition for children placed in private homes (foster children).

It is the responsibility of District management to have in place proper internal policies and procedures to ensure that student data is accurately collected and timely reported. Without these internal controls, the District does not have assurance that it is reporting its data correctly to PDE or that it is receiving the proper subsidy reimbursement.

Recommendations

The *Shaler Area School District* should:

1. Provide regular in-service training to administrative and clerical personnel responsible for recording and reporting membership data. This training should stress the importance of maintaining accurate and complete records and the relationship of membership data to state subsidies and reimbursements.
2. Develop procedures to ensure proper classification of students enrolling in the District as resident or non-resident students and documents the district of residence of the natural parent or guardian.

Management Response

Management stated the following:

“The District recognizes the need to have supporting documentation with regard to paid tuition for orphans and foster children. To rectify this internal weakness, the district has assigned and trained one individual with collecting and retaining all agency letters, court orders and notices pertaining to the reporting requirements of these placements. Procedures will be established to assure that accurate records are kept at the Central Administration Office. Annual reconciliation of this data will be required prior to submission to PDE.”

Auditor Conclusion

We are encouraged that the District is taking action to address this serious deficiency. We will follow up on this issue during our next cyclical audit of the District.

Finding No. 3

The District Lacks Sufficient Internal Control Over Its Student Data

Criteria relevant to the finding:

According to the Pennsylvania Department of Education's (PDE) *2009-10 Pennsylvania Information Management Systems (PIMS) User Manual*, all Pennsylvania local education agencies must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are:

- 1) District Code of Residence;
- 2) Funding District Code;
- 3) Residence Status Code; and
- 4) 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.

Additionally, according to the *Federal Information Systems Control 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.

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 individual student data for each student served by Pennsylvania's Pre-K through Grade Twelve (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 review of the Shaler Area School District's (District) controls over data integrity found that internal controls need to be improved. Specifically, our review found that:

- The District does not have adequate documented procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.
- Our testing of the school calendar facts template found that the membership for students had 179 days in session for all grade levels except for Grade Nine (9), and 178 days in session for Grade Nine (9), for the 2009-10 school year. However, the District days in session for the students were incorrectly reported for 181 and 180 days in session for the school year for all levels except for Grade Nine, and for Grade Nine respectively. The District included both Act 80 days for the school calendar fact template days in session.
- The District did not properly code non-resident students. As a result, non-resident students were uploaded into PIMS as resident students, and the

District did not receive the tuition for children placed in private homes (foster students).

As stated in Finding No. 2 (see page 7), it is the responsibility of District management to have in place proper internal policies and procedures to ensure that student data is accurately collected and timely reported. Without these internal controls, the District is assured that it is reporting its data correctly to PDE or that it is receiving the proper subsidy reimbursement.

Recommendations

The *Shaler Area School District* should:

1. Develop documented procedures (e.g. procedure manuals, policies, or written instructions) to ensure continuity over PIMS data submission if those involved persons were to leave the District suddenly or otherwise be unable to upload PIMS data to PDE.
2. Review the school calendar fact templates for accuracy to ensure that they reflect the correct days in session and days reported.
3. Review procedures for properly coding vendor software relating to nonresident students to ensure nonresident students are correctly uploaded into PIMS.

Management Response

Management stated the following:

“The district will put into place adequate procedures and policies to improve the overall child accounting practices of the district and to ensure all departments responsible for the information, i.e.; central office, technology, registrar, guidance, be apprised of the critical nature of having accurate information prior to submission of any reporting requirements. There will also be a step to insure the district retains agency letters and court orders. This will be verified and reconciled to each student annually.

The district also recognizes the need to put into place adequate procedures as it relates to the calendar template matching up with attendance recording. The person and/or

persons responsible for this practice will now be required to reconcile these two student information records so that they reflect any changes made and match before submitting child accounting to PDE.

The district has recognized that the problem exists in the uploading of student data, particularly as it pertained to the 2009-10 fiscal year, dealing with the identification of resident vs. non-resident students. The person and/or persons responsible for these procedures are made aware of this student accounting practice and will coordinate with the software company, [student information system], to separate these students and not comingle them in future years.”

Auditor Conclusion

We are encouraged that the District is taking action to address this serious deficiency. We will follow up on this issue during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Shaler Area School District resulted in no findings or observations.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following stakeholders:

The Honorable Tom Corbett
Governor
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The Honorable Carolyn Dumaesq
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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.