



**HIGHLANDS SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JUNE 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. Carrie Fox, Board President
Highlands School District
1500 Pacific Avenue
Natrona Heights, Pennsylvania 15065

Dear Governor Corbett and Ms. Fox:

We conducted a performance audit of the Highlands 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 December 8, 2010 through November 25, 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, 2009, 2010, 2011, and 2012. 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 that the District complied, in all significant respects, with relevant requirements, except as detailed in one (1) finding noted in this report. However, we identified one (1) matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding, observation, 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

June 26, 2014

cc: **HIGHLANDS 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 Highlands 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 December 8, 2010 through November 25, 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 23 square miles. According to 2010 federal census data, it serves a resident population of 20,627. According to District officials, the District provided basic educational services to 2,533 pupils through the employment of 195 teachers, 133 full-time and part-time support personnel, and eighteen (18) administrators during the 2011-12 school year. The District received \$19,072,899 in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one (1) compliance related matter reported as a finding and one (1) matter unrelated to compliance reported as an observation.

Finding: Membership Reporting Errors and a Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Reimbursement. Our audit of pupil membership reports submitted to the Pennsylvania Department of Education by the Highlands School District (District) for the 2008-09 through the 2011-12 school years found reporting errors, totaling \$25,656 in underpayments to the District, and a lack of documentation to support \$45,124 in residency classification for children placed in private homes (see page 5).

Observation: Transportation Contractor Paid Over State Formula. Our audit of the Highlands School District's (District) contracted pupil transportation costs for the school years ending June 30, 2009 through June 30, 2012, found that, over the four-year period, the contracted costs paid to the District's main transportation contractor was substantially more than the Pennsylvania Department of Education's final formula allowance (see page 10).

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 December 8, 2010 through November 25, 2013, except for the verification of professional employee certification, which was performed for the period July 31, 2012 through June 30, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2008-09, 2009-10, 2010-11, and 2011-12 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, was 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

Membership Reporting Errors and a Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Reimbursement

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 of Residence. Therefore, PDE requires that student records are complete with these data fields.

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 12 public education systems.

PDE began calculating the LEA's state subsidy using the data the 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 of pupil membership reports submitted to PDE by the Highlands School District (District) for the 2008-09 through the 2011-12 school years found reporting errors and a lack of documentation to support the residency classification for children placed in private homes (foster children).

Reporting Errors

Supporting documentation showed that the District's membership days for foster children during the 2009-10 and 2011-12 school years were correctly coded in PIMS as non-resident days. However, the funding district and educating district for these students were the same. The PIMS system rejects any record that has these fields as the same district. As a result, the District's non-resident students were not uploaded, causing the days to not be reported.

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.

Section 1305 of the Public School Code (PSC), 24 P.S. § 1305, provides for 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 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 . . .”

For the 2009-10 school year, the membership days were incorrectly coded for three (3) students as follows: kindergarten by 73 days, elementary by 180 days, and secondary by 26 days. No documentation was available for these students to determine what the appropriate funding district code was to be used to make the necessary reporting adjustments to PDE. As a result of the District’s failure to retain the necessary documentation, the District lost the opportunity to receive \$16,486 in tuition for these students.

For the 2011-12 school year, membership days were understated by 177 days for one (1) elementary student, which resulted in an underpayment of \$9,170.

District personnel misunderstood PIMS and PDE guidelines and instructions, which caused the reporting errors.

Lack of Supporting Documentation

For the 2008-09 school year, the District reported eight (8) non-resident foster students to PDE. However, when asked for supporting documentation, District personnel provided placing agency letters for only four (4) of the students reported. Review of these letters failed to disclose the address of the students’ parents and whether or not a per diem was paid to the foster parents. Both components are necessary to allow the auditors to make a determination as to whether the District was entitled to the \$45,124 in tuition reimbursement it received for the foster students for the 2008-09 school year.

The time to obtain the necessary information to support residency classification for non-resident students enrolled in the District is during enrollment. The District is responsible for maintaining this supporting documentation for audit.

Additionally, if the District had an internal review process in place prior to the submission of the child accounting data to PDE, the errors could have been identified and corrected before PDE compiled the District’s final summary of child accounting membership report.

PDE has been provided a report detailing the errors for use in recalculating the District's reimbursement for the 2008-09 and 2011-12 school years. Without the appropriate support documentation for the 2009-10 school year, no corrective reports could be submitted to PDE.

It is the responsibility of District management to have internal policies and procedures in place to ensure that student data is accurately collected and submitted to PDE. Without such internal controls, the District cannot be assured that its student data is accurate or that it is receiving the appropriate subsidy.

Recommendations

The *Highlands School District* should:

1. Establish internal controls that include reconciliations of the data that is uploaded into PDE's PIMS system with the information in the District's student information system.
2. Request additional training from PDE to ensure that the personnel tasked with PIMS reporting thoroughly understand PDE's guidelines and instructions.
3. Strengthen controls over the enrollment process to ensure pupil membership residency is reported in accordance with PDE guidelines and instructions.
4. Gather and reconcile all letters from agencies for reported children placed in private homes (foster children) and ensure that proper data pertaining to these student's has the location where the natural parents reside and if a stipend is received for those students. This will ensure the District reported membership for these students is properly classified.
5. Review reports submitted subsequent to the years audited and submit revised reports to PDE, if errors are found.

The *Pennsylvania Department of Education* should:

6. Review the District's \$45,124 tuition payment and determine the appropriateness of the entitlement.
7. Adjust the District's future allocations to correct the \$9,170 underpayment of tuition for foster children.

Management Response

Management stated the following:

“On the PDE website (www.portal.state.pa.us), page 3, subsection on foster students, the instructions state that a school district may request verification that a child is residing with a foster parent or is in a pre-adoptive home in the form of a letter from the appropriate agency, but the district cannot require a court order or agency records. It says “may” request it does not say “shall” request. We asked agencies, furthermore, for their records but only received positive responses from only a few agencies. We feel these students reported were foster students and no deduction should be made especially based on these website instructions and our attempt to obtain these records. We do feel our reporting procedures with PIMS can be improved and the district will emphasize improving their accountability of these students. Perhaps the state could “REQUIRE” those agencies to send letters to the district and PDE to avoid these issues.”

Auditor's Conclusion

Although District management disagreed with the finding, referencing PDE's website, the website also provides a Glossary of Child Accounting Terms (page 6 of 8), which clearly defines Section 1305 Public School Code as: “A non-resident child who is placed in the home of resident of the school district (foster home) by order of court or by arrangement with an association, agency or institution having the care of neglected and dependent children and such resident is compensated for keeping the child. Note: The parent or guardian of such a child resides in a different school district than the school district in which the foster parent resides.”

Without the appropriate documentation supporting residency classifications, the tuition paid is questionable. The finding will stand as written.

Observation →

Transportation Contractor Paid Over State Formula

Criteria relevant to the observation:

Chapter 23 of the State Board of Education Regulations states that the District's Board of School Directors is responsible for the negotiation and execution of contracts or agreements with contractors, and approval of the drivers of the vehicles providing transportation.

Our audit of the Highlands School District's (District) contracted pupil transportation costs for the school years ending June 30, 2009 through June 30, 2012, found that over the four-year period, the contracted costs paid to one (1) of the District's pupil transportation contractors was substantially more than the Pennsylvania Department of Education's (PDE) final formula allowance, which is used to determine reimbursement of pupil transportation services.

PDE's final formula allowance provides for a per vehicle allowance based on the vehicle chassis' year of manufacture, the approved seating capacity, the number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index. The reimbursement received is the lesser of the final formula allowance for the vehicles, or the actual amount paid to the contractor, multiplied by the District's aid ratio.

The following chart details the fluctuation in the District's contracted payments to the District's main transportation contractor as compared to PDE's final formula allowance:

School Year	Contractor Cost	Final Formula Allowance	Contractor Costs Over Final Formula Allowance	Cost Percentage of Allowance
2008-09	\$ 1,948,251	\$ 1,032,130	\$ 916,121	188.76 %
2009-10	1,925,244	1,015,419	909,825	189.60 %
2010-11	2,037,682	1,187,077	850,605	171.66 %
2011-12	1,995,055	1,277,248	717,807	156.20 %

The chart below details the total amount paid to the contractor each school year, the final formula allowance used by PDE to calculate the District's reimbursement, the total reimbursement received by the District, and the local tax dollars required to operate the District's pupil transportation program.

School Year	Contractor Cost	Final Formula Allowance	Reimbursement Received	Local Share
2008-09	\$ 1,948,250	\$ 1,032,130	\$ 773,093	\$ 1,175,157
2009-10	1,925,244	1,015,419	773,133	1,152,111
2010-11	2,037,682	1,187,077	898,718	1,138,964
2011-12	1,995,055	1,277,248	958,666	1,036,389
Totals	\$ 7,906,231	\$ 4,511,854	\$ 3,403,610	\$ 4,502,621

District personnel provided us with the current pupil transportation contract effective July 1, 2010 through June 30, 2015. The contract did not indicate that there would be any consideration of PDE's approved final formula allowance. District administrative personnel stated that the contract was not put out for bid and was a renewal.

If the District had considered PDE's approved final formula allowance when negotiating the District's transportation contract, the additional funds required from the taxpayers to operate the transportation program may not have been needed and could have been used to provide educational services to the District's students.

Recommendations

The *Highlands School District* should:

1. Ensure that, prior to negotiating a new contract, the board and administrative personnel are cognizant of the state's final formula allowance cost formula.
2. Routinely seek competitive bids for all of the District's pupil transportation services to ensure the most efficient cost to the District and its taxpayers.
3. Prepare pupil transportation contracts to ensure the local share is as minimal as possible by establishing the base rate and increases in line with PDE's final formula allowance for all pupil transportation costs.
4. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.

Management Response

Management stated the following:

“[Y]our observation regarding our transportation costs exceeding the formula for reimbursement is correct. The District is very conscience and prudent negotiating their contracts, but here in Allegheny County transportation costs, unfortunately, are higher than average and few contractors exist for competitive quotes and services. Our contractor covers most of the County. The District will heed your recommendations but negotiating these costs are a “two way street.”

Auditor Conclusion

While we acknowledge that transportation costs vary based on regional factors, the District’s failure to seek competitive bids may have resulted in the taxpayers not receiving the most efficient cost for the pupil transportation operations.

The observation will stand as reported.

Status of Prior Audit Findings and Observations

Our prior audit of the Highlands 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
Commonwealth of Pennsylvania
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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.