

# PERFORMANCE AUDIT

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## Beaver Area School District Beaver County, Pennsylvania

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August 2014



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



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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Dr. Terri Williams, Board President  
Beaver Area School District  
855 Second Avenue  
Beaver, Pennsylvania 15009

Dear Governor Corbett and Dr. Williams:

We conducted a performance audit of the Beaver 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 March 29, 2011 through October 22, 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, 2011 and June 30, 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. 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 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

August 7, 2014

cc: **BEAVER AREA SCHOOL DISTRICT** Board of School Directors

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Beaver Area School District (District) in Beaver 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 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 March 29, 2011 through October 22, 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 2010-11 and 2011-12 school years.

### **District Background**

The District encompasses approximately 21 square miles. According to 2010 federal census data, it serves a resident population of 14,783. According to District officials, the District provided basic educational services to 2005 pupils through the employment of 125 teachers, 42 full-time and part-time support personnel, and fourteen (14) administrators during the 2011-12 school year. The District received \$8.75 million 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. However, we identified one (1) matter unrelated to compliance that is reported as an observation.

**Observation: The District Lacks Sufficient Internal Control Over Its Student Data.** Our review of the Beaver Area School District's (District) controls over data integrity found that internal controls need to be improved. Specifically, our audit found that the District does not have documented procedures in place to ensure continuity over the submission of data into the Pennsylvania Information Management System and is not performing the reconciliations and reviews necessary to ensure accurate reporting of membership data (see page 5).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the Beaver Area School District (District) from an audit released on January 20, 2012, we found that the District has taken appropriate action to update the Memorandum of Understandings with local law enforcement agencies (see page 8).

## Audit Scope, Objectives, and Methodology

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### 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 March 29, 2011 through October 22, 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 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?

- ✓ 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?
- ✓ 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 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.

To determine the status of our audit recommendations made in a prior audit report released on January 20, 2012, we reviewed the District's response to PDE dated April 23, 2012. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation

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### The District Lacks Sufficient Internal Control Over Its Student Data

*Criteria relevant to the observation:*

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.

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 Beaver Area School District's (District) controls over data integrity found that internal controls need to be improved. Specifically, our review found that:

- Vocational education students' membership data was improperly reported, which resulted in an overstatement of resident days for the 2010-11 and 2011-12 school years. The errors were a result of the District improperly reporting vocational education days at 100 percent of time enrolled when the students were only at the District for 50 percent of the day.
- The District does not have adequate documented procedures in place, (e.g., District prepared detailed procedure manuals, policies, written instructions, etc.), and to ensure continuity over PIMS data submission in the event of a sudden change in personnel or child accounting vendors, with the exception of the PIMS procedure manual received from PDE.

*Criteria relevant to the observation continued:*

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.

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis." U.S. General Accounting Office. *Standards for Internal Control in the Federal Government*. (November 1999), pg 1

- District personnel failed to reconcile the vendor membership reports with the PIMS accuracy statement reports.

While we determined these errors did not have a significant effect on the District's subsidies and reimbursements, continuing errors such as these could do so in future years.

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 *Beaver Area School District* should:

1. Review membership reports submitted to PDE for years subsequent to the audit, and if similar errors are found, submit revised reports to PDE.
2. Develop procedure manuals, policies, written instructions, etc. to ensure continuity over PIMS data submission.
3. Perform reconciliations between PIMS data and child accounting software data to help ensure accurate reporting of child accounting data.
4. Cross-train individuals to familiarize them with PDE's child accounting reporting requirements and PIMS reporting procedures, in the event of a sudden change in personnel.

### **Management Response**

Management stated the following:

"Beaver Area School District administration acknowledges the finding and recommendations listed in this report. The administration has already taken steps to implement the required changes."

### **Auditor Conclusion**

We are encouraged that the District acknowledges the deficiency and reports that it is taking steps to address it. We will follow up on the status of our recommendations during our next cyclical audit of the District.

## Status of Prior Audit Findings and Observations

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Our prior audit of the Beaver Area School District (District) released on January 20, 2012, resulted in an observation pertaining to the District's failure to timely update its Memoranda of Understanding (MOU) with local law enforcement agencies. 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 observation. As shown below, we found that the District did not implement our recommendations related to timely updating its MOU's with local enforcement agencies.

### Auditor General Performance Audit Report Released on January 20, 2012

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**Observation:** **Memoranda of Understanding Not Updated Timely**

Observation  
Summary:

Our audit found that the MOU between the District and its two (2) local law enforcement agencies had not been reviewed and updated since December 18, 1998.

Recommendations:

Our audit observation recommended that the District should:

1. Review, update, and re-execute the MOU's between the District and the two (2) local law enforcement agencies.
2. Adopt a policy requiring the administration to review and re-execute the MOU's every two years

Current Status:

During our current audit, we found that the District did implement our prior recommendation to update the MOU's with local law enforcement agencies.

## **Distribution List**

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

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Carolyn Dumaesq  
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](http://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](mailto:news@auditorgen.state.pa.us).