

PERFORMANCE AUDIT

South Western School District York County, Pennsylvania

September 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

Mr. Dale E. Myers, Board President
South Western School District
225 Bowman Road
Hanover, Pennsylvania 17331

Dear Governor Corbett and Mr. Myers:

We conducted a performance audit of the South Western 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 September 11, 2009 through April 3, 2014, 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. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding 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

September 11, 2014

cc: **SOUTH WESTERN 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 South Western School District (District) in York 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 September 11, 2009 through April 3, 2014, 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 56 square miles. According to 2010 federal census data, it serves a resident population of 26,768. According to District officials, the District provided basic educational services to 4,187 pupils through the employment of 295 teachers, 215 full-time and part-time support personnel, and 24 administrators during the 2011-12 school year. The District received \$17 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, except for one (1) compliance related matter reported as a finding.

Finding: Errors in Reporting Membership Data Resulted in a \$46,318 Subsidy Underpayment and \$6,510 in Unbilled Tuition.

Our audit of the South Western School District's (District) child accounting data for the 2009-10 school year found student record data reporting errors, which resulted in a subsidy underpayment of \$46,318, as well as unbilled tuition of \$6,510 from a neighboring school district (see page 5).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the South Western School District (District) from an audit released on November 5, 2010, we found that the District had taken partial appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 8) and to internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 10).

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 September 11, 2009 through April 3, 2014, except for the verification of professional employee certification, which was performed for the period July 1, 2013 through January 21, 2014.

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?

- ✓ 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 pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ 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

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.

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.

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 November 5, 2010, we reviewed the District's response to PDE dated May 26, 2011. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Errors in Reporting Membership Data Resulted in a \$46,318 Subsidy Underpayment and \$6,510 in Unbilled Tuition

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 2009-10 *PIMS User Manual*, all Pennsylvania LEAs 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: District Code of Residence; Funding District Code; Residence State 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 audit of the South Western School District's (District) child accounting data for the 2009-10 school year found student record data reporting errors that resulted in a subsidy underpayment of \$46,318 for non-resident children placed in private homes (foster children), as well as unbilled tuition of \$6,510 from a neighboring school district.

The errors were attributed to District personnel's inadequate understanding of district of residence, funding district, and residency classifications for students. Specific errors noted include:

- For non-resident foster children, personnel incorrectly reported the District as the district of residence, instead of reporting the district of residence of the natural/custodial parent, adoptive parent, or legal guardian for twelve (12) of the fifteen (15) children reported as non-resident foster children. As a result, the

Criteria relevant to the finding (continued):

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.

District did not receive any reimbursement for these twelve (12) children.

- District personnel incorrectly classified one (1) child as being a non-resident foster child whose foster parents lived in the District, when in fact, the foster parents lived in a neighboring school district for a portion of the 2009-10 school year. District personnel incorrectly reported the district of residence for this child for the 139 days the foster parents lived in the neighboring school district.

It should also be noted that this misclassification error resulted in a corresponding 139 elementary days of non-resident foster child membership not being reported for the neighboring school district.

It is the responsibility of the District's management to have proper internal controls to ensure that student data is accurately collected and timely reported. Without good internal controls, the District cannot be assured that its student data reports are correct or that it is receiving the appropriate state subsidy.

Recommendations

The *South Western School District* should:

1. Bill the neighboring school district for the \$6,510 in tuition that is due for 139 elementary days the District educated the non-resident foster child during the 2009-10 school year.
2. Ensure child accounting personnel have access to the PIMS manual to review the definitions for the proper reporting of resident and funding district information. The manual will help to provide guidance for the proper reporting of residency classifications.
3. Review child accounting reports for the 2012-13 and 2013-14 school years, and if errors are noted in the classification, district of residence, and/or the funding district submit the revisions to PDE.

The *Pennsylvania Department of Education* should:

4. Adjust the District's allocations to resolve the \$46,318 subsidy underpayment.

Management Response

Management stated the following:

“The district anticipated potential reporting problems with the initial implementation of PIMS; however, we have been working to address PIMS reporting issues subsequent to this event.”

Auditor Conclusion

We are encouraged that the District is working to address the deficiencies in PIMS reporting. 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

Our prior audit of the South Western School District (District) released on November 5, 2010, resulted in two (2) observations. The first observation pertained to unmonitored vendor system access and logical access control weaknesses, and the second observation pertained to internal control weaknesses in administrative policies regarding bus drivers' qualifications. 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 observations. As shown below, we found that the District implemented some but not all of our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses and implemented our recommendations or compensating procedures related to internal control weaknesses in administrative policies regarding bus driver qualifications.

Auditor General Performance Audit Report Released on November 5, 2010

Observation No. 1: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary:

Our prior audit noted that the District should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to the student accounting applications.

Recommendations:

Our audit observation recommended that the District should:

1. Work with its vendor to determine if authentication (password syntax) requirements can be developed and implemented. If they can, revise the District's Acceptable Use Policy (AUP) to include any authentication requirements that are developed.
2. Establish separate information technology (IT) policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's AUP.
3. Develop written policies and procedures to require written authorization when adding, deleting, or changing a userID.
4. Work with the vendor to implement a security policy and system parameter settings, which requires all users, including the vendor,

to change their passwords on a regular basis (i.e. every 30 days). Passwords should be a minimum length of eight (8) characters and should include alpha, numeric, and special characters. In addition, the District should maintain a password history that will prevent the use of a repetitive password (i.e. last ten (10) passwords) and will lock out users after three (3) unsuccessful attempts.

5. Allow access to its system only when the vendor needs to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
6. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on its system. Monitoring reports should include the date, time, and reason for access, change(s) made, and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.
7. Allow upgrades/updates to be made only after receipt of written authorization from appropriate District officials.
8. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
9. Back up the application(s) before placing program changes into production to ensure it could recover if problems are encountered.
10. Develop written procedures outlining the District's compensating controls that allow it to detect unauthorized changes to the membership database in a timely manner (i.e., its reconciliation and review procedures).

Current Status:

During our current audit, we found that the District implemented recommendations numbered 3, 4, 5, 6, 7, and 9. However, the District has not implemented recommendations numbered 1, 2, 8, and 10.

Therefore, it is again recommended the District consider corrective action to address the four (4) recommendations noted above.

Observation No. 2: Internal Control Weaknesses in Administrative Policies Regarding Bus Driver Qualifications

Observation

Summary:

Our prior audit found that the District had not adopted written policies or procedures to ensure that District personnel are notified if current employees have been charged with or convicted of serious criminal offenses, which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.

Recommendations:

Our audit observation recommended that the District should:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure that the District is notified when current employees of the District are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children and to ensure that the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.

Current Status:

During our current audit, we found that the District now has a process to determine whether prospective and current employees of the District have been charged with or with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.

While the District has not implemented any written policies or procedures, it has implemented the form that is currently required by law whereby the current employees of the District must state whether or not they have been charged with or convicted of any crimes that call into question their suitability to continue to have direct contact with children and to ensure that the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.

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.