

CRESTWOOD SCHOOL DISTRICT  
LUZERNE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2012



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

Mr. Eric Aigeldinger, Board President  
Crestwood School District  
281 South Mountain Boulevard  
Mountaintop, Pennsylvania 18707

Dear Governor Corbett and Mr. Aigeldinger:

We conducted a performance audit of the Crestwood School District (CSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period May 19, 2009 through December 2, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to 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 CSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with CSD management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CSD's cooperation during the conduct of the audit.

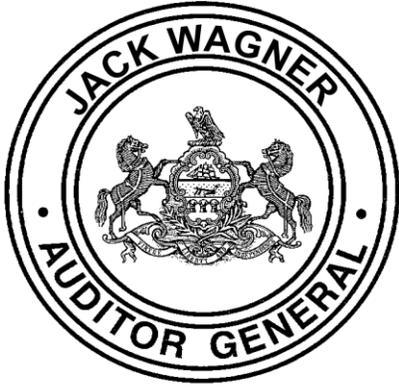
Sincerely,

/s/

JACK WAGNER  
Auditor General

January 31, 2012

cc: **CRESTWOOD SCHOOL DISTRICT** Board Members

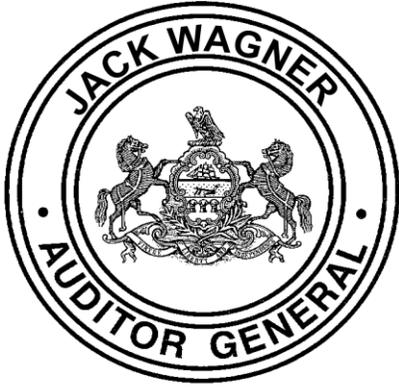


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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Crestwood School District (CSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the CSD in response to our prior audit recommendations.

Our audit scope covered the period May 19, 2009 through December 2, 2011, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10 and 2008-09.

### **District Background**

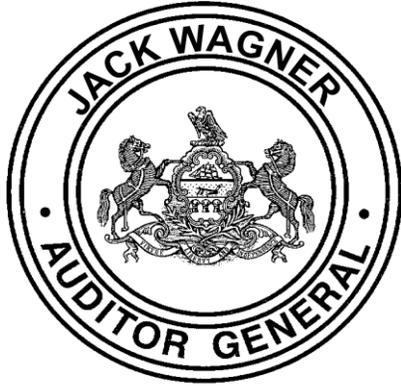
The CSD encompasses approximately 100 square miles. According to 2000 federal census data, it serves a resident population of 18,299. According to District officials, in school year 2009-10 the CSD provided basic educational services to 3,021 pupils through the employment of 180 teachers, 121 full-time and part-time support personnel, and 14 administrators. Lastly, the CSD received more than \$11.9 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the CSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

**Finding: Errors in Membership Reported for Children Placed in Private Homes Resulted in a Net Underpayment of \$43,180.** Our audit of CSD's pupil membership reports submitted to the Department of Education for the 2009-10 and 2008-09 school years found reporting errors for children placed in private homes. CSD personnel inaccurately reported membership for children placed in private homes. These errors resulted in an underpayment of \$30,013 for the 2009-10 school year and \$13,167 for the 2008-09 school year for a net reimbursement underpayment of \$43,180 (see page 6).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the CSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the CSD had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting pupil transportation data (see page 8) and unmonitored vendor system access and logical access control weaknesses (see page 9).



## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

School performance audits allow the 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 PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 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 May 19, 2009 through December 2, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 Department of Education (DE) 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 CSD's compliance with applicable state laws, 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 receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ Does the LEA have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System (PIMS) is complete, accurate, valid and reliable?

- ✓ In areas where the District receives transportation subsidies, is the District and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that its current bus drivers are properly qualified, and does it have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with Local Law Enforcement?
- ✓ Were votes made by the District's Board members free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

## **Methodology**

*Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observations and conclusions based on our audit objectives.

CSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we

*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 applicable laws, contracts, grant requirements and administrative procedures.

obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

Any significant deficiencies found during the audit 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/reimbursement, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

Additionally, we interviewed selected administrators and support personnel associated with CSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 8, 2009, we reviewed the CSD's response to DE dated April 15, 2010. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding →

### **Errors in Membership Reported for Children Placed in Private Homes Resulted in a Net Underpayment of \$43,180**

*Criteria and Public School Code section relevant to the finding:*

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 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; LEP 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 (FISCAM)*, 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.

Beginning with the 2009-10 school year, the Department of Education (DE) now bases all local education agencies' 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 and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems. PIMS replaces DE's previous reporting system, the Child Accounting Database (CAD), which DE ran concurrently until it brought PIMS completely online. DE no longer accepts child accounting data through the CAD system.

Our audit of Crestwood School District's pupil membership reports submitted to DE for the 2009-10 and 2008-09 school years found reporting errors for children placed in private homes. District personnel inaccurately reported membership for children placed in private homes. The errors resulted in underpayments of \$30,013 for the 2009-10 school year and \$13,167 for the 2008-09 school year for a net reimbursement underpayment of \$43,180.

Membership days for children placed in private homes were understated by 729 days for elementary students for the 2009-10 school year. Membership days for children placed in private homes were never reported to DE and were understated by 360 days for elementary students and 24 days for secondary students for the 2008-09 school year.

These errors occurred because District personnel made clerical errors and failed to ensure the data was properly reported.

DE had been provided a report detailing the errors for us in recalculating the District's reimbursement.

*Criteria relevant to the finding*

Membership data for nonresident children placed in private homes must be maintained and reported accurately and in accordance with DE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

Section 2503 (c) of the Public School Code provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court when such a resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

**Recommendations**

The *Crestwood School District* should:

1. Strengthen controls to ensure pupil membership is reported in accordance with DE guidelines and instructions.
2. Implement controls to verify actual membership days to computer generated reports, including reconciliation of the data that is uploaded into PIMS.
3. Review subsequent year reports and if errors are found, submit revised reports to DE.

The *Department of Education* should:

4. Adjust the District's allocation to resolve the underpayments in the amount of \$43,180 for the 2009-10 and 2008-09 school years.

**Management Response**

Management provided the following:

New Child Accounting person – unfamiliar with 1305 procedures and paperwork. That situation has been corrected and we do not anticipate any further such occurrences.

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Crestwood School District (CSD) for the school years 2007-08 and 2006-07 resulted in one finding and one observation. The finding pertained to errors in reporting pupil transportation data and the observation pertained to unmonitored vendor system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the CSD's Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the CSD did implement recommendations related to errors in reporting pupil transportation data and unmonitored vendor system access and logical access control weaknesses.

### **School Years 2007-08 and 2006-07 Auditor General Performance Audit Report**

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**Finding:** **Errors in Reporting Pupil Transportation Data Resulted in Reimbursement Underpayments of \$54,661**

Finding Summary: Our prior audit of the District's transportation reports submitted to DE for the 2007-08 and 2006-07 school years, found incorrect data resulting in underpayments of \$29,699 and \$24,962, respectively.

Recommendations: Our audit finding recommended that the CSD:

1. Review invoices from contractors to ensure the amount paid to each contractor is reported correctly for reimbursement.
2. Review transportation reports submitted for subsequent years and submit revisions, if necessary.
3. DE should adjust the District's allocations to resolve the \$54,661 underpayment to the District.

Current Status: During our current audit procedures, we found that the CSD did implement the recommendations. As of December 2, 2011, the District had not received their underpayment.

**Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses**

Observation

Summary:

Our prior audit found that the CSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor does not have remote access into the District's network servers, however, the Wilkes-Barre Area Career and Technology Center houses the server and provides software and technical assistance to the District.

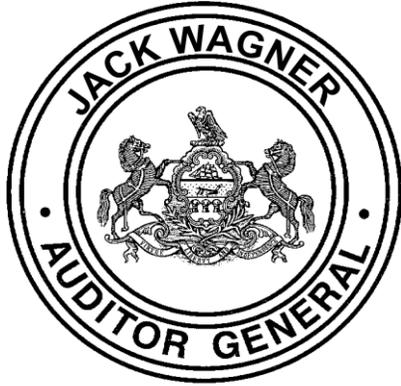
Recommendations:

Our audit observation recommended that the CSD:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.

Current Status:

During our current audit procedures, we found that the CSD did implement our recommendations.



## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

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

The Honorable Ronald J. Tomalis  
Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
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Harrisburg, PA 17120

Ms. Nichole Duffy  
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