



ELLWOOD CITY AREA SCHOOL DISTRICT
LAWRENCE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2013

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

Mr. Anthony Buzzelli, Board President
Ellwood City Area School District
501 Crescent Avenue
Ellwood City, Pennsylvania 16117

Dear Governor Corbett and Mr. Buzzelli:

We conducted a performance audit of the Ellwood City Area School District (ECASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period December 18, 2009, through May 22, 2012, 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 ECASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in three findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

April 3, 2013

cc: **ELLWOOD CITY AREA SCHOOL DISTRICT** Board Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Ellwood City Area School District (ECASD). 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 ECASD in response to our prior audit recommendations.

Our audit scope covered the period December 18, 2009, through May 22, 2012, 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 ECASD encompasses approximately 39 square miles. According to 2010 federal census data, it serves a resident population of 14,362. According to District officials, in school year 2009-10 the ECASD provided basic educational services to 1,968 pupils through the employment of 144 teachers, 88 full-time and part-time support personnel, and 9 administrators. Lastly, the ECASD received more than \$14.4 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the ECASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for three compliance-related matters reported as findings.

Finding No. 1: Errors in Reporting Pupil Membership Resulted in Underpayments of \$10,123 for Tuition for Children Placed in Private Homes. Our audit of student membership data for the 2009-10 school year found that the ECASD incorrectly entered student information into the Pennsylvania Information Management System (see page 6).

Finding No. 2: Certification Deficiency. Our audit of the professional employees' certificates and assignments for the period December 18, 2009, through March 31, 2012, found one professional employee was teaching with a lapsed certificate during the second semester of the 2009-10 school year and the first three months of the 2010-11 school year (see page 9).

Finding No. 3: Failure to Have All School Bus Drivers' Qualifications on File. Our audit of the ECASD's school bus drivers' qualifications for the current period found that not all records were on file at the time of the audit (see page 12).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the ECASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the ECASD had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 14).

Audit Scope, Objectives, and Methodology

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 December 18, 2009, through May 22, 2012, except for the verification of professional employee certification which was performed for the period December 18, 2009, through March 31, 2012.

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 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 ECASD'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 District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?

- ✓ In areas where the District receives transportation subsidies, are the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers are properly qualified, and do they 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 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 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 findings, observations 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.

ECASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the ECASD is in compliance with applicable

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.

laws, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the District's internal controls, including any IT controls, as they relate to the District's compliance with applicable state laws, regulations, contracts, grant agreements and administrative procedures 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 control 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/reimbursement, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, and financial stability.
- Items such as board meeting minutes, pupil membership records, and reimbursement applications.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on September 10, 2010, we reviewed the ECASD's response to PDE dated December 6, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1 →

Errors in Reporting Pupil Membership Resulted in Underpayments of \$10,123 for Tuition for Children Placed in Private Homes

Criteria 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; 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 (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 Pennsylvania Department of Education (PDE) now 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 and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems. PIMS replaces PDE's previous reporting system, the Child Accounting Database (CAD), which PDE ran concurrently until it brought PIMS completely online. PDE no longer accepts child accounting data through the CAD system.

Because PDE now uses the data in PIMS to determine each LEA's state subsidy, it is vitally important that the student information entered into this system is accurate, complete, and valid. Moreover, anytime an entity implements a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. LEA's must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our audit of pupil membership reports submitted to PDE for the 2009-10 school year found reporting errors. District personnel inaccurately reported membership for four nonresident children placed in private homes as resident membership. The errors resulted in an underpayment of \$10,123 of Commonwealth-paid tuition for students placed in private homes.

Membership days for children placed in private homes were understated by 8 days for one full-time kindergarten student, 167 days for two elementary students and 61 days for one secondary student. When reporting the membership days for these students District personnel used residency codes that resulted in PIMS identifying the students as residents rather than nonresident children placed in private homes.

Children placed in private homes are defined as children placed in foster care. If the natural parents of such children live in another district, these children are considered nonresidents for child accounting purposes.

Additionally, the auditor noted other less significant reporting issues that did not affect the District's subsidy but do reflect weaknesses in the child accounting review process of the District. The errors were as follows:

- 14.4 days of membership for one full-time kindergarten resident student and 77.4 days of membership for one secondary resident student were reported twice, once as resident membership and once as nonresident district-paid tuition student membership.
- 10.8 days of membership for one elementary nonresident district-paid tuition student were reported as resident membership.

We have provided PDE with a report detailing the errors for use in recalculating the District's tuition for students placed in private homes.

Recommendations

The *Ellwood City Area School District* should:

1. Strengthen internal controls over the child accounting review process to ensure accurate reporting of student membership.
2. Review child accounting reports submitted subsequent to our review for accuracy and submit revised reports, if necessary.

The *Pennsylvania Department of Education* should:

3. Revise the District's future allocations to correct the \$10,123 underpayment.

Management Response

Management stated the following:

“For the 2009-10 school year there were no internal controls over PIMS. PIMS was not relegated to any one position but a cadre of secretaries, principals, and the technology coordinator. No one position became in charge of PIMS in the District during this time. Students were allowed to register at all of the schools and the various clerks and secretaries put data into the Student Information System [SIS]. This lacked internal control capabilities. For the 2011-12 school year, after a year, (2010-11) of examining the process, a Central Registration process was put in place. All students entering the District must now register at the Central Office with the Central Registration Secretary. All student data and changes to student data occur at this position. All other personnel had access to PIMS removed from their permissions on the SIS. PIMS is all handled at the District Office level with the Technology Coordinator and the Central Registration Secretary. The Assistant to the Superintendent and the Central Registration Secretary review all data. The Central Registration Secretary currently runs all PIMS reports. The Central Registration Secretary belongs to ACAPA [Attendance/Child Accounting Professional Association] and attends regional and state conferences on child accounting. The District has streamlined its Child Accounting procedures.”

Finding No. 2

Certification Deficiency

Criteria relevant to the finding:

Section 1202 of the Public School Code (PSC) provides, in part:

“No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.”

Section 2518 of the PSC provides, in part:

“[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Pennsylvania Department of Education but who has not been certificated for his position by the Pennsylvania Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district’s market value/income aid ratio.”

Our audit of the professional employees’ certificates and assignments for the period December 18, 2009 through March 31, 2012, found one professional employee was teaching with a lapsed Instructional I Provisional certificate during the second semester of the 2009-10 school year, and the first three months of the 2010-11 school year.

Information pertaining to the certificate in question was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), Pennsylvania Department of Education, for its review.

In its determination dated May 23, 2012, BSLTQ stated:

“[The teacher] has been employed on the Instructional I certificate to teach Art for a total of six (6) school years of service by the end of the first semester of the 2009-10 school year. An Instructional I certificate is valid for six (6) years of service.”

The teacher received permanent certification effective December 1, 2010.

As a result of the deficiency, the District is subject to subsidy forfeitures of \$628 for the 2010-11 school year and \$946 for the 2009-10 school year.

The deficiency resulted from the District’s failure to adequately monitor provisionally certified employees certificates.

Recommendations

The *Ellwood City Area School District* superintendent should:

1. Strengthen controls to help ensure that individuals’ certificates are kept current.
2. Monitor years of service for all provisionally certified employees.
3. Develop procedures to determine that applications for permanent certificates have been received by the BSLTQ.

The *Pennsylvania Department of Education* should:

4. Adjust the District's future allocations to recover any subsidy forfeiture.

Management Response

Management stated the following:

“This issue pertains to a teacher who had to get her Level II Certification within six (6) years. She said that she sent in all of the required paperwork within the required timelines, but PDE lost her application. In the following paragraphs, I [the superintendent] will state what transpired.

“The teacher in question came to my office in January of 2010 with the proper paperwork completed for me to verify by signing off on that she completed an Induction Program, had satisfactory ratings and was in good moral standing. At that time she purchased stamps for the letter with her application she was sending to PDE for her Level II certification.

“After a few months when we didn't get any notification from PDE concerning her certification, we called the Bureau of Teacher Certification [now BSLTQ] and asked about her certification and they said they were backlogged, so we figured that PDE would notify us when she received her certification. Then on August 23, 2010, PDE sent an email titled “Certification Application Processing” in which they stated they were backlogged.

“In December of 2010, we called the Bureau of Teacher Verification concerning the certification of the teacher in question. Their response was that they didn't have the paperwork. Evidentially the paperwork was lost, misplaced or wasn't sent in. Since there wasn't any paperwork, I met with the teacher on December 22, 2010, concerning her certification and on the same day we sent a request to PDE, Division of Certification Services to expedite the applicant's application. Since we were on Christmas Break, the teacher was suspended effective January 3, 2011 (our first day back from break) until she received her certification. She received her certification on January 5, 2011 which was dated December 2010. The District's contention is that she didn't have to do anything more to get her certification other than resubmit what was originally sent in January of 2010.

“In conclusion, since I had a copy of her transcript to verify she had completed 24 hours within six years, had verification that she completed her Induction Program and the paperwork to send to PDE, I signed off to verify that she completed the requirements to get her Level II Certification. In my opinion, there wasn’t any reason for the teacher not to send in her paperwork. The District acted in good faith and acted quickly and suspended her. . . .

“The Ellwood City Area School District will take the following steps to assure that non-permanently certified employees have their level II certification:

1. Have a separate list of all teachers with Level I Certificates and to check monthly the expiration dates to ensure that the certificates haven’t lapsed.
2. The District will discuss the guidelines for Level II certification at the New Teacher Induction Program.
3. Since teachers with Level I certificates are no longer required to mail their applications to PDE for Level II certification and have to apply on-line through the TIMS (Teacher Information Management System) system, the District will check TIMS weekly.”
4. Also, the District will notify the non-permanent employee through e-mail that their certificate is due to expire a year prior to the expiration date.”

Auditor Conclusion

As stated in the finding, information pertaining to the certificate was submitted to PDE’s BSLTQ for review. Any disagreement the District has with BSLTQ’s final review should be addressed to PDE.

Finding No. 3

Failure to Have All School Bus Drivers' Qualifications on File

Criteria relevant to the finding:

Pennsylvania Department of Transportation (PennDOT) bus driver regulations require the possession of a valid driver's licenses and passing a physical examination.

Section 111 of the Public School Code requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to submit an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have a committed child abuse.

Chapter 23 of the State Board of Education Regulations indicates the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

Our audit of the Ellwood City Area School District's school bus drivers' qualifications for the 2011-12 school year found that not all records were on file at the time of audit. Additionally, the documentation was not provided to the District by the contractor as specified in the transportation contract.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The purpose of these requirements is to ensure the safety and welfare of the students transported in school buses.

We reviewed the personnel records of seven bus drivers currently employed by the District's pupil transportation contractor. Our review found that the District did not have copies of drivers licenses, criminal history records or child abuse clearances on file for three drivers.

The contractor failed to provide the District with copies of all the driver's licenses and clearances prior to the commencement of the school year, as required by the pupil transportation contract.

By not having required bus drivers' qualification documents on file at the District, the District was not able to review the documents to determine whether all drivers were qualified to transport students. If unqualified drivers transport students, there is an increased risk to the safety and welfare of students.

The failure to have the records on file at the District was the result of the District's system administrator's failure to ensure the transportation contractor complied with provisions of the contract and certain provisions of the Public School Code.

Although all necessary bus driver qualification documents were not on file at the District, at our request the District's transportation contractor provided them prior to the completion of the audit. Review of the documentation provided to the auditor showed no issues that would call into question the drivers having contact with District students.

Recommendations

The *Ellwood City Area School District* should:

Adhere to PennDOT regulations, the provisions of Section 111 of the Public School Code, and the CPSL, ensuring that all bus drivers have all required licenses and background checks prior to employment, and that those documents are maintained in the District's files and records.

Management Response

Management stated the following:

"Prior to completion of audit, all clearances for bus drivers in question were provided."

Status of Prior Audit Findings and Observations

Our prior audit of the Ellwood City Area School District (ECASD) for the school years 2007-08 and 2006-07 resulted in one reported observation. The observation pertained to unmonitored vendor system access and logical 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 ECASD board's written response provided to the Pennsylvania Department of Education, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the ECASD did implement recommendations related to unmonitored vendor system access and logical access control weaknesses.

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

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

Observation

Summary:

The ECASD uses software purchased from an outside vendor for its critical student accounting application (membership and attendance). The software vendor has remote access to the District's network servers. During our review, we found the District had control weaknesses over vendor access to the District's system.

Recommendations: Our audit observation recommended that the ECASD:

1. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords every 30 days and use passwords that are a minimum length of eight characters.
2. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's system. Further, the ECASD should obtain a list of employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
3. Allow access to the system only when the vendor needs access 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.

4. Make upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.

Current Status:

Our current audit found that the ECASD complied with our recommendations in regards to unmonitored vendor system access and logical access control weaknesses. The District changed their account policies/password settings to a maximum password age of 30 days, and passwords to a minimum length of eight characters. Outside vendor users are identified by their unique machine name when accessing the District system. The District login report shows the date, time, and what package vendor employees are accessing and what workstation is accessing the District's system. The vendor has unique machine names for each of their users. The vendor has static internet protocol numbers for their computers and the District only allows the vendor range of number into the vendor server. The vendor does not have access to any other machine on the District network, and only makes changes and updates as needed to the system, software and all changes and updates are posted in the Release Notes Report. The software maintenance agreement establishes procedures for changes or modifications to the District's system after written authorization from a District representative. The dates of implementation for these changes were December 1, 2010, and January 1, 2011.



Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditor.gen.state.pa.us, and the following:

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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

