



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

SEPTEMBER 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. Steve O'Donnell, Board President
Gateway School District
9000 Gateway Campus Boulevard
Monroeville, Pennsylvania 15146

Dear Governor Corbett and Mr. O'Donnell:

We conducted a performance audit of the Gateway School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period July 30, 2010 through January 31, 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, 2010 and June 30, 2009. 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 applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in the two findings noted in this report. In addition, we identified one 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 findings, 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.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

September 9, 2013

cc: **GATEWAY 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 Gateway School District (District). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period July 30, 2010 through January 31, 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 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 20 square miles. According to 2010 federal census data, it serves a resident population of 31,680. According to District officials, the District provided basic educational services to 3,936 pupils through the employment of 323 teachers, 281 full-time and part-time support personnel, and 42 administrators during the 2009-10 school year. Lastly, the District received \$13.9 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for two compliance related matters reported as findings. In addition, we identified one matter unrelated to compliance that is reported as an observation.

Finding No. 1: Errors in Reporting Pupil Transportation Data Resulted in Reimbursement Underpayments Totaling \$68,328. Our audit of the Gateway School District's pupil transportation records submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 school year found reporting errors that resulted in transportation reimbursement underpayments of \$11,907 for the 2009-10 school year and \$56,421 for the 2008-09 school year (see page 6).

Finding No. 2: Errors in Reporting Nonresident Membership Resulted in an Underpayment of \$48,344 in Tuition for Foster Children. Our audit of the Gateway School District's nonresident pupil membership for the 2009-10 school year found errors in reports submitted to PDE. These errors resulted in an underpayment of \$48,344 in Commonwealth-paid tuition for foster children (see page 8).

Observation: The District Lacks Sufficient Internal Controls Over Its Student Data. Our review of the Gateway School District's (District) data integrity found that the District should strengthen its internal controls over the collection and submission of its student data. It is important that this data be accurate, complete, and valid because it is used to determine each local education agency's state subsidy (see page 10).

Status of Prior Audit Findings and Observations. There were no findings or observations included in our prior audit report.

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each local education agency (LEA). The results of these audits are shared with LEA management, the Governor, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period July 30, 2010 through January 31, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 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 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:

- ✓ 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 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?

- ✓ In areas where the District received transportation subsidies, were 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 were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a 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 did the current employment contract(s) contain adequate termination provisions?
- ✓ 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 applicable laws, 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 applicable laws, contracts, grant requirements, and administrative procedures. 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 applicable state laws, regulations, contracts, grant requirements, 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 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, and financial stability.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Findings and Observations

Finding No. 1 →

Errors in Reporting Pupil Transportation Data Resulted in Reimbursement Underpayments Totaling \$68,328

Criteria relevant to the finding:

24 P.S. § 25-2541(a) of the Public School Code provides, in part:

“School districts shall be paid by the Commonwealth for every school year on account of pupil transportation. . . .”

Daily miles traveled, the greatest number of pupils transported, days of service, and contractor cost are integral parts of the transportation reimbursement calculation. These factors must be reported accurately to the Pennsylvania Department of Education (PDE) in order to receive the correct reimbursement.

PDE instructions for completing the end-of-year summary report require any changes in the miles with and miles without pupils, total mileage, number of days the vehicle provided to and from school transportation, and pupils transported to and from school to be based on actual data using districts’ daily records and the averaging of mileage and pupil data.

U.S. General Accounting Office. *Standards for Internal Control in the Federal Government*. (November 1999), pg 1.

“Internal controls are key factors in an agency’s ability to meet its mission, improve performance, and ‘minimize operational problems.’

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.”

Our audit of the Gateway School District’s (District) pupil transportation records for the 2009-10 and 2008-09 school years found reporting errors in the information the District submitted to the Pennsylvania Department of Education (PDE). These errors resulted in transportation reimbursement underpayments of \$11,907 for the 2009-10 school year and \$56,421 for the 2008-09 school year.

These errors were caused by District personnel’s overreliance on the year-end data provided by the District’s transportation contractor. As a result, District personnel incorrectly reported the number of days students were transported in both the 2009-10 and 2008-09 school years. These errors could have been prevented if District personnel had been maintaining their own records of the number of days each bus or van transported students.

It is District management’s responsibility to have appropriate policies and procedures in place to ensure that the information the District receives from its transportation contractor is accurate and timely. By the same token, without these internal controls, the District cannot ensure that the data it reports to PDE is complete and valid.

We have provided PDE with reports detailing the errors to be used in the recalculation of the District’s pupil transportation reimbursement.

Recommendations

The *Gateway School District* should:

1. Maintain appropriate documentation related to the number of days each bus or van transports students.
2. Ensure that the data reported to PDE for transportation reimbursement calculations is accurate.
3. Review subsequent years' transportation reports and revise if necessary.

The *Pennsylvania Department of Education* should:

4. Adjust the District's allocations to correct the reimbursement underpayments of \$68,328.

Management Response

Management stated the following:

“The Gateway School District recognizes and agrees with the auditor's findings that District personnel incorrectly reported the number of days students were transported in the 2009-10 and 2008-09 school years. The District will review the [P]DE instructions with District personnel responsible for reporting the data. The District is collaboratively designing checks and balances with all personnel involved in the reporting and will attach the results of the checks and balances to the report submitted to the Superintendent for final review before submission.”

Auditor Conclusion

We are pleased that the District has taken steps to address the deficiencies in its pupil transportation data reporting process. We will review the new internal controls during our next audit.

Finding No. 2

Errors in Reporting Nonresident Membership Resulted in an Underpayment of \$48,344 in Tuition for Foster Children

Criteria relevant to the finding:

24 P.S. § 25-2503(c) of the Public School Code provides for Commonwealth payment of tuition for children placed in private homes.

The Pennsylvania Information Management System manual of reporting provides guidelines for the reporting of all residency classifications.

U.S. General Accounting Office. *Standards for Internal Control in the Federal Government*. (November 1999), pg 1.

“Internal controls are key factors in an agency’s ability to meet its mission, improve performance, and ‘minimize operational problems.’

“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.”

Our audit of the Gateway School District’s (District) nonresident pupil membership for the 2009-10 school year found errors in reports submitted to PDE. These errors resulted in an underpayment of \$48,344 in Commonwealth-paid tuition for children placed in private homes (foster children).

The District’s membership data for nonresident children placed in private homes was understated by 754 days for elementary students and by 124 days for secondary students. The District incorrectly reported these days as resident pupil membership days.

The errors were caused by District personnel incorrectly reporting the “District Code of Residence” for these students in the Pennsylvania Information Management Systems (PIMS). District personnel responsible for entering student data into the PIMS system were not familiar with the PIMS residency code reporting guidelines.

It is the responsibility of District management to have the appropriate policies and procedures in place to ensure that student data collected and submitted to PIMS is accurate. Without the proper internal controls, the District risks inaccurate data reporting, and the resulting forfeiture of state subsidy.

We have provided PDE with reports detailing the nonresident membership errors for use in recalculating the District’s tuition for foster children.

The *Gateway School District* should:

1. Review the PIMS manual of reporting for instructions on the proper reporting of nonresident students.
2. Review membership reports submitted to PDE for years subsequent to the audit, and if similar errors are found, submit revised reports to PDE.

Recommendations

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to correct the reimbursement underpayment of \$48,344.

Management Response

Management stated the following:

“The Gateway School District recognizes and agrees with the auditor’s findings that non-resident membership was understated for the 2009-2010 school year as a result of District personnel responsible for entering student data into PIMS not being familiar with residency code reporting guidelines. The District will review the PIMS manual for reporting non-resident students with the District personnel responsible for reporting the final report before signing off for submission.”

Auditor Conclusion

We are pleased that the District has taken steps to address the deficiencies in its student data reporting process. We will review the new internal controls during our next audit.

Observation

The District Lacks Sufficient Internal Controls 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 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 Gateway School District's (District) controls over data integrity found that internal controls need to be improved. Specifically, our review found that:

1. The District's child accounting staff failed to perform reconciliations between the District's student information system (SIS) software data and the PIMS reports. As a result, the SIS membership reports and the PIMS reports were not in agreement.
2. Our testing of school calendar facts found that the District did not report the correct days in session for any of the District's schools. Our audit determined the correct days in session for the various schools and recalculated membership reports using the correct days in session.

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.

3. District personnel did not properly code nonresident students. As a result, nonresident students were uploaded to the PIMS as resident students and the District did not receive the correct state reimbursement for tuition for children placed in private homes (see Finding No. 2).
4. The District does not have adequate documented procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel.

As stated in Finding No. 2, it is the responsibility of District management to have the appropriate policies and procedures in place to ensure that student data collected and submitted to PIMS is accurate. Without the proper internal controls, the District risks inaccurate data reporting, and the resulting forfeiture of state subsidy.

Recommendations

The *Gateway School District* should:

1. Print out SIS membership reports and PIMS reports after the PIMS upload is completed for that school year and perform reconciliations between the District's child accounting software data and the PIMS reports, and retain them for our audit purposes.
2. Review calendar fact templates for accuracy to ensure that they reflect the correct days in session.
3. Review procedures for properly coding SIS software relating to nonresident students and ensure nonresidents are correctly uploaded to PIMS.
4. Develop documented procedures (e.g. procedure manuals, policies or other written instructions) to ensure continuity over PIMS data submission if those involved persons were to leave the LEA suddenly or otherwise be unable to upload PIMS data to PDE.

Management Response

Management stated the following:

“The Gateway School District recognizes and agrees with the auditor’s findings that internal controls related to PIMS reporting need refined and applied. Specifically, District personnel responsible for Child Accounting require

ongoing professional development on the use of Validation Reports, reconciliation of SIS Vendor Membership reporting Child Accounting application of Act 80 [noninstructional] days as they relate to student membership, CTC [career and technology center] Membership [and] 1305 [foster student] Membership. The District will devise a procedural manual that includes accurate and clear instructions for uploading, reconciling and reporting.”

Status of Prior Audit Findings and Observations

Our prior audit of the Gateway School District resulted in no findings or observations.

Distribution List

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

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

The Honorable Carolyn Dumaresq
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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 this 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.