



**NORTH EAST SCHOOL DISTRICT
ERIE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

FEBRUARY 2014

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. Kerry Corbin, Board President
North East School District
50 Division Street
North East, Pennsylvania 16428

Dear Governor Corbett and Mr. Corbin:

We conducted a performance audit of the North East 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 June 24, 2011 through August 16, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the District complied, in all significant respects, with relevant requirements, 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

February 11, 2014

cc: **NORTH EAST 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 North East School District (District) in Erie 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 June 24, 2011 through August 16, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2010-11 and 2011-12 school years.

District Background

The District encompasses approximately 50 square miles. According to 2010 federal census data, it serves a resident population of 10,609. According to District officials, the District provided basic educational services to 1,658 pupils through the employment of 104 teachers, 101 full-time and part-time support personnel, and nine (9) administrators during the 2011-12 school year. The District received \$11,812,743 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: The North East School District Lacks Sufficient Internal Controls Over Its Student Record Data.

Our review of the North East School District's (District) 2011-12 school year student data reporting controls found that internal controls over data integrity need to be improved. Although the reporting errors found resulted in an insignificant underpayment to the District, the lack of appropriate review procedures exposes the District to data reporting issues in the future (see page 5).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the North East School District (District) from an audit released on November 9, 2011, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to the reporting of pupil transportation data (see page 8). However, the District did not implement our recommendations pertaining to the reporting of child accounting data to PDE as stated in the finding in this report (see page 9).

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 June 24, 2011 through August 16, 2013, except for the verification of professional employee certification which was performed for period June 24, 2011 through July 5, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 school years.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education (PDE) reporting guidelines, we use the term *school year* rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ 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 current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ 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.

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

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.

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 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, 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.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 9, 2011, we reviewed the District's response to PDE dated March 21, 2013. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

The North East School District Lacks Sufficient Internal Controls Over Its Student Record Data

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 *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage individual student data for each student served by Pennsylvania's Pre-K through Grade Twelve (12) public education systems.

PDE began calculating the LEA's state subsidy using the data that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our review of the North East School District (District) 2011-12 school year controls over data integrity found that internal controls need to be improved. Specifically, we found:

1. The District does not have adequate procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in child accounting data vendors.
2. Data input into the PIMS system is not reviewed for consistency and accuracy by someone other than the person who does the data input.
3. The District does not have anyone cross-trained to take over for the staff member who handles PIMS responsibilities in the event of a change in personnel.

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.

4. The District incorrectly reported two (2) non-resident students who were court-placed foster children. One (1) student was reported as a resident student, and the second student was reported twice, once correctly as a foster student and once incorrectly as a resident student.

The reporting errors resulted in an insignificant underpayment to the District. However, the District's lack of having appropriate review procedures in place opens the District up to the possibility of having continuing child accounting data reporting issues in the future.

It should be noted that these reporting issues could have been avoided if the District had taken advantage of the opportunity to correct reported child accounting data that is provided by PDE. In April of each school year, PDE provides the District with a preliminary Summary of Child Accounting report that should be reviewed by District personnel to verify that the data that was reported was accurate and if not, corrections to data can be made prior the PDE finalizing the District's end-of-year child accounting data submissions.

Recommendations

The *North East School District* should:

1. Prepare documented procedures (e.g. procedure manuals, policies, written instructions, etc.) to ensure continuity over PIMS data submission.
2. Cross-train individual(s) to familiarize them with PDE's child accounting reporting requirements and PIMS reporting procedures in the event of a sudden personnel change.
3. Establish a system of managerial review of data before submission to PDE.
4. Strengthen internal controls to ensure adherence to PDE regulations when reporting court-placed foster home students.
5. Perform a detailed review of PDE's Preliminary Summary of Child Accounting report to ensure accurate reporting of pupils.

6. Review membership reports submitted to PDE for school years subsequent to the audit, and if reporting errors are found, contact PIMS help desk for guidance in changing coding and submit revised reports to PDE.

Management Response

Management stated the following:

“Management agrees with this Finding and is in the process of implementing a Data Quality Council to ensure student data is entered and submitted correctly.”

Auditor Conclusion

We are encouraged that the District is in the process of implementing internal controls over student data records. We will follow up on this issue during our next cyclical audit.

Status of Prior Audit Findings and Observations

Our prior audit of the North East School District (District) released on November 9, 2011, resulted in two (2) findings. The first finding pertained to the reporting of pupil transportation data, and the second finding pertained to errors in the reporting of child accounting data. 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 findings. As shown below, we found that the District did implement our recommendations related to pupil transportation but had continuing errors in the reporting of child accounting data.

Auditor General Performance Audit Report Released on November 9, 2011

**Finding No. 1: Errors in Reporting Data and Internal Control Weaknesses
Regarding Pupil Transportation**

Finding Summary: Our prior audit of pupil transportation records and reports submitted to the Pennsylvania Department of Education (PDE) found that the North East School District (District) incorrectly reported the greatest number of pupils transported for several buses, the number of non-reimbursable students transported and number of miles with and without pupils for three (3) buses. In addition, the District did not report the cost of buses purchased out of the Capital Reserve Fund.

Recommendations: Our audit finding recommended that the District should:

1. Conduct an internal review to ensure daily mileage, pupil counts, and transportation costs are accurately reported to PDE.
2. Ensure District personnel are familiar with transportation guidelines and instructions.

We also recommended that PDE should:

3. Adjust the District's allocations to resolve the net underpayment of \$47,949.

Current Status: During our current audit, we found that the District did implement our recommendations regarding transportation. There were no discrepancies in this audit. As of August 21, 2013, PDE has not adjusted the District's allocations.

Finding No. 2: Final Child Accounting Summary Reports Did Not Reflect Membership Days for Children Placed in Private Homes, Resulting in an Underpayment of \$41,183

Finding Summary: During our prior audit of the 2009-10 school year non-resident membership records, we found that PDE final membership reports did not reflect the membership days for the District's children placed in private homes (foster students).

Recommendations: Our audit finding recommended that the District should:

1. Contact the PIMS help desk at PDE for guidance in changing the coding for the non-resident children placed in private homes.

We also recommended that PDE should:

2. Adjust the District's reimbursement to correct the underpayment to the District.

Current Status: During our current audit, we found that the District did not implement our recommendation. For the 2010-11 school year, the District correctly reported the non-resident children placed in private homes (foster students). However, for the 2011-12 school year, the District incorrectly reported two (2) non-resident children placed in private homes (foster students), see the finding (page 5) in current audit report.

On August 26, 2011, PDE adjusted the District's allocations.

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
Acting Secretary of Education
1010 Harristown Building #2
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The Honorable Robert M. McCord
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