



**ROCHESTER AREA SCHOOL DISTRICT
BEAVER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

DECEMBER 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

Mrs. Marian Acon, Board President
Rochester Area School District
540 Reno Street
Rochester, Pennsylvania 15074

Dear Governor Corbett and Mrs. Acon:

We conducted a performance audit of the Rochester Area 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 May 25, 2010 through March 27, 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 relevant requirements, except as detailed in one (1) finding noted in this report. In addition, we identified one (1) 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.

In June 2012, the Pennsylvania Department of the Auditor General (Department) initiated a special audit of the details surrounding the former Superintendent for the District's premature separation from employment with the District on June 11, 2012. This performance audit covered the period September 15, 2011 through March 27, 2013, and 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. This performance audit was separate and distinct from the District's cyclical performance audit, which was conducted simultaneously and the results of which are described in the following pages of the audit report. The Department conducts its cyclical performance audits approximately every two years.

The objectives for this audit were as follows:

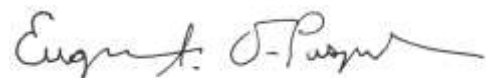
- ✓ Did employment contracts with the former Superintendent or other administration officials contain adequate separation provisions sufficient to protect the interests of the local education agency (LEA), its students, and its taxpayers in the event the employment of the administrators ends prematurely for any reason?

- ✓ Did the LEA provide as much information as possible to its taxpayers explaining the reasons for the former Superintendent's separation and justifying the expenditure of funds by or through the LEA in order to terminate the contract early?
- ✓ Did the LEA enter into employment contracts with the former Superintendent at the three-year minimum provided by state law in order to limit potential financial liability by the LEA and its taxpayers in the event financial liability was not adequately limited through contract provisions?
- ✓ To the greatest degree possible, what is the total financial cost of the former Superintendent or other administration officials' early contract termination, including funds received by the LEA from private individuals or other entities to facilitate the buy-out?
- ✓ Was the separation agreement transparent and without confidentiality clauses so taxpayers are aware of why the termination occurred?

Our audit found that the District complied, in all significant respects, with relevant requirements, except as detailed in Finding No. 1 noted in this report. 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. We appreciate the District's cooperation during the conduct of the audit.

Sincerely,



EUGENE A. DEPASQUALE
Auditor General

December 3, 2013

cc: **ROCHESTER AREA 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 Rochester Area School District (District) in Beaver 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.

Our audit scope covered the period May 25, 2010 through March 27, 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 five (5) square miles. According to 2010 federal census data, it serves a resident population of 7,046. According to District officials, the District provided basic educational services to 859 pupils through the employment of 79 teachers, 63 full-time and part-time support personnel, and six (6) administrators during the 2009-10 school year. Lastly, the District received \$8,200,181 in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our cyclical audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements), except for one (1) compliance related matter reported as a finding. In addition, we identified one (1) matter unrelated to compliance that is reported as an observation. Our special audit found that the District complied, in all significant respects, with relevant requirements, except as detailed in Finding No. 1 noted in this report.

Finding No. 1: The District Spent \$146,328 on an Agreement that Prematurely Terminated Its Former Superintendent's Employment. On June 11, 2012, the Rochester Area School District's Board of School Directors (Board) approved an Agreement and General Release of All Claims (Agreement) under which its former Superintendent would retire/resign her position. Our review found the premature termination of the former Superintendent's contract and the Board's acceptance of the severance Agreement cost the taxpayers \$146,328 (see page 6).

Finding No. 2: Violation of Public School Code and a Possible Conflict of Interest. Our audit found that prior to being elected to the Board of School Directors (Board) of the Rochester Area School District, one (1) Board Member's business was awarded a contract in the amount of \$354,636 for alterations to the indoor swimming pool at the Rochester Area High School. In addition, while serving his term of office he

voted to pay his company for work completed (see page 11).

Observation: The Rochester Area School District Lacks Sufficient Internal Controls Over Its Student Record Data.

Our review of the Rochester Area School District's (District) data integrity for the 2009-10 school year found that the District failed to maintain adequate documentation of student registrations and changes made to the original student membership data that was uploaded to the Pennsylvania Department of Education's Pennsylvania Information Management System. In addition, the District does not have adequate procedures in place to ensure continuity over data submissions in the event of a sudden change in personnel or child accounting vendors (see page 14).

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 May 25, 2010, through March 27, 2013, except for the verification of professional employee certification which was performed for the period April 20, 2010 through September 6, 2012.

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 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?
- ✓ 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?
- ✓ 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 declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

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.

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 requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of

our audit and determined to be significant within the context of our audit objectives are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies and reimbursement, 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.

Findings and Observations

Finding No. 1

The District Spent \$146,328 on an Agreement that Prematurely Terminated Its Former Superintendent's Employment

Criteria relevant to the finding:

Subsection (a) of Section 1073 (relating to Manner of election or approval) of the Public School Code of 1949 (PSC), 24 P.S. § 10-1073(a), provides, in part:

“[T]he school board shall elect or approve a properly qualified district superintendent to enter into a contract to serve a term of from three to five years from the first day of July next following his election or from a time mutually agreed upon by the duly elected district superintendent and the board of school directors.”

Note: Acts 82 and 141 of 2012 amended state law relevant to this issue effective November 10, 2012. This finding is based on the law in effect at the time of the events.

Section 508 (relating to Majority vote required; recording) of the PSC, 24 P.S. § 5-508, provides, in part:

“The affirmative vote of a majority of all the members of the board of school directors in every school district, duly recorded, showing how each member voted, shall be required in order to take action on the following subjects:--

Fixing salaries or compensation of officers, teachers, or other appointees of the board of school directors.”

Our audit of the Rochester Area School District (District) found that its Board of School Directors (Board) spent \$146,328 to remove its District's Superintendent (former Superintendent) from office. Ultimately, the District incurred these costs because the contract between the two (2) parties did not include adequate and prudent termination provisions.

On May 23, 2011, the District's Board entered into an employment agreement (Contract), which was a re-employment agreement, with the Superintendent to serve another term. The Contract had a term of three (3) years, from September 15, 2011 until September 14, 2014. The Contract provided compensation to the former Superintendent of \$110,604 in the first year, with a 3.25 percent increase each year for the term of the contract, as well as a variety of benefits. The District had a previous contract with the same former Superintendent for the period September 15, 2008 through September 14, 2011.

Neither contract included adequate and prudent provisions regarding the former Superintendent's termination or separation of employment from the District, except that both Contracts provided:

“Throughout the term of this Contract the Superintendent shall be subject to discharge for cause as provided under the provisions of the Public School Code and the School Laws of the Commonwealth of Pennsylvania. In addition, the Superintendent shall fulfill all aspects of this, her contract. Failure to fulfill the obligations agreed to herein shall be a violation of the Contract and will constitute neglect of duty and cause for discharge as contained herein.”

During its March 12, 2012 meeting, the Board placed the former Superintendent on administrative leave from that date until April 10, 2012, with full pay and benefits. The Board also authorized the District's special counsel for personnel to conduct a preliminary investigation of employee conduct, at a rate of \$175 per hour. At the Board's April 9, 2012 meeting, it extended the Superintendent's administrative leave until April 24, 2012. Finally, on April 23, 2012, the Board approved the suspension of the former Superintendent without pay or benefits, pending further investigation.

On June 11, 2012, the Board accepted the former Superintendent's request for retirement, effective April 24, 2012. Although the motion did not specifically address provisions of the Superintendent's Contract, the former Superintendent's formal retirement letter included an "Agreement and General Release of All Claims" (Agreement). The Agreement between the former Superintendent and the District stated that the District "undertook certain proceedings pursuant to Local Agency Law, to terminate [the former Superintendent's] employment as Superintendent of the District" and that "the parties hereto desire the amicable global resolution of all issues arising out of the proceedings."

The Agreement included the following provisions:

1. **Release of Claims:** . . . Any claims for payments of any nature, including, but not limited to, wages, overtime pay, vacation pay, severance pay, commissions, bonuses and benefits, but not including any claims for considerations being provided pursuant to Paragraph 3 of this Agreement . . .
2. **Withdrawal of Charges:** [The District] agrees and acknowledges that with the execution of this Agreement, the General Release of All Claims, and resignation of [the former Superintendent], the [District] will withdraw charges and terminate proceedings currently pending before the District's Board and that the factual basis for the charges will not be publicized or disseminated in any manner.

3. **Consideration:**

- a. *The District shall pay to [the former Superintendent] the sum of \$50,000, which constitutes all salaries and/or wages owed to her.*
- b. *The District shall pay [the former Superintendent's] COBRA Health Benefits for a period of eighteen (18) months under the present health care plan. If [the former Superintendent] secures health benefits from some other source within said eighteen (18) month period she will notify the District, at which time, the District will cease paying for said benefits . . .*

5. **Attorney Review:** *[The former Superintendent] further certifies that she is executing this Settlement Agreement and Release with the intention of releasing all claims or potential claims that she has asserted or could have asserted against the Release in any way relating to or arising from her employment by the District through the date of her execution of this Settlement Agreement and Release in exchange for the consideration described herein. . . .*

7. **Integration Clause:** *This Agreement and Release contains the entire agreement between the parties hereto and there are not oral or written understandings or agreements, directly or indirectly, connected with this Agreement that is not incorporated herein . . .”*

We noted on the District’s *Year-to-Date Vendor Report* that the \$50,000 payment to the former Superintendent was dated May 30, 2012, and was processed prior to the Board’s formal approval of the Agreement. In addition, we calculated that the total cost of the former Superintendent’s health benefits for the 18-month period outlined under the Agreement was \$10,106.

On March 12, 2012, the Board approved the hiring of a temporary Acting Superintendent at a salary of \$300/day. The Acting Superintendent worked from March 12, 2012 through February 28, 2013. Her total earnings equaled

\$60,750. However, there were no benefits associated with the appointment.

Lastly, on April 9, 2012, the Board authorized payment to the Special Counsel to conclude the investigation and prepare an initial list of counsel fees, paralegal fees, and expenses. The total amount paid to the Special Counsel was \$25,472.

The total cost of the Board's decision to accept the former Superintendent's retirement and approve the Agreement was \$146,328. The costs breakdown is as follows:

Payment to Former Superintendent	\$ 50,000
Health Benefits	10,106
Acting Superintendent Salary	60,750
Legal Costs	<u>25,472</u>
Total:	<u>\$146,328</u>

This amount represents one (1) percent of the District's \$13.3 million in total expenditures for the 2011-12 school year. This is a significant amount of taxpayer money that could have been spent toward other areas, such as educating the District's students. In addition, it is particularly concerning that the \$50,000 payment was made to the former Superintendent prior to the Board's formal approval of the Agreement. Making such a payment without the Board's public approval of the compensation is a violation of Section 508 of the PSC, which indicates that an affirmative vote of the majority of the Board of School Directors must be recorded on matters dealing with the compensation of officers.

Furthermore, these costs may have been averted or significantly reduced if the District's original Contract with the former Superintendent had included adequate and prudent termination provisions, including provisions specific to compensation and benefits payable upon premature termination. The time to negotiate those terms is at the outset of the employment relationship or when the employment contract renewed, not when matters turn potentially hostile between the parties.

Recommendations

The Rochester Area School District Board of School Directors should:

1. Ensure that all future employment contracts with prospective administrators contain adequate and prudent termination provisions sufficient to protect the interests of the District and its taxpayers in the event that the employment ends prematurely for any reason.
2. Ensure that no salary or compensation payments are made to employees without first recording of an affirmative vote of a majority of the Board of School Directors.
3. Document in the official board meeting minutes, in detail, why the District chooses to expend large amounts of public taxpayer money on ending an administrator contract.

Management Response

Management waived the opportunity to respond to the finding at the time of the audit.

Finding No. 2

Violation of the Public School Code and a Possible Conflict of Interest

Criteria relevant to the finding:

Subsection (c) of Section 324 (relating to Not to be employed by or do business with district; exceptions) of the Public School Code of 1949 (PSC), 24 P.S. § 3-324(c), provides:

“It shall not be a violation . . . for a school district to contract for the purchase of goods and services from a business with which a school director is associated to the extent permitted by and in compliance with 65 Pa.C.S. Ch. 11 (relating to ethics standards and financial disclosure).”

Section 1102 (relating to Definitions) of the Public Official and Employee Ethics Act (Ethics Act), 65 Pa.C.S. § 1102, defines “conflict” or “conflict of interest” in part, as:

“Use by a public official or public employee of the authority of his office or employment or any confidential information received through his holding public office or employment for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or a member of his immediate family is associated.”

During our current audit of the Rochester Area School District (District), we determined that on April 27, 2009, the District’s Board of School Directors (Board) awarded a \$354,636 contract for renovations to the Rochester Area High School’s indoor swimming pool (Natatorium). The company that submitted the lowest qualifying bid and was awarded the contract is owned by an individual who subsequently became a District Board Member on May 19, 2009.

Our review of the Statements of Financial Interests required to be on file by the Public Official and Employee Ethics Act (Ethics Act) at the District for the 2009 calendar year found that the Board Member was chairman of the company and had a 51 percent ownership interest in the business. His son owned the other 49 percent.

The Board Member won a successful write-in campaign on May 19, 2009, for a vacant position on the Board and was elected to the position on November 16, 2009. He was sworn into office on December 7, 2009. This individual had previously served as a District Board Member.

Following his election to the Board, this member participated in Board actions that violated the Ethics Act as it pertains to prohibitions on conflicts of interest.

- ✓ On January 25, 2010, the Board Member made a motion to approve the payment of bills, which included payments totaling \$106,616 to his company for work on the Natatorium.
- ✓ On May 24, 2010, the Board Member was elected as the District’s Board Treasurer. As Board Treasurer, his signature is one of three signatures needed on the District’s checks. This is a potential conflict of interest, given that such checks could be used to pay bills going to Board Treasurer’s company.
- ✓ After being elected to the position of Board Treasurer, the Board Member continued to participate in the Board’s approval of payments to his company.

Criteria relevant to the finding:

Section (a) of Section 1103 (relating to Restricted activities) of the Ethics Act, 65 Pa.C.S. § 1103(a), provides:

“No public official shall engage in conduct that constitutes a conflict of interest.”

Subsection (j) of Section 1103 of the Ethics Act, 65 Pa.C.S. § 1103(j), provides, in part:

“Voting Conflict - . . . Any public official . . . who in the discharge of his official duties would be required to vote on a matter that would result in a conflict of interest shall abstain from voting and, prior to the vote being taken, publicly announce and disclose the nature of his interest as a public record in a written memorandum filed with the person responsible for recording the minutes of the meeting at which the vote is taken. . . .”

- ✓ Between August 2010 and June 2011, the Board Member who also served as the Board Treasurer voted to pay or made a motion to pay bills to his company totaling an additional \$51,525. Again, this is a potential conflict of interest, given that such checks could be used to pay bills going to the Board Member/Treasurer’s company.

In addition, the original work on the Natatorium was to be substantially completed within 60 days of the start of the renovations, and the contract schedule showed a final completion date of July 2, 2009. However, we noted that the final payment for all work completed was made on September 27, 2010, over a year beyond the date provided for in the contract’s schedule.

Furthermore, District records showed approvals for revisions (change orders) to the original contract. These four change orders totaled \$56,375 and were dated between August 24, 2009 and November 9, 2009. The Board Member signed two of the original change orders dated August 24, 2009 and October 26, 2009, and the other change orders were signed by his son on November 3, 2009. The Board Member’s son was also listed on the project bid documents as president of the company. Although the Board approved three of the four change orders before the Board Member took office, one was approved after he took office.

Finally, our audit also found that the Board Member, both as a candidate in the 2008 calendar year and later as a Board Member, failed to file his Statement of Financial Interests with the District, as required by the Ethics Act and District Board Policy. Additionally, the Board Member failed to file a Statement of Financial Interests for the 2011 calendar year. The Ethics Act specifically requires public officials to disclose matters on the Statement of Financial Interests that currently or potentially create conflicts of interest with their public duties.¹

¹Section 1105(b)(5) of the Ethics Act, 65 Pa.C.S. § 1105(b)(5), requires that Statements of Financial Interests include “[t]he name and address of any direct or indirect source of income totaling in the aggregate of \$1,300 or more.”

Criteria relevant to the finding:

Public office is a public trust sustained by assuring the people of the impartiality and honesty of public officials and public employees. Accordingly, the Ethics Act requires all candidates for public office, public officials, and certain employees to complete a Statement of Financial Interests for the preceding calendar year annually, no later than May 1st of each year they hold their positions and of the year leaving such positions. *See* 65 Pa.C.S. §§ 1104-1105.

Rochester Area School District Board Policy –004, Section 2:

“Each member of the Board shall meet the following qualifications: . . .

c. Shall not be engaged in a business transaction with the school district, be employed by the school district, or receive pay for services from the school district, except as provided by law. . .

e. Shall file a statement of financial interests with the State Ethics Commission before taking the oath of office or entering upon his/her duties.”

The Board Member abruptly resigned from the Board on September 12, 2011. At the very least, while he was a member of the Board, he should have recused himself from voting on any Board actions related to his company’s work for the District. In particular, he should not have voted to approve the payment of any bills or revisions to the existing contract. In doing so, he violated the Public School Code and the Ethics Act. Likewise, failing to submit his Statement of Financial Interest for all of the necessary years increases the likelihood that no one at the District, or in the public, knew about this potential conflict of interest.

A copy of this finding will be forwarded to the State Ethics Commission for its determination whether a conflict of interest existed and for additional review and investigation, as it deems necessary.

Recommendations

The *Rochester Area School District* should:

1. In conjunction with its solicitor and the State Ethics Commission’s determination, require District administrative personnel to put procedures in place to ensure that Board Members’ actions are in compliance with the Public School Code, the Ethics Act, and the District’s Board Policy.
2. Establish procedures for ensuring that the District properly scrutinizes all contracts to ensure that it is aware of any potential conflicts of interest.
3. Develop and implement necessary procedures to ensure that Statements of Financial Interests are received timely and are properly completed to ensure full disclosure.

Management Response

Management waived the opportunity to respond to the finding at the time of the audit.

Observation

The Rochester Area School District Lacks Sufficient Internal Controls Over Its Student Record Data

Criteria relevant to the observation:

According to the Department of Education's (PDE) *2009-10 Pennsylvania Information Management Systems (PIMS) User Manual*, all Pennsylvania local education agencies (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:

- 1) District Code of Residence;
- 2) Funding District Code;
- 3) Residence Status Code; and
- 4) 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.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives through 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 data that the 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 ensure that they have strong internal controls to mitigate these risks to their data's integrity. Moreover, with a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our review of the Rochester Area School District's (District) controls over data integrity for the 2009-10 school year found that its internal controls needed to be improved. Specifically, our review found that:

- The District failed to maintain adequate evidence of manual compensating controls (i.e., supporting documentation) to support its student registrations and the changes it made to its student information system after it originally uploaded its student data into PIMS.
- The District does not have adequate written procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or student information system vendor.

It is the responsibility of District management to ensure that proper internal controls are not only in place, but being utilized and working properly. Without assurance that the internal policies and procedures that have been put into place are effective, the District cannot realize the benefit of the internal controls.

Recommendations

The *Rochester Area School District* should:

1. Establish written procedures for maintaining adequate evidence of manual compensating controls (i.e., supporting documentation) to support its student data and any changes that were made after the student data was originally uploaded into PIMS.
2. Conduct annual reconciliations between the District's original student registrations and the data input into the District's student information system to ensure accuracy, completeness, and validity.
3. Adopt adequate written procedures to ensure continuity over the District's PIMS data submission in the event of a sudden change in personnel or the student information system vendor.
4. Conduct periodic reviews of the District's internal controls over its student data, including testing to see whether District staff are properly following its established procedures.

Management Response

Management waived the opportunity to respond to the observation at the time of the audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Rochester Area 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:

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Harrisburg, PA 17120

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