



**ANNVILLE-CLEONA SCHOOL DISTRICT
LEBANON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

MAY 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. Gordon Waldhausen, Board President
Annville-Cleona School District
520 South White Oak Street
Annville, Pennsylvania 17003

Dear Governor Corbett and Mr. Waldhausen:

We conducted a performance audit of the Annville-Cleona 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 18, 2010 through September 3, 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, 2009, 2010, 2011, and 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.

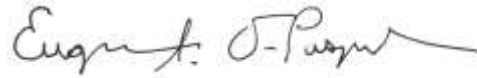
Our audit found that the District complied, in all significant respects, with relevant requirements, except as detailed in one (1) finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

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.

On July 9, 2013, the Department of the Auditor General (Department) initiated a special audit of the details surrounding the resignation of the District's former Superintendent, who resigned from her position effective January 29, 2010. This performance audit covered the period July 1, 2008 through September 3, 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 following pages of the audit report.

The Department's special audit of the former Superintendent's departure found that the District complied, in all significant respects, with relevant requirements related to our specific audit objectives.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

May 8, 2014

cc: **ANNVILLE-CLEONA 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 Annville-Cleona School District (District) in Lebanon 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 18, 2010 through September 3, 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 2008-09, 2009-10, 2010-11, and 2011-12 school years.

District Background

The District encompasses approximately 40 square miles. According to 2010 federal census data, it serves a resident population of 12,089. According to District officials, the District provided basic educational services to 1,495 pupils through the employment of 109 teachers, 51 full-time and part-time support personnel, and eleven (11) administrators during the 2011-12 school year. The District received \$6.8 million 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: Internal Control Weaknesses Regarding the Reporting of Pupil

Membership Data. During our audit of the Annville-Cleona School District (District) for the 2009-10, 2010-11, and 2011-12 school years, District personnel were unable to reconcile pupil membership detail reports from their student information system to the Final Summary of Child Accounting Membership and Final Instructional Time and Membership Reports in the Pennsylvania Information Management System. Our review of the reports that were provided found unexplained discrepancies with the data reported to the Pennsylvania Department of Education. Therefore, the District's membership data could not be audited, and no audit adjustments could be made to the District's reported membership because of the questionable accuracy of the resident and non-resident membership data (see page 6).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the Annville-Cleona School District (District) from an audit released on January 23, 2012, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to the deficit (see page 9) and Memorandums of Understanding (see page 11). The District had partially taken corrective action regarding their information technology controls (see page 10).

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 18, 2010 through September 3, 2013, except for the verification of professional employee certification, which was performed for the period June 18, 2010 through July 25, 2013.

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

- ✓ 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?
- ✓ 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 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 requirements, and administrative procedures (relevant

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). 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 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.

To determine the status of our audit recommendations made in a prior audit report released on January 23, 2012, we reviewed the District's response to PDE dated May 21, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Internal Control Weaknesses Regarding the Reporting of Pupil Membership 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 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.

During our audit of the Annville-Cleona School District (District), District personnel were unable to reconcile pupil membership detail reports for the 2009-10, 2010-11, and 2011-12 school years from their student information system to the final Summary of Child Accounting Membership and final Instructional Time and Membership Reports in PIMS. Our review of the reports that were provided found discrepancies that the District could not reconcile with the data reported to PDE. Therefore, the District's pupil membership data could not be audited, and no audit adjustments could be made to the District's reported membership because of the questionable accuracy of the resident and nonresident membership data.

Internal controls are the responsibility of management. The District noted that they did not perform any reconciliations to ensure that the data in PIMS was accurate and in agreement with their own pupil membership software. The District also noted that turnover in staff and the implementation of the new PIMS reporting process

Additionally, according to the *Federal Information Systems Control 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.

contributed to not being able to reconcile the membership data. Failing to maintain proper internal control procedures over the District's pupil membership data increases the chances that the District could receive an incorrect amount of state funding.

Recommendations

The *Annville-Cleona School District* should:

1. Develop and implement written procedures for collecting and maintaining membership data.
2. Develop and implement procedures to reconcile student detail reports to final PIMS reports.
3. Ensure that all membership days are properly reported under the correct classifications.
4. Review years subsequent to our audit and ensure data from the District is reconciled to final PDE reports. If errors are found, the revisions should be submitted to PDE.

Management Response

Management stated the following:

“Cause: Limited framework for reconciliation between the membership days in the child accounting system and the PIMS system had previously been established.

Corrective Action: The District will establish a framework for reconciling the membership days between the child accounting software system and PIMS system after the membership days are uploaded to PIMS.

The District will reconcile the child accounting software system and PIMS system after every upload. This protocol will involve two internal controls.

Documentation for the entry and withdrawal protocol will be established for the child accounting software system. The District will ensure this protocol is followed for all entries and withdrawals.”

Auditor Conclusion

We are encouraged that the District agrees with our finding and has committed to putting in place internal controls over its student data reporting. We will follow up on this issue during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Annville-Cleona School District (District) released on January 23, 2012, resulted in one (1) finding and two (2) observations, as shown below. 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, performed audit procedures, and interviewed District personnel regarding the prior finding and observations. As shown below, we found that the District did implement the majority of our recommendations related to the finding and observations.

Auditor General Performance Audit Report Released on January 23, 2012

Finding: **General Fund Deficit of \$89,748 as of June 30, 2009**

Finding Summary: Our prior audit of the District's annual financial reports, independent auditor's report and general fund budgets found that, as of June 30, 2006, the District had maintained a \$2,399,302 surplus in its general fund. However, its deficit spending for the fiscal years after that date, fiscal years ended June 30, 2007, 2008 and 2009, found that its deficit spending resulted in a deficit fund balance. As of June 30, 2009, the District's general fund had a negative balance of \$89,748.

Recommendations: Our audit finding recommended that the District should:

1. Utilize monthly budget status reports to scrutinize proposed expenditures for current operations and limit expenditures to revenues available and the amounts appropriated to avoid future general fund deficits.
2. Prepare realistic budgets based on historical data and verifiable revenue projections.
3. Budget conservatively due to continued uncertainty surrounding both the Pennsylvania and national economics.

Current Status: During our current audit, we found that the District has taken proper corrective action to our recommendations and, as of June 30, 2012, had a \$2,547,477 fund balance.

Observation No. 1: Continued Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary: Our prior audit found that the District continued to use software purchased from an outside vendor, through the Carbon-Lehigh Intermediate Unit 21 (Intermediate Unit), for its critical student accounting applications (membership and attendance). Based on our prior audit, it was determined that a risk still existed that the vendor could make unauthorized changes to the District's data that might occur and not be detected. However, the District still had manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated.

Recommendations: Our audit observation recommended that the District should:

1. Ensure that the Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner. The information technology department should verify to administration when all changes have been completed.
3. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight (8) characters and include alpha, numeric, and special characters. In addition, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten (10) passwords). The District should also log users off the system after a shorter period of inactivity (i.e., 60 minutes maximum) than the current 120 minute period.
4. Only allow access to their system when the Intermediate Unit needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the Intermediate Unit has completed its work. This procedure would also enable the monitoring of the Intermediate Unit's changes.

Current Status: During our current audit, we found that the District has taken proper corrective action to address the Acceptable Use Policy, has removed terminated employees from the system timely, and has only allowed access when needed by the Intermediate Unit. The District has also implemented a maximum password length (182 days), minimum password characters five (5), and syntax requirements along with a

password history. We again recommend that the District review their security policies to strengthen the length of passwords as well as decrease the length of time passwords are required to be changed.

Observation No. 2: Memorandums of Understanding Not Updated Timely

Observation Summary: Our prior audit of the District's records found that the Memorandums of Understanding (MOU) with their local law enforcement agencies had not been updated in over two (2) years.

Recommendations: Our audit observation recommended that the District should:

1. In consultation with the solicitor, continue to review, update, and re-execute the current MOUs between the District and local law enforcement.
2. Adopt a policy requiring the administration to review, update, and re-execute the MOUs every two (2) years.
3. Contact the respective local law enforcement agencies to persuade them that it is imperative that an MOU is signed and provided to the District immediately.

Current Status: During our current audit, we found that the District has taken proper corrective action to address our recommendations. The District continues to review and re-execute MOUs. The District has developed procedures to ensure MOUs are updated in a timely manner.

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
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Commonwealth of Pennsylvania
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The Honorable Carolyn Dumaesq
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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 the 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.