



**PANTHER VALLEY SCHOOL DISTRICT  
CARBON 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. Jeff Markovich, Board President  
Panther Valley School District  
1 Panther Way  
Lansford, Pennsylvania 18232

Dear Governor Corbett and Mr. Markovich:

We conducted a performance audit of the Panther Valley 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 July 22, 2011 through September 25, 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. It is important to note that this finding has been a recurring finding at the District in our last four (4) audits. 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

May 15, 2014

cc: **PANTHER VALLEY SCHOOL DISTRICT** Board of School Directors

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Panther Valley School District (District) in Carbon 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 July 22, 2011 through September 25, 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 40 square miles. According to 2010 federal census data, it serves a resident population of 12,516. According to District officials, the District provided basic educational services to 1,750 pupils through the employment of 126 teachers, 84 full-time and part-time support personnel, and ten (10) administrators during the 2011-12 school year. The District received \$11.4 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: Continued Inadequate Documentation and Errors in Student Data Reporting Resulted in a Reimbursement Underpayment of \$67,299.**

Our audit of the Panther Valley School District's pupil membership reports submitted to the Pennsylvania Department of Education for the 2010-11 and 2011-12 school years found continued reporting errors, which resulted in a total reimbursement underpayment of \$67,299 (see page 5).

#### **Status of Prior Audit Findings and Observations.**

With regard to the status of our prior audit recommendations to the Panther Valley School District (District) from an audit released on January 26, 2012, we found that the District did implement our recommendations related to our findings regarding bus driver qualifications (see page 10) and conflicts of interest (see page 11) but did not implement our recommendations related to our finding regarding non-resident membership for children placed in private homes (see page 9).

## Audit Scope, Objectives, and Methodology

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### 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 22, 2011 through September 25, 2013, except for the verification of professional employee certification, which was performed for the period August 27, 2012 through June 10, 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 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 26, 2012, we reviewed the District's response to PDE dated September 22, 2011. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Continued Inadequate Documentation and Errors in Student Data Reporting Resulted in a Reimbursement Underpayment of \$67,299

*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 audit of the Panther Valley School District's (District) pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2010-11 and 2011-12 school years found continued reporting errors. District personnel did not maintain adequate documentation demonstrating the non-resident status of its children placed in private homes (foster children) and inaccurately reported the membership for these students. These errors resulted in underpayments of \$9,870 for the 2010-11 school year and \$57,429 for the 2011-12 school year. In total, these errors resulted in a reimbursement underpayment to the District of \$67,299.

It should be noted that this is our fourth consecutive audit of the District that has included a finding related to student data reporting errors. Our prior audit found that it inaccurately reported membership for the District's foster children to PDE, which resulted in a reimbursement



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.

overpayment of \$22,633 for the 2008-09 school year and an underpayment of \$86,229 for the 2009-10 school year.

District personnel understated membership days for foster children by 247 for secondary students during the 2010-11 school year. In addition, District personnel understated membership days for foster children by 242 for elementary students and 959 for secondary students during the 2011-12 school year.

These errors occurred because District personnel made clerical errors and inadvertently reported these students as resident membership, voiding the non-resident status of foster children. The errors had an insignificant effect on the District's basic education funding.

It is the responsibility of District management to have in place the proper internal policies and procedures to ensure that student data is accurate and reported correctly to PDE. Without such internal controls, the District cannot be assured that its student data is accurate or that it is receiving the appropriate state subsidy reimbursement.

We have provided PDE a report detailing the errors for use in recalculating the District's reimbursement.

### **Recommendations**

The *Panther Valley School District* should:

1. Review PDE instructions and compile the non-resident listing accordingly.
2. Review membership data thoroughly for residency classifications prior to submitting reports to PDE.
3. Review reports submitted subsequent to the years audited and submit revised reports to PDE, if errors are found.

The *Pennsylvania Department of Education* should:

4. Adjust the District's membership reports and reimburse the District \$67,299.

## Management Response

Management stated the following:

“Child Accounting Procedure: 1305 [*Pennsylvania Department of Education’s student enrollment code for children placed in private homes, such as foster children.*]

ALL students identified as 1305 MUST have placement letters within 30 days of registration. If you know student is 1305 from a previous year, you MUST get a placement letter within 30 days.

Once identified, in Powerschool:

1. PIMS Residence Status code must be labeled B 1305
2. Funding District code must be entered as the school district of the birth parents. *This should NOT be Panther Valley*

At the end of the year:

Child accounting secretary will verify that all 1305 students are correctly identified in powerschool with the tag of 1305 and the resident district of the birth parent.

Child accounting secretary will verify that all 1305 identified students have the appropriate placement letter.

After confirmation PIMS administrator will upload all child accounting templates.

Once uploads are complete district reports of all students will be run and non-resident status will be verified.

All students with placement letters will be verified on the above report. If not listed, changes to all templates must be made, uploaded and reconfirmed until all students are correct in PIMS.

All information will be reviewed by the business manager before the ACS is signed by the superintendent and submitted to PDE.”

### **Auditor Conclusion**

Although the District has put forth a detailed plan to address this deficiency, we are highly skeptical of its commitment to implement our recommendations. As mentioned previously, this is the fourth consecutive audit—covering seven (7) subsidy years—that included a student data reporting finding.

<b>School Year</b>	<b>Overpayment/ (Underpayment)</b>
2011-12	\$ (57,429)
2010-11	(9,870)
2009-10	(86,229)
2008-09	22,633
2007-08	14,042
2006-07	6,508
2005-06	13,372

We will again follow up on the status of our recommendations during the next cyclical audit of the District.

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Panther Valley School District (District) released on January 26, 2012, resulted in three (3) findings, 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 (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 our findings regarding bus driver qualifications and conflicts of interest but did not implement our recommendations related to our finding regarding non-resident membership for children placed in private homes.

### **Auditor General Performance Audit Report Released on January 26, 2012**

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**Finding No. 1: Continued Inadequate Documentation and Errors in Membership Reported for Children Placed in Private Homes (Foster Children) Resulted in Net Reimbursement Underpayment of \$63,596**

Finding Summary: Our prior audit of the District found that pupil membership reports submitted to PDE for the 2008-09 and 2009-10 school years found continued reporting errors. District personnel did not maintain adequate documentation demonstrating the non-resident status of its children placed in private homes (foster children) and inaccurately reported the membership for the students. These errors resulted in an overpayment of \$22,633 for the 2008-09 school year and an underpayment of \$86,229 for the 2009-10 school year. In total, these errors resulted in a net reimbursement underpayment of \$63,596.

Recommendations: Our audit finding recommended that the District should:

1. Review PDE instructions and compile the non-resident listing accordingly.
2. Review membership data thoroughly for residency classifications prior to submitting reports to PDE.
3. Review reports submitted subsequent to the years audited and submit revised reports to PDE, if errors were found.
4. Maintain placement letters for all children placed in private homes (foster children) for audit.

We also recommended that PDE should:

5. Adjust the District's membership report and reimburse the District \$63,596.

Current Status: During our current audit, we found that the District did not implement our prior recommendations. Please refer to our follow-up finding in the current report (see page 5). Also, PDE has not adjusted the District's allocations. Again, we recommend that PDE adjust the District's membership report and resolve the \$63,596 underpayment.

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**Finding No. 2: Continued Inadequate Transportation Procedures Regarding Bus Drivers' Qualifications**

Finding Summary: Our prior audit of the District's bus driver qualifications for the 2010-11 school year found continued inadequate procedures were used to obtain all required qualifications. This deficiency was also reported in the audit report prior to the period covering the 2010-11 school year.

Recommendations: Our audit finding recommended that the District should:

1. Immediately obtain, from the contractor, the missing documentation referred to in our finding in order to ensure that drivers transporting students in the District possess proper qualifications.
2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
3. Maintain files, separate from the contractors, for all District drivers and work with the contractors to ensure that the District's files are up-to-date and complete.

Current Status: During our current audit, we found that the District did implement our prior recommendations. There were two (2) drivers involved in our prior finding. The first driver was suspended and never returned to drive for the District. The second driver received the necessary clearances in order return to work.

**Finding No. 3: Possible Conflict of Interest Transaction**

Finding Summary: Our prior audit of the District found a possible conflict of interest transaction. Specifically, it appeared that one (1) Board of School Directors member might have engaged in prohibited conduct and failed to file Statement of Financial Interests (SFI).

Recommendations: Our audit finding recommended that the District should:

1. Require that the District strengthen controls regarding the review process of the SFIs forms to help ensure detection of any potential conflicts of interest.
2. Strengthen controls to help ensure compliance with state laws regarding Board members conducting business with the District.

Current Status: During our current audit, we found that the District did implement our prior recommendations. No conflicts of interest occurred during our current review, and the board member in question is no longer a member of the District's Board of School Directors.

## **Distribution List**

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

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

The Honorable Carolyn Dumaesq  
Acting Secretary of Education  
1010 Harristown Building #2  
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The Honorable Robert M. McCord  
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This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://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](mailto:news@auditorgen.state.pa.us).