



**NORTH PENN SCHOOL DISTRICT  
MONTGOMERY COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**JUNE 2014**

**COMMONWEALTH OF PENNSYLVANIA**  
**EUGENE A. DEPASQUALE - AUDITOR GENERAL**  
**DEPARTMENT OF THE AUDITOR GENERAL**



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen

**EUGENE A. DePASQUALE**  
AUDITOR GENERAL

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

Mr. Vincent Sherpinsky, Board President  
North Penn School District  
401 East Hancock Street  
Lansdale, Pennsylvania 19446

Dear Governor Corbett and Mr. Sherpinsky:

We conducted a performance audit of the North Penn 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 April 27, 2010 through November 21, 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.

Sincerely,

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

EUGENE A. DEPASQUALE  
Auditor General

June 26, 2014

cc: **NORTH PENN 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 North Penn School District (District) in Montgomery 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 to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period April 27, 2010 through November 21, 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 43 square miles. According to 2010 federal census data, it serves a resident population of 98,257. According to District officials, the District provided basic educational services to 12,622 pupils through the employment of 952 teachers, 967 full-time and part-time support personnel, and 56 administrators during the 2011-12 school year. The District received \$32,424,849 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 District Lacks Sufficient Internal Controls Over Its Student Record Data.**

Our audit of the North Penn School District's (District) pupil student data reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10, 2010-11, and 2011-12 school years included errors, but the District failed to correct the reports with PDE. We noted that because the District does not retain supporting documentation for its student data reports (see page 6).

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

With regard to the status of our prior audit recommendations to the North Penn School District (District) from an audit released on January 3, 2013, we found the District had not taken appropriate corrective action in implementing our recommendations pertaining to non-resident membership reporting errors (see page 9) and errors in health services data reported (see page 10). We found that the District had taken appropriate corrective action in implementing our recommendations pertaining to the pay-out to the former Director of Business Administration (see page 11). With regards to our finding citing possible inaccurate reporting of retirement wages, the District is awaiting the Public School Employees' Retirement System's opinion on the matter, but had in the

meantime taken action to implementing our recommendations (see page 11). We also found that the District had taken appropriate action to implement our recommendations for observations regarding certain Memorandums of Understanding that were not updated timely (see page 12) and system access and logical access control weaknesses (see page 13).

## 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 April 27, 2010 through November 21, 2013, except for the verification of professional employee certification, which was performed for the period of the July 1, 2008 through August 5, 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?

- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g., Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District received transportation subsidies, was 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?
- ✓ 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

### *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 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 3, 2013, we reviewed the District's response to PDE dated April 18, 2013. We then performed additional audit procedures targeting the previously reported matters.



## Findings and Observations

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### Finding

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### The District Lacks Sufficient Internal Controls Over Its Student Record Data

*Criteria relevant to the finding:*

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

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.

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 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 North Penn School District's (District) controls over data integrity found that internal controls need to be improved.

District personnel in charge of child accounting and PIMS reporting did reconcile the PIMS final reports to their internal Student Information System (SIS) membership reports. However, they did not submit any error reports for our school years of audit (2009-10, 2010-11, and 2011-12), even though there were numerous differences in each year between the SIS and PIMS membership reports.

The District does not maintain adequate manual compensating controls (i.e. supporting documentation) to support many of its student registrations. We were therefore unable to audit the data and verify the District's reports. For this reason, along with the multiple errors on PIMS reports submitted to PDE, the data on the two (2) PIMS reports (Instructional Time Membership Report and

the Summary of Child Accounting) for the 2009-10, 2010-11, and 2011-12 school years were unreliable.

In addition, we were unable to verify the membership data on the reports submitted to PDE for the 2008-09 school year, prior to the implementation of PIMS.

Because of these deficiencies, we therefore could not verify the health services reimbursements and Commonwealth-paid tuition for students based on the District's student membership data. These payments, specifically for children placed in private homes (foster children), were the subjects of prior audit findings (see pages 9 and 10).

It is the responsibility of District management to have in place the proper internal policies and procedures to ensure that student data is accurate, is reported correctly to PDE, and is properly supported with auditable documentation. 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.

### **Recommendations**

The *North Penn School District* should:

1. Verify resident and non-resident membership throughout the year and retain proper documentation to support all membership.
2. Print out SIS membership reports and PIMS reports after the PIMS upload is completed and perform reconciliations between the District's child accounting software data and the PIMS reports, and retain all documentation for audit purposes.
3. Submit error reports when needed and retain them for future audits.
4. Develop documented procedures (e.g., procedure manuals, policies, or other written instructions) and cross-train individuals so they are familiar with PDE's child accounting reporting requirements and PIMS reporting procedures in the event of a sudden change in personnel.

## **Management Response**

Management stated the following:

“The District provided the revised PIMS reports on November 21, 2013 by email attachment. These had been provided to the Business Office on November 15, 2014. Other PIMS records were provided throughout the course of the audit. Since the District enters data directly into the student software system, the manuals registration/enrollment forms requested for the test are not available.”

## **Auditor Conclusion**

The “revised PIMS reports” referred to in management’s response was emailed on the last day of fieldwork for our audit. These revisions do not alter the fact that prior to our audit, numerous differences in each year between the SIS and PIMS membership reports had not been addressed by the District. Furthermore, since the District lacked the appropriate supporting documentation, we remain unable to verify the accuracy of the District’s reports.

The finding will remain as written.

## Status of Prior Audit Findings and Observations

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Our prior audit of the North Penn School District (District) released on January 3, 2013, resulted in four (4) findings 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 (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings and observations. As shown below, we found that the District implemented our recommendations related to our findings regarding a payout to the former Director of Business Administration and the reporting of retirement wages, as well as our observations related to untimely Memorandums of Understanding and logical access controls. The District did not implement our recommendations related to non-resident membership reporting errors and errors in health services reimbursement data.

### Auditor General Performance Audit Report Released on January 3, 2013

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**Finding No. 1: Non-resident Membership Reporting Errors Resulted in a Reimbursement Overpayment of \$68,036**

Finding Summary: Our prior audit found errors in the District's pupil membership reports submitted to PDE for the 2006-07 and 2007-08 school years. As a result, the District's Commonwealth-paid tuition for foster children was overpaid by \$36,737 and \$31,299 for the 2006-07 and 2007-08 school years, respectively.

Recommendations: Our audit finding recommended that the District should:

1. Improve understanding of PDE regulations and strengthen controls to ensure adherence to those regulations when reporting non-resident students attending the District's educational programs.
2. Compare letters for children placed in private homes (foster children) with District reports to ensure that student membership is properly classified.
3. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
4. Review subsequent years' reports and if errors are found, submit revised reports to PDE.

We also recommended that PDE should:

5. Adjust the District's allocations to recover the reimbursement overpayments of \$68,036.

Current Status: During our current audit, we found that the District did not implement our recommendations. The District's membership data could not be verified. This resulted in our current finding (see page 6).

As of completion of fieldwork for our audit, PDE had not yet adjusted the District's allocations. We again recommend that they do so.

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**Finding No. 2: Health Services Reimbursement Net Overpayment of \$22,781**

Finding Summary: Our prior audit found errors in the health services reimbursement applications the District submitted to the Pennsylvania Department of Health (PDH) for the 2006-07 and 2007-08 school years. The errors were caused by District personnel reporting average daily membership (ADM) from a source other than the final year-end child accounting reports submitted to PDE and resulted in a net reimbursement overpayment of \$22,781.

Recommendations: Our audit finding recommended that the District should:

1. Report ADM for all students for whom comprehensive health records are maintained.
2. Perform an internal review of the membership and health services data prior to submitting reports to PDH.
3. Review reports for school years subsequent to our audit period and, if similar errors are found, submit revised reports to PDH.

We also recommended that PDH should:

4. Adjust the District's allocations to resolve the net reimbursement overpayment of \$22,781.

Current Status: During our current audit, we found that the District did not implement the recommendations. The District's membership data could not be verified. This resulted in our current finding (see page 6).

As of completion of fieldwork for our audit, PDH had not yet adjusted the District's allocations. We again recommend that they do so.

**Finding No. 3: The School Board Entered into a Costly Payout with the Director of Business Administration, Resulting in Additional Costs to the School District Totaling \$22,370**

Finding Summary: Our prior audit found that on July 1, 2007, the District’s Board of School Directors (Board) entered into an employment contract with an individual to serve as the District’s Director of Business Administration (DBA). The contract had a term of five (5) years. On October 16, 2009, after two (2) years and three (3) and one half months, the DBA tendered his resignation to the Board in order to accept a new position with an out-of-state school district.

The Board agreed to pay him through December 31, 2009, in return for his assistance with the transitions and negotiations with the collective bargaining process. We questioned the lump-sum pay-out to the DBA of \$22,370. In particular, \$18,253 of this payment was said to be in exchange for the DBA’s assistance with the collective bargaining process, but the District could not provide sufficient documentation to demonstrate that the former DBA had actually provided this service.

Recommendations: Our audit finding recommended that the District should:

1. Upon the separation of any employee, follow the provisions of the original employment contract and pay only what is due to the employee, prorated for the term of services provided.
2. If additional services are provided by an employee, maintain the documentation necessary to justify the expense of taxpayer dollars.

Current Status: During our current audit, we found that the District had implemented our recommendations. Our current review found that none of the District’s current contracted employees left or retired from the District since our last audit, but we determined that the amount of money they are entitled to upon the end of employment is stated in each of the contracted employees’ contracts, or in the Administrative Compensation Plan.

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**Finding No. 4: Possible Inaccurate Reporting of Retirement Wages**

Finding Summary: During our prior audit, our review of the employment contract for the District’s former DBA, his payroll records, and his retirement records found that the District might have overstated the former DBA’s retirement wages to the Public School Employees’ Retirement System (PSERS) for the 2009-10 school year. These possible ineligible payments totaled \$34,928.

Recommendations: Our audit finding recommended that the District should:

1. Ensure that District personnel report only those wages allowable for retirement purposes, as provided for in PSERS regulations and guidelines.

We also recommended that PSERS should:

2. Review the compensation reported for the former DBA for the 2009-10 school year and render an opinion on the propriety of the wages reported by the District.
3. If any part of the payment is determined to be ineligible for retirement purposes, make the necessary correction to the pension benefits and contributions.

Current Status: During our current audit, we found that the District did implement the recommendations. District personnel are in communication with PSERS and are awaiting PSERS's opinion to determine if any further action is required. We will be following up on this, and any adjustments made by PSERS, during the next audit.

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### **Observation No. 1: Memorandums of Understanding Not Updated Timely**

Observation

Summary:

Our prior audit found that the District's Memorandums of Understanding (MOU) with local law enforcement agencies were not reviewed and re-executed in the required two (2) year time period.

Recommendations: Our audit observation recommended that the District should:

1. In consultation with the District's solicitor, review new requirements for MOUs and other school safety areas under the Public School Code to ensure compliance with amended Safe Schools provisions enacted November 17, 2010.
2. Adopt an official board policy requiring District administration to biannually update and re-execute all MOUS with local law enforcement agencies having jurisdiction over school property and file a copy with PDE's Office of Safe Schools on a biannual basis as required by law.

Current Status: During our current audit, we found that the District did implement our recommendations.

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**Observation No. 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses**

Observation Summary: During our prior audit, we determined that a risk existed that unauthorized changes to the District’s data could occur and not be detected because the District was unable to provide supporting evidence that they were adequately monitoring all vendor activity in its system.

Recommendations: Our audit observation recommended that the District should:

1. Establish separate information technology policies and procedures for controlling the activities of vendors, and have the vendors sign this policy, or require the vendor to sign the District’s Acceptable Use Policy.
3. Implement a security policy and system parameter settings to require all users, including the vendor, to change the passwords on a regular basis (e.g., every 30 days). The District should maintain a password history to prevent the use of a repetitive password (e.g., the last ten (10) passwords).

Current Status: During our current audit, we found that the District did implement our recommendations.



## **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

Ms. Connie Billett  
Assistant Internal Auditor  
Public School Employees' Retirement System  
P.O. Box 125  
Harrisburg, PA 17108

The Honorable Carolyn Dumaresq  
Acting Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

Ms. Lori Graham  
Acting Director  
Bureau of Budget and Fiscal Management  
Pennsylvania Department of Education  
4th Floor, 333 Market Street  
Harrisburg, PA 17126

Dr. David Wazeter  
Research Manager  
Pennsylvania State Education Association  
400 North Third Street - Box 1724  
Harrisburg, PA 17105

Mr. Lin Carpenter  
Assistant Executive Director for Member Services  
School Board and Management Services  
Pennsylvania School Boards Association  
P.O. Box 2042  
Mechanicsburg, PA 17055

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).