

# PERFORMANCE AUDIT

---

## School District of the City of Jeannette Westmoreland County, Pennsylvania

---

August 2014



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • 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. Mark Gogolsky, Board President  
School District of the City of Jeannette  
116 Park Street  
Jeannette, Pennsylvania 15644

Dear Governor Corbett and Mr. Gogolsky:

We conducted a performance audit of the School District of the City of Jeannette (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 12, 2011 through November 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, 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 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

August 28, 2014

cc: **SCHOOL DISTRICT OF THE CITY OF JEANNETTE** Board of School Directors

## Table of Contents

---

---

	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	2
Findings and Observations .....	5
Finding – Continued Internal Control Weaknesses Noted in the Reporting of Non-Resident Pupil Membership .....	5
Status of Prior Audit Findings and Observations .....	8
Distribution List .....	11

## **Executive Summary**

---

### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the School District of the City of Jeannette (District) in Westmoreland 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 April 12, 2011 through November 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 2008-09, 2009-10, 2010-11, and 2011-12 school years.

### **District Background**

The District encompasses approximately two (2) square miles. According to 2010 federal census data, it serves a resident population of 9,893. According to District officials, the District provided basic educational services to 1,145 pupils through the employment of 87 teachers, 44 full-time and part-time support personnel, and seven (7) administrators during the 2011-12 school year. The District received \$10 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 Internal Control Weaknesses Noted in the Reporting of Non-Resident Pupil Membership.** Our audit of the School District of the City of Jeannette's (District) pupil membership reports submitted to the Pennsylvania Department of Education for the 2009-10 school year found reporting errors totaling \$24,053 in underpayments to the District, as well as a lack of internal controls over the data collections and submission process (see page 5).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the School District of the City of Jeannette (District) from an audit released on December 22, 2011, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting non-resident membership (see page 8). Additionally, the District has not taken appropriate corrective action in implementing the majority of our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 9).

## Audit Scope, Objectives, and Methodology

---

### Scope

*What is a school performance audit?*

School performance audits allow the Pennsylvania Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each local education agency (LEA). The results of these audits are shared with LEA management, the Governor, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period April 12, 2011 through November 25, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through September 11, 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 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 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 December 22, 2011, we reviewed the District's response to PDE dated August 19, 2013. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

---

### Finding

---

### Continued Internal Control Weaknesses Noted in the Reporting of Non-Resident Pupil Membership

*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 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; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

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

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

Our review of the School District of the City of Jeanette's (District) controls over data integrity found the internal controls need to be improved. Specifically, our review found that District personnel in charge of child accounting and PIMS reporting did not reconcile their internal Student Information System (SIS) membership reports with PDE's PIMS reports. As a result, the District failed to notice that the residency classification was incorrect for a number of students educated by the District.

Our audit of the District's *Instructional Time and Membership* report for the 2009-10 school year found that the District reported membership days for secondary students from eight (8) sending Districts who were identified as Wards of the State. However, the residency coding identified these students as being educated by the students' district of residence, rather than the District. The days totaled 441 days.



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.

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis." U.S. General Accounting Office. *Standards for Internal Control in the Federal Government*. (November 1999), pg 1.

As a result of this coding error, the District was not appropriately compensated for a total of 144 days and would have received an additional \$24,053 in Commonwealth tuition payments for the 2009-10 school year.

It should be noted that this is the third consecutive audit of the District that has included a finding related to deficiencies in this process.

We attempted to obtain detailed information regarding the students identified as Wards of the State, but the District provided no further information. As a result, PDE could not be provided with the information needed to adjust the District's funding.

In addition, District personnel failed to maintain complete registration documentation in the student files for some of the students tested during our review, which resulted in the auditors being unable to verify the accuracy of the students randomly selected for review.

The auditors found that the responsibility for child accounting lies with the District's superintendent and the building secretaries. However, based on an interview with the District's administration, the PIMS manual was not distributed to the building secretaries. Without this vital piece of child accounting reporting information, personnel are not appropriately trained in PDE's reporting procedures.

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

## Recommendations

The *School District of the City of Jeannette* should:

1. Printout the Student Information System (SIS) reports and PIMS reports after the PIMS upload is completed for that school year and perform reconciliations between the District's child accounting software data

and the PIMS reports and retain them for our audit purposes.

2. Provide training to all administrative and clerical staff enrolling students and working with child accounting. The training should stress the importance of maintaining accurate records and the relationship of membership data to state subsidies and reimbursements, as well as developing an enrollment and withdrawal form to be used throughout the District.
3. Reference the PIMS manual of reporting for instructions in the proper reporting of non-resident students.
4. Review membership reports submitted to PDE for years subsequent to the audit, and if similar errors are found, submit reviewed reports to PDE.

### **Management Response**

Management stated the following:

“Management waives the opportunity to reply at this time.”

### **Auditor Conclusion**

As mentioned previously, this is a recurring finding. We strongly urge the District to improve controls over its student membership to ensure the integrity of the membership data. We will follow up on the status of our recommendations during our next cyclical audit of the District.

## Status of Prior Audit Findings and Observations

---

Our prior audit of the School District of the City of Jeannette (District) released on December 22, 2011, resulted in one (1) finding and one (1) observation. The finding pertained to errors in reporting non-resident membership resulting in an overpayment of \$82,772 in tuition for children placed in private homes (foster children), and the observation pertained to unmonitored vendor system access and logical access control weakness. 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 finding and observation. As shown below, we found that the District did implement our recommendations related to errors in reporting non-resident membership and unmonitored vendor system access and logical access control weaknesses.

### Auditor General Performance Audit Report Released on December 22, 2011

---

**Finding No. 1:**                    **Errors in Reporting Non-Resident Membership Resulted in an Overpayment of \$82,772 in Tuition for Children Placed in Private Homes (Foster Children)**

Finding Summary:            Our prior audit of the District found that pupil membership reports were submitted to PDE for the 2007-08 school year in which non-resident elementary and secondary membership for children placed in private homes (foster children) was overstated by 136 and 1,538 days, respectively. The error resulted in an overpayment of \$87,772 in Commonwealth-paid tuition for foster children.

Recommendations:        Our audit finding recommended that the District should:

1. Review membership data thoroughly to ensure students are properly classified prior to submitting membership reports to PDE.
2. Review reports submitted subsequent to the years audited, and submit revised reports to PDE if errors are found.

We also recommended that PDE should:

3. Adjust the District's allocations to recover the overpayment of \$82,772.

Current Status:            We again found internal control weaknesses in the reporting of non-resident pupil membership (see the finding in the current report). As of November 25, 2013, PDE had not made appropriate adjustment to the District's funding to correct the overpayment.

**Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses**

Observation Summary:

The District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District's network servers. A risk exists that unauthorized changes to the District's data could occur and not be detected because the District was unable to provide supporting evidence that it is monitoring all remote activity in its system. The District does not have adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, the risk of unauthorized change is increased. This resulted in the District not receiving the funds it was entitled from the state.

Recommendations:

Our audit observation recommended that the District should:

1. Establish separate information technology (IT) policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
4. Implement a security policy and system parameter settings to require all users, including the vendor, to change 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. Also the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten (10) passwords); lock out users after three (3) unsuccessful attempts; and log users off the system after a period of inactivity (i.e., 60 minutes maximum).
5. Allow only access to the system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
6. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on their system. Monitoring

reports should include the date, time, and reason for access, change(s) made, and who made the change(s). The District should review these reports to determine the access was appropriate and the data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.

7. Allow upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.
8. Establish a process for defining, raising, testing, documenting, assessing, and authorizing emergency changes to systems or programs that do not follow the established change process.
9. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
10. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.
11. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors in the computer room.
12. To mitigate IT control weaknesses, the District should have compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

Current Status:

We followed up on the weaknesses during our current audit and found the District took appropriate corrective action to correct five (5) out of the twelve (12) recommendations in our prior audit. The District took action on recommendations: 2, 6, 10, and 11. In addition, the District developed an Acceptable Use Policy as recommended in recommendation number 1, but does not require the vendor to sign the Policy.

## **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](http://www.auditorgen.state.pa.us), and the following stakeholders:

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

The Honorable Carolyn Dumaresq  
Acting Secretary of Education  
1010 Harristown Building #2  
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).