

PERFORMANCE AUDIT

Littlestown Area School District Adams County, Pennsylvania

September 2014



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Ms. Dolores E. Nester, Board President
Littlestown Area School District 162
Newark Street
Littlestown, Pennsylvania 17340

Dear Governor Corbett and Ms. Nester:

We conducted a performance audit of the Littlestown Area School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period November 6, 2009 through March 28, 2014, 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

September 4, 2014

cc: **LITTLESTOWN AREA SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Littlestown Area School District (District) in Adams 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 November 6, 2009 through March 28, 2014, 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 49 square miles. According to 2010 federal census data, it serves a resident population of 14,575. According to District officials, the District provided basic educational services to 2,149 pupils through the employment of 158 teachers, 138 full-time and part-time support personnel, and nineteen (19) administrators during the 2011-12 school year. The District received \$10,072,651 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: Pupil Membership Errors Resulted in Underpayments of \$58,614.

Our audit of the Littlestown Area School District's (District) pupil membership reports for the 2008-09, 2009-10, 2010-11, and 2011-12 school years found errors in the non-resident and resident student membership data reported to the Pennsylvania Department of Education (PDE). As a result of this incorrect data, PDE underpaid the District \$58,614 (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Littlestown Area School District (District) from an audit released on August 27, 2010, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to a Memorandum of Understanding with the local law enforcement agency (see page 9) and bus driver procedures (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 November 6, 2009 through March 28, 2014, except for the verification of professional employee certification, which was performed for the period November 6, 2009 through February 10, 2014.

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 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

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.

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.

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 August 27, 2010, we reviewed the District's response to PDE dated February 14, 2011. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Pupil Membership Errors Resulted in Underpayments of \$58,614

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 subsidies 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 Littlestown Area School District’s (District) pupil membership reports for the 2008-09, 2009-10, 2010-11, and 2011-12 school years found errors in the non-resident and resident data reported to PDE for the 2008-09, 2009-10, and 2010-11 school years. As a result of this incorrect data, PDE underpaid the District \$58,614 in state subsidy based on foster children membership as follows:

Underpayment to the District	
<u>School Year</u>	<u>Underpayments</u>
2008-09	\$ 18,472
2009-10	31,261
2010-11	<u>8,881</u>
Total	<u>\$ 58,614</u>

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.

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 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.

The understatement of resident days for the 2009-10 school year and the overstatement of resident days for the 2010-11 school year had no effect on funding due to guarantees within the funding formulas for the basic education and special education subsidies.

PIMS requires District staff to report the district of residence for each of its students. In the case of the District's foster children educated during the 2009-10 school year, instead of entering the name of the district of residence for their custodial parents, they incorrectly entered the District's name. In the 2008-09 and 2010-11 school years, the District also reported several foster children under incorrect classifications. As a result of incorrectly reporting foster children membership, the District's staff underreported corresponding non-resident membership days for the 2008-09, 2009-10, and 2010-11 school years, understated resident membership days for the 2009-10 school year, and overstated resident membership days for the 2010-11 school year.

Four (4) non-resident students were incorrectly classified as Conewago Valley School District foster children during the 2008-09 school year, when they should have been reported as District foster children for the same amount of days.

Another four (4) non-resident students were incorrectly reported as foster children with the District named as both the district of residence and the funding district. PDE's PIMS reporting system had a programming error, during the 2009-10 school year only, which did not process membership for students whose district of residence and funding district were the same. Therefore, the District's foster children membership days were understated.

Finally, one (1) student was incorrectly classified as a resident student for 180 elementary days during the 2010-11 school year, when he should have been reported as a foster child for 180 days.

The District's reporting errors were caused by:

- Failure to reconcile the information in the District's student information system with the data uploaded and processed in PIMS.

- Failure to establish a process for ensuring that the information the District reported in PIMS was accurate, valid, and complete.
- Failure to obtain and maintain current and accurate placing agency letters to support non-resident foster children membership.

In addition, PDE failed to recognize that PIMS did not process pupil membership days for students who were reported as foster children with the same district of residence and funding district.

It is the responsibility of District management to have proper internal policies and procedures in place to ensure that student data is accurately collected and reported timely. Without such internal controls, the District cannot be assured that it is reporting the correct data to PDE or that it is receiving the correct subsidies.

Recommendations

The *Littlestown Area School District* should:

1. Develop and implement procedures and guidelines for the collection, verification, and reporting of membership data to ensure that all days and student classifications are accurately reported to PDE.
2. Develop procedures to ensure placing agency letters are obtained and retained annually for the reporting of foster children.
3. Reconcile final PDE reports to the District's own pupil membership detail reports to ensure all pupils are reported accurately.
4. Reconcile state subsidy payments to membership reports to ensure the District is receiving the appropriate amount of subsidy from PDE.
5. Review the District's internal student information system membership reports for years subsequent to our audit and reconcile the data to PDE's final reports processed through PIMS. If errors are found, submit revisions to PDE.

The *Pennsylvania Department of Education* should:

6. Adjust the District's allocations to resolve the underpayments of \$58,614.
7. Recover subsidy payments made to Conewago Valley School District based on the District's incorrect reporting of four (4) foster children for the 2008-09 school year.
8. Review its pupil membership processing procedures to ensure that after changes to its reporting system, such as the introduction of PIMS beginning with the 2009-10 school year, the system accurately processes membership data. Undetected systemic errors in PIMS could have statewide effects on local education agencies that are required to report pupil membership data in this system.

Management Response

Management stated the following:

“Cause: Students were coded incorrectly.

Corrective Action: A form was created to be forwarded to and completed by the placing agency. When the District receives notification of a placement, the form will be distributed to the placing agency to ensure all information needed for compliance and accurate reporting is available to the District. The Child Accounting Coordinator will track the distribution and completion of the information form.

Reconciliation of membership reports will be more accurate with stability/experience in key positions.”

Auditor Conclusion

We are encouraged that the District is taking action to address this deficiency. 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 Littlestown Area School District (District) released on August 27, 2010, resulted in one (1) finding and one (1) observation. The finding pertained to the Memorandum of Understanding with the local law enforcement agency, and the observation pertained to bus driver qualifications. 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 observation. As shown below, we found that the District did implement our recommendations related to both the finding and observation.

Auditor General Performance Audit Report Released on August 27, 2010

Finding: **Memorandum of Understanding Not Updated Timely**

Finding Summary: Our prior audit of the District's records found that the Memorandum of Understanding (MOU) between the District and its local law enforcement agency was dated May 13, 2002. After we requested the MOU during the audit, the District obtained an updated MOU dated September 24, 2009.

Recommendations: Our audit finding recommended that the District should:

1. Follow the general provisions of the District's MOU requiring that the MOU be reviewed and re-executed every two (2) years.
2. Adopt an official board policy requiring the administration to review and re-execute the MOU every two (2) years.

Current Status: During our current audit, we found that the District had updated its MOU in September 2009. The MOU was subsequently updated again in June 2011 and June 2013. While the District does not have a formal board policy in place, they have implemented procedures to ensure that the MOU is updated timely.

Observation:

Internal Control Weaknesses in Administrative Policies and Procedures Regarding Bus Drivers' Qualifications

Observation

Summary:

As noted in our prior two (2) audit reports, the District had not developed and instituted written policies or procedures to ensure that it was notified if current employees were charged with or convicted of serious criminal offenses, which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures was an internal control weakness that could result in the continued employment of individuals who may have posed a risk if allowed to continue to have direct contact with children.

Recommendations:

Our audit observation recommended that the District should:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.

Current Status:

During our current audit, we found that the District has developed a process by which prospective employees are reviewed for conviction of crimes prior to employment. In addition, current employees are responsible for reporting when or if they are charged with or convicted of a crime. The District also implemented a process in the form of a written policy (No. 810), which addresses our second recommendation. The policy was adopted on January 11, 2010. Therefore, the District has taken appropriate corrective action to address our prior recommendations.

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
Governor
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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.