



**BALD EAGLE AREA SCHOOL DISTRICT
CENTRE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JULY 2013

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. S. Thomas Letterman, Board President
Bald Eagle Area School District
751 South Eagle Valley Road
Wingate, Pennsylvania 16823

Dear Governor Corbett and Mr. Letterman:

We conducted a performance audit of the Bald Eagle Area School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period October 4, 2010 through January 10, 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, 2010 and June 30, 2009. Our audit was conducted pursuant to 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 applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one 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,

/s/

EUGENE A. DEPASQUALE
Auditor General

July 2, 2013

cc: **BALD EAGLE 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 Bald Eagle Area School District (District). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, 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 October 4, 2010 through January 10, 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 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 343 square miles. According to 2010 federal census data, it serves a resident population of 13,206. According to District officials, the District provided basic educational services to 1,877 pupils through the employment of 163 teachers, 141 full-time and part-time support personnel, and 14 administrators during the 2009-10 school year. Lastly, the District received more than \$12,295,655 in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance related matter reported as a finding.

Finding: Membership Reporting Errors and Lack of Internal Controls Resulted in Underpayments of \$44,059. Our audit of the Bald Eagle Area School District's controls over data integrity found that internal controls over its Pennsylvania Information Management System data submissions were lacking, resulting in membership reporting errors (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of the recommendations to the District from our prior audit released on April 13, 2011, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to the reporting of pupil transportation (see page 10), vocational education membership (see page 11), and teacher certification (see page 11).

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 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 October 4, 2010 through January 10, 2013, except for the verification of professional employee certification which was performed for the period July 23, 2010 through October 15, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 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 applicable state laws, 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 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?
- ✓ 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, were the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ 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 take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by local 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 applicable laws, 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 applicable laws, contracts, grant requirements, and administrative procedures. 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 applicable state laws, regulations, contracts, grant requirements and administrative procedures 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 control 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.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 13, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Membership Reporting Errors and Lack of Internal Controls Resulted in Underpayments of \$44,059

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 and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

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

Our review of the Bald Eagle Area School District's (District) data integrity found that internal controls need to be added and that existing internal controls need to be strengthened. Specifically, the District did not have adequate procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel.

In addition, our audit found District personnel used the incorrect residency coding for three nonresident secondary students placed in private homes (foster children), which resulted in an understatement of 448 days and an underpayment of state tuition subsidies to the District of \$20,779.

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.

District personnel also miscoded five secondary district-paid nonresident students as residents. Although this error had an insignificant effect on payments to the District, it did impact the membership data for one neighboring district.

We also noted some residency classification information was not entered into the student information system.

In six cases we found that PDE penalized the District \$26,642 for not meeting the state-mandated days of instruction. Our audit found that the District actually did meet the mandated minimum days in three of the six cases. This resulted in a revised adjusted gross allocation penalty of \$3,362. Therefore, the District is owed an additional \$23,280 in basic education funding (BEF).

The cause of the errors were as follows:

- Lack of written procedures for how to submit data to PIMs.
- Student registration is being done by more than one person.
- No review is performed prior to reports being uploaded to PIMS.
- No review is performed between the preliminary PIMS reports and the District's child accounting reports.
- District personnel are unfamiliar with the PIMS reporting procedures and child accounting reporting requirements.

The District is owed a total of \$44,059, as a result of its staff's miscoding of foster children (\$20,779) and the adjustments to PDE's penalty for failing to comply with state-mandated days of instruction (\$23,280).

Recommendations

The *Bald Eagle Area School District* should:

1. Document procedures (e.g, procedure manuals, policies, written instructions, etc.) to ensure continuity over PIMS data submission.

2. Cross-train individuals to familiarize them with PDE's child accounting reporting requirements and PIMS reporting procedures in the event of a sudden change in personnel.
3. Carefully perform an internal audit prior to submission of pupil membership reports to PDE to ensure all data is accurate, and in particular, that students' residency status is correct.
4. Ensure that staff participates in the PIMS training opportunities offered by PDE and become more familiar with the PIMS manual.
5. Improve communication between personnel if more than one person enters data.
6. Consider centralizing the District's registration process to limit the number of individuals who enter information into the child accounting system.
7. Review reports for school years subsequent to our audit years for pupil classification accuracy, and revise them if necessary.

The *Pennsylvania Department of Education* should:

8. Adjust the District's allocations to correct the underpayments of \$20,779 in state tuition subsidies for foster children and \$23,280 in basic education funding.

Management Response

Management stated the following:

“In regards to the reported pupil data submission errors to the PIMS during the period of the current audit, the state was migrating from the Child Accounting Database System (CADS) to the Pennsylvania Information Management System (PIMS). As with any conversion of data systems of that magnitude, the initial PIMS was not fully developed in terms of the software functionality, nor was the user documentation completed. Preliminary user training and documentation was provided by the state and the District did have personnel exposed to that training.

The District did conduct several meetings during the initial PIMS implementation to discuss the data entry

requirements to the PIMS and made an effort to establish data entry standards within the District so that those individuals responsible for entering data would do it in accurate, consistent manner. Unfortunately, the District did not have the resources to identify one person to be responsible for overseeing the PIMS data entry processes; editing of the data prior to submission to the state; nor the preparation and maintenance of user documentation, or District policy and procedures related to PIMS data entry and reporting.

In an effort to improve PIMS data entry and maintenance, the District will become familiar with the current state PIMS documentation; prepare and maintain written policy and procedures to be utilized by designated District personnel responsible for PIMS data entry and maintenance (to include recommended cross-training persons with District child accounting and PIMS responsibilities); and management will identify District personnel to review pupil membership reports submitted subsequent to the current audit and make corrections when required and re-submit corrected reports to PDE.”

Status of Prior Audit Findings and Observations

Our prior audit of the Bald Eagle Area School District (District) released on April 13, 2011, resulted in three reported findings. The first finding pertained to errors in reporting transportation data, the second finding pertained to errors in reporting vocational education membership days, and the third finding pertained to a certification deficiency. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and interviewed District personnel regarding the prior findings. As shown below, we found that the District did implement recommendations related to the findings.

Auditor General Performance Audit Report Released on April 13, 2011

Finding No. 1: Errors in Reporting Pupil Transportation Data Resulted in a Net Underpayment of \$100,425.

Finding Summary: Our prior audit found that the pupil transportation reports the District submitted to the Pennsylvania Department of Education (PDE) for the 2007-08 and 2006-07 school years were inaccurate. Errors were found in reporting daily mileage, the greatest number of nonpublic pupils transported, and the number of charter school pupils transported. Also, the District failed to report all bus runs to PDE. The errors led to a net underpayment of \$100,425 in pupil transportation subsidy.

Recommendations: Our audit finding recommended that the District:

1. Accurately report all data elements in the calculation of pupil transportation reimbursement.
2. Accurately report all runs eligible for reimbursement.
3. Perform an internal review of data before submission to PDE.
4. Review subsequent school years' transportation reports for accuracy, and resubmit if necessary.

We also recommended that PDE:

5. Adjust future District allocations to correct the net underpayment of \$100,425.

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

On September 13, 2010, the District hired a business office support assistant, whose duties are to prepare state transportation reimbursement forms and reports, and to maintain the student transportation program. The current audit found no significant errors.

As of January 10, 2013, PDE had not yet adjusted the District's allocations to correct the net underpayment.

Finding No. 2: Errors in Reporting Vocational Education Membership Resulted in An Underpayment of \$16,828

Finding Summary: Our prior audit found that the vocational educational data the District submitted to PDE for the 2007-08 and 2006-07 school years was inaccurate, resulting in a net subsidy underpayment of \$16,828.

Recommendations: Our audit finding recommended that the District:

1. Strengthen controls to ensure that membership days are reported only for pupils enrolled in approved vocational education classes.
2. Verify that all membership for students enrolled in the District's approved programs is reported to PDE for reimbursement.
3. Review subsequent years' vocational education membership reports and resubmit them to PDE if necessary.

We also recommended that PDE:

4. Adjust the District's allocations to resolve the net subsidy underpayment of \$16,828.

Current Status: During our current audit, we found no errors with the reporting of vocational education data for the 2008-09 school year. After the 2008-09 school year, the District changed its course sequence. As a result, none of the students in the District's vocational education classes met the hourly requirements to be eligible for subsidy for the 2009-10 school year. Therefore, no vocational education subsidy was received by the District.

As of January 10, 2013, PDE had not yet adjusted the District's allocations to correct the underpayment.

Finding No. 3: Certification Deficiency

Finding Summary: Our prior audit of professional employees' certificates and assignments for the period of February 1, 2009 through July 22, 2010, found that one administrator was assigned to a position during the 2009-10 school year without possessing the proper certification, resulting in a subsidy forfeiture of \$1,005.

Recommendations: Our audit finding recommended that the District:

1. Take the necessary action required to ensure compliance with certification regulations.
2. Ensure only properly certified administrators, holding current and valid certificates, are permitted to work in the District.

We also recommended that PDE:

3. Take action to adjust the allocations to recover the subsidy forfeiture of \$1,005.

Current Status: During our current audit, we found that the District did implement the recommendations. As a result of our prior audit, the District obtained emergency certification for the employee cited in our previous report. On November 5, 2012, the employee resigned from her position with the District.

Our current audit of the District's professional employees' certificates and assignments found no additional errors.

In December 2011, PDE deducted \$1,005 from the District's basic education funding payment to recover the subsidy forfeiture.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditor.gen.state.pa.us, and the following stakeholders:

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

The Honorable William E. Harner
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. Tom Templeton
Assistant Executive Director
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. 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.

