

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
LYCOMING COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Mr. Edward Ade, Jr., Board President
Loyalsock Township School District
1720 Sycamore Road
Montoursville, Pennsylvania 17754

Dear Governor Corbett and Mr. Ade:

We conducted a performance audit of the Loyalsock Township School District (LTSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period December 17, 2009 through August 25, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy 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 LTSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with LTSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve LTSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the LTSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 31, 2012

cc: **LOYALSOCK TOWNSHIP SCHOOL DISTRICT** Board Members



Table of Contents

| | Page |
|---|------|
| Executive Summary | 1 |
| Audit Scope, Objectives, and Methodology | 3 |
| Findings and Observations | 6 |
| Finding – Membership Reporting Errors and the Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Subsidy/Reimbursement | 6 |
| Status of Prior Audit Findings and Observations | 8 |
| Distribution List | 9 |



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Loyalsock Township School District (LTSD). 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 LTSD in response to our prior audit recommendations.

Our audit scope covered the period December 17, 2009 through August 25, 2011, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10 and 2008-09.

District Background

The LTSD encompasses approximately 21 square miles. According to 2010 federal census data, it serves a resident population of 11,026. According to District officials, in school year 2009-10 the LTSD provided basic educational services to 1,399 pupils through the employment of 105 teachers, 98 full-time and part-time support personnel, and 9 administrators. Lastly, the LTSD received more than \$4.7 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the LTSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

Finding: Membership Reporting Errors and the Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Subsidy/Reimbursement.

Our audit of pupil membership reports submitted to the Department of Education for the 2009-10 school year found reporting errors as well as lack of internal controls (see page 6).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the LTSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the LTSD had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored intermediate unit system access and logical access control weaknesses (see page 8).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the 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 PA 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 December 17, 2009 through August 25, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 Department of Education (DE) 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 LTSD'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:

- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ Does the LEA have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?

- ✓ In areas where the District receives transportation subsidies, is the District and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that its current bus drivers are properly qualified, and does it have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances which may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Is the District taking 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 members free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

LTSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with

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.

applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit 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/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

Additionally, we interviewed selected administrators and support personnel associated with LTSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 25, 2010, we reviewed the LTSD's response to DE dated August 10, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Membership Reporting Errors and the Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Subsidy/Reimbursement

Criteria relevant to the finding:

According to PDE's 2009-10 *PIMS User Manual*, all Pennsylvania LEAs 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; LEP 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 (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.

Beginning with the 2009-10 school year, the Pennsylvania Department of Education (DE) now bases all local education agencies' 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. PIMS replaces DE's previous reporting system, the Child Accounting Database (CAD), which DE ran concurrently until it brought PIMS completely online. DE no longer accepts child accounting data through the CAD system.

Our audit of the Loyalsock Township School District's (LTSD) pupil membership reports submitted to DE for the 2009-10 school year found reporting errors as well as the lack of internal controls. District personnel inaccurately reported the number of days in session and membership for children placed in private homes. The lack of internal controls resulted in the LTSD failing to reconcile preliminary data reports from DE which resulted in incorrect data being reported on the Final Summary of Child accounting Membership Report.

Membership days for children placed in private homes were understated 180 days for kindergarten and 180 days for elementary. The error resulted in the District being underpaid \$15,699.

The errors were due to LTSD personnel reporting that the foster district was the natural parent district (Pottsville and Williamsport) when in fact LTSD should have been reported as the foster district.

Criteria relevant to the finding:

Resident, nonresident, and vocational education membership data must be maintained in accordance with DE guidelines and instructions, since they are major factors in determining the district's subsidies and reimbursements.

Section 2503(c) of the Public School Code (PSC) provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court when such resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

Recommendations

We also found that the days in session were not correctly reported for the elementary and middle school. The LTSD reported that the days in session was 182 days when in fact it was 180 days. The LTSD average daily membership was understated by 10.359. The reimbursement could not be determined since the applicable basic education funding and special education funding reports were not available at the time of audit.

The errors were due to LTSD personnel failing to correctly record the correct instructional days lost due to other (snow) and instructional days made up.

DE has been provided a report detailing the errors for use in recalculating the LTSD's subsidy.

The *Loyalsock Township School District* should:

1. Establish internal controls that include reconciliations of the data that is uploaded into DE's PIMS.
2. Verify that the preliminary reports from DE are correct and if not correct, revise and resubmit child accounting data so that the final reports from DE are correct.

The *Department of Education* should:

3. Revise all reports that have been incorrectly reported and recalculate all LTSD's subsidy/ reimbursements and aid ratio that have been affected by the errors.

Management Response

Management stated the following:

Loyalsock Township School District had reporting errors as a result of two students having been coded with wrong information in the funding district portion of the student management system. In July of 2010, we started a centralized registration process that will help to eliminate these types of problems. Instead of many individuals entering student information, one person is tasked with entering all pertinent information on students. Additionally, we will cross-check information with our child accounting summary and detailed information.

Status of Prior Audit Findings and Observations

Our prior audit of the Loyalsock Township School District (LTSD) for the school years 2007-08 and 2006-07 resulted in one observation. The observation pertained to unmonitored intermediate unit (IU) system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the LTSD Superintendent's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the LTSD did implement recommendations related to unmonitored IU system access and logical access control weaknesses.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Observation: **Unmonitored Intermediate Unit System Access and Logical Access Control Weaknesses**

Observation

Summary:

Our prior audit found that the LTSD uses software purchased from Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance). The CSIU has remote access into the network servers.

Recommendations: Our audit observation recommended that the LTSD:

1. Implement a security policy and system parameter settings to lock out users after three unsuccessful access attempts.
2. Generate monitoring reports (including firewall logs) of CSIU 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 changes(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.

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

Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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

The Honorable Ronald J. Tomalis
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. Nichole Duffy
Director, Bureau of Budget and
Fiscal Management
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

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

