

# PERFORMANCE AUDIT

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## Millcreek Township School District Erie County, Pennsylvania

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June 2017



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Mr. William J. Hall, Superintendent  
Millcreek Township School District  
3740 West 26th Street  
Erie, Pennsylvania 16506

Mr. John DiPlacido, Board President  
Millcreek Township School District  
3740 West 26th Street  
Erie, Pennsylvania 16506

Dear Mr. Hall and Mr. DiPlacido:

We have conducted a performance audit of the Millcreek Township School District (District) for the period July 1, 2012, through June 30, 2016, except as otherwise indicated in the audit scope, objective, and methodology section of the report. We evaluated the District's performance in the following areas as further described in the appendix of this report:

- Transportation Operations
- Data Integrity
- Bus Driver Requirements
- School Safety

The audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code (72 P.S. §§ 402 and 403), and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit found that the District performed adequately in the areas listed above, except as noted in the following finding:

- The District Incorrectly Reported Transportation Data to PDE Resulting in Reimbursement Overpayments Totaling \$1,089,261

Mr. William J. Hall  
Mr. John DiPlacido  
Page 2

In addition, we found that the District adequately implemented the recommendations related to the three findings and three observations from our prior audit, dated July 16, 2013.

We appreciate the District's cooperation during the course of the audit.

Sincerely,



Eugene A. DePasquale  
Auditor General

June 13, 2017

cc: **MILLCREEK TOWNSHIP SCHOOL DISTRICT** Board of School Directors

## Table of Contents

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	Page
Background Information .....	1
Finding(s) .....	5
Finding – The District Incorrectly Reported Transportation Data to PDE Resulting in Reimbursement Overpayments Totaling \$1,089,261 .....	5
Status of Prior Audit Findings and Observations .....	11
Appendix: Audit Scope, Objectives, and Methodology .....	19
Distribution List .....	23

## Background Information

School Characteristics 2015-16 School Year <sup>A</sup>	
County	Erie
Total Square Miles	29.5
Resident Population <sup>B</sup>	54,003
Number of School Buildings	11 <sup>C</sup>
Total Teachers	459
Total Full or Part-Time Support Staff	328
Total Administrators	27
Total Enrollment for Most Recent School Year	6,967
Intermediate Unit Number	5
District Vo-Tech School	Erie County Technical School

A - Source: Information provided by the District administration and is unaudited.

B - Source: United States Census  
<http://www.census.gov/2010census>.

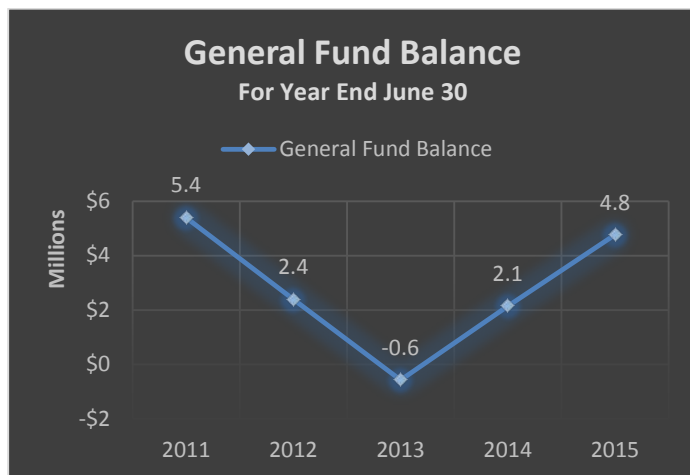
C - Millcreek Learning Center closed after the 2015-16 school year, and McDowell Intermediate is part of the McDowell High School.

## Mission Statement<sup>A</sup>

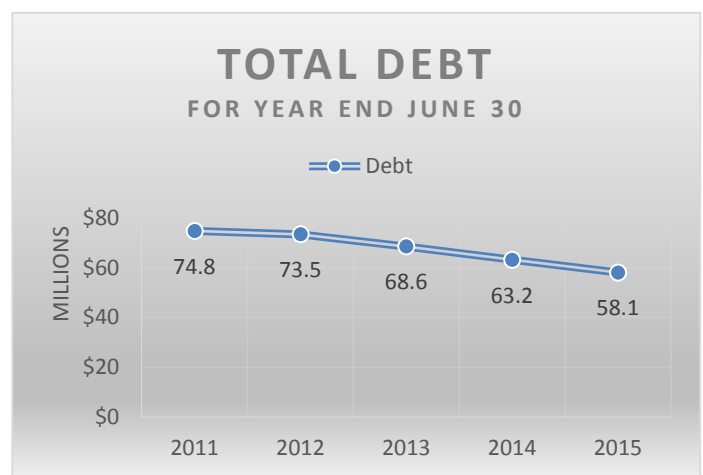
The Millcreek Township School District provides a world class education that prepares students to reach their full potential as life-long learners and responsible citizens.

## Financial Information

The following pages contain financial information about the District obtained from annual financial data reported to the Pennsylvania Department of Education (PDE) and available on PDE's public website. This information was not audited and is presented for **informational purposes only**.

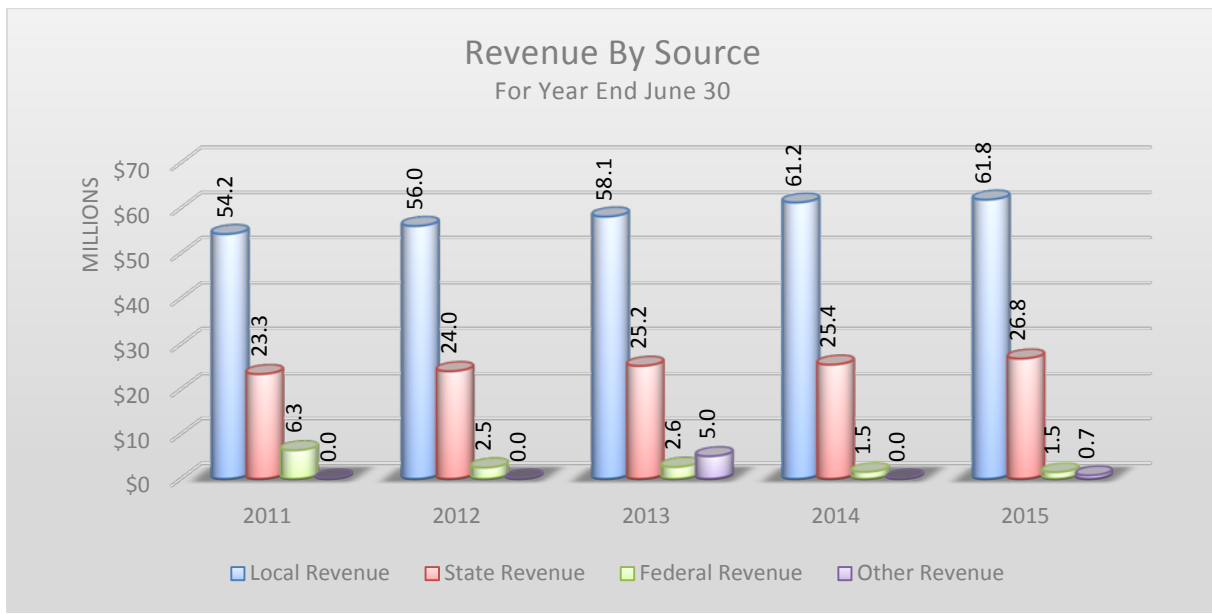
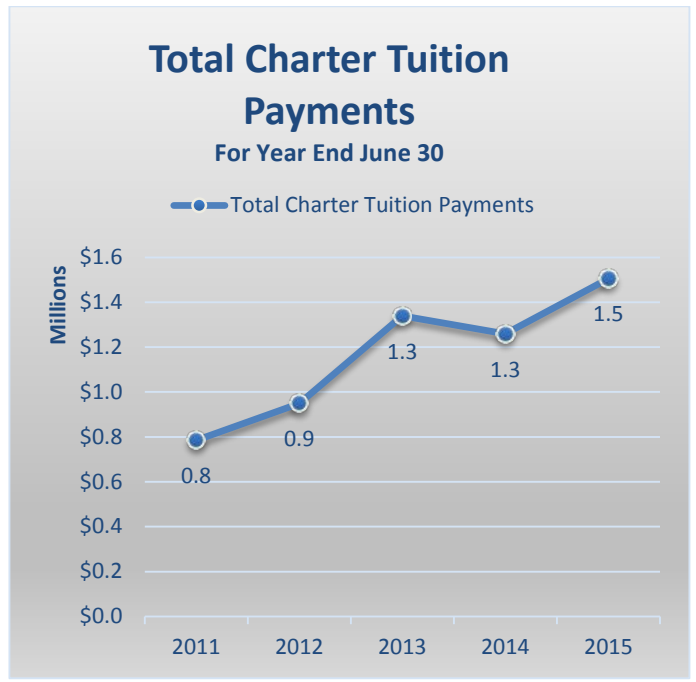
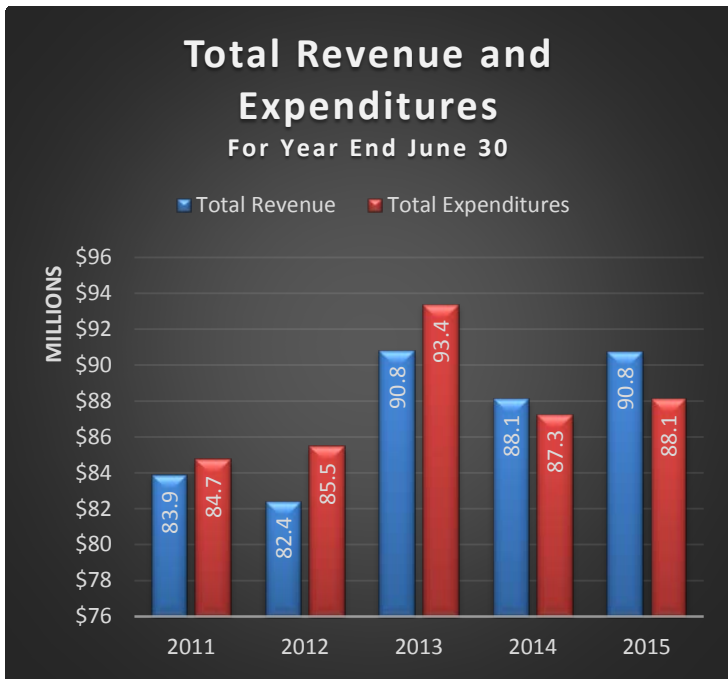


**Note:** General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



**Note:** Total Debt is comprised of Short-Term Borrowing, General Obligation Bonds, Authority Building Obligations, Other Long-Term Debt, Other Post-Employment Benefits and Compensated Absences.

## Financial Information Continued



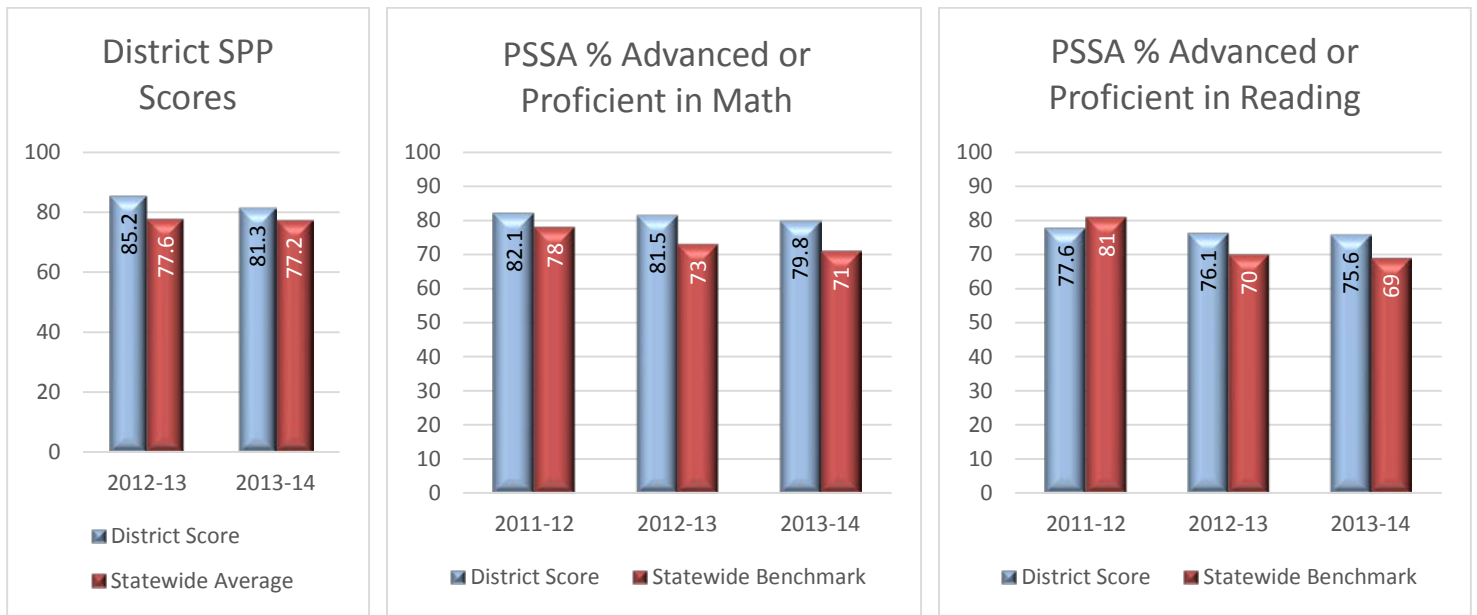
## Academic Information

The following table and charts consist of School Performance Profile (SPP) scores and Pennsylvania System of School Assessment (PSSA) results for the entire District obtained from PDE’s data files.<sup>1</sup> These scores are presented in the District’s audit report for **informational purposes only**, and they were not audited by our Department.

SPP benchmarks represent the statewide average of all district school buildings in the Commonwealth.<sup>2</sup> PSSA benchmarks and goals are determined by PDE each school year and apply to all public school entities.<sup>3</sup> District SPP and PSSA scores were calculated using an average of all of the individual school buildings within the District. Scores below SPP statewide averages and PSSA benchmarks/goals are presented in red.

### Districtwide SPP and PSSA Scores

District	SPP Scores		PSSA % Advanced or Proficient in Math			PSSA % Advanced or Proficient in Reading		
	2012-13	2013-14	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14
<i>Statewide Benchmark</i>	77.6	77.2	78	73	71	81	70	69
<i>Millcreek Township SD</i>	85.2	81.3	82.1	81.5	79.8	77.6	76.1	75.6
<i>SPP Grade<sup>4</sup></i>	<b>B</b>	<b>B</b>						



<sup>1</sup> PDE is the sole source of academic data presented in this report. All academic data was obtained from PDE’s publically available website.

<sup>2</sup> Statewide averages for SPP scores were calculated based on all district school buildings throughout the Commonwealth, excluding charter and cyber charter schools.

<sup>3</sup> PSSA benchmarks apply to all district school buildings, charters, and cyber charters. In the 2011-12 school year, the state benchmarks reflect the Adequate Yearly Progress targets established under No Child Left Behind. In the 2012-13 and 2013-14 school years, the state benchmarks reflect the statewide goals based on annual measurable objectives established by PDE.

<sup>4</sup> The following letter grades are based on a 0-100 point system: A (90-100), B (80-89), C (70-79), D (60-69), F (59 or below).

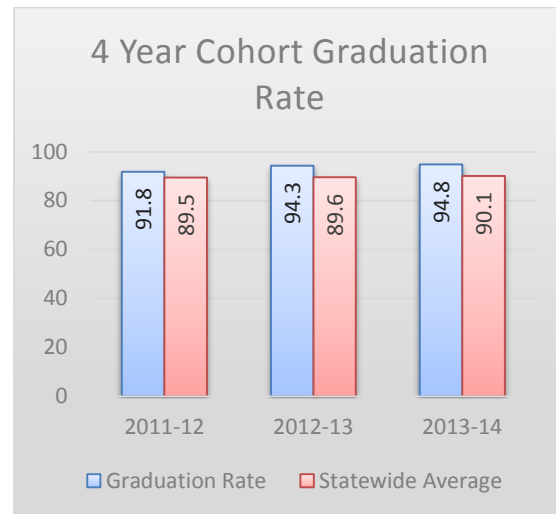
## Individual School Building SPP and PSSA Scores

The following table consists of SPP scores and PSSA results for each of the District's school buildings. Any blanks in PSSA data means that PDE did not publish a score for that school for that particular year.<sup>5</sup>

School Name	SPP Scores		PSSA % Advanced or Proficient in Math			PSSA % Advanced or Proficient in Reading		
	2012-13	2013-14	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14
<b>Statewide Benchmark</b>	<b>77.6</b>	<b>77.2</b>	<b>78</b>	<b>73</b>	<b>71</b>	<b>81</b>	<b>70</b>	<b>69</b>
<i>Asbury Elementary School</i>	<b>84.8</b>	<b>83.9</b>	<b>84.3</b>	<b>86.8</b>	<b>87.7</b>	<b>78.6</b>	<b>76.2</b>	<b>78.6</b>
<i>Belle Valley Elementary School</i>	<b>88.7</b>	<b>80.4</b>	<b>82.6</b>	<b>81.3</b>	<b>74.5</b>	<b>72.0</b>	<b>66.9</b>	<b>67.6</b>
<i>Chestnut Hill Elementary School</i>	<b>81.9</b>	<b>75.5</b>	<b>82.8</b>	<b>77.7</b>	<b>80.4</b>	<b>73.9</b>	<b>71.2</b>	<b>77.5</b>
<i>Grandview Elementary School</i>	<b>82.1</b>	<b>72.2</b>	<b>90.1</b>	<b>86.6</b>	<b>75.7</b>	<b>80.1</b>	<b>76.3</b>	<b>64.4</b>
<i>James S Wilson Middle School</i>	<b>88.0</b>	<b>90.2</b>	<b>80.6</b>	<b>82.6</b>	<b>84.4</b>	<b>79.7</b>	<b>77.5</b>	<b>80.1</b>
<i>McDowell High School</i>	<b>75.0</b>	<b>70.9</b>	<b>64.2</b>	<b>72.8</b>	<b>66.0</b>	<b>70.4</b>	<b>79.1</b>	<b>75.8</b>
<i>Tracy Elementary School</i>	<b>79.3</b>	<b>75.4</b>	<b>81.8</b>	<b>74.2</b>	<b>79.0</b>	<b>72.2</b>	<b>72.4</b>	<b>70.7</b>
<i>Walnut Creek Middle School</i>	<b>96.7</b>	<b>92.9</b>	<b>89.1</b>	<b>91.0</b>	<b>89.1</b>	<b>90.9</b>	<b>87.0</b>	<b>86.5</b>
<i>Westlake Middle School</i>	<b>90.0</b>	<b>90.1</b>	<b>83.2</b>	<b>80.5</b>	<b>81.1</b>	<b>80.5</b>	<b>78.0</b>	<b>79.2</b>

## 4 Year Cohort Graduation Rates

The cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student first entered high school. The rate is determined for a cohort of students who have all entered high school for the first time during the same school year.<sup>6</sup>



<sup>5</sup> PDE's data does not provide any further information regarding the reason a score was not published.

<sup>6</sup> <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.



## Finding(s)

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### Finding

### The District Incorrectly Reported Transportation Data to PDE Resulting in Reimbursement Overpayments Totaling \$1,089,261

*Criteria relevant to the finding:*

#### **Student Transportation Subsidy**

The Public School Code (PSC) provides that school districts receive a transportation subsidy for most students who are provided transportation. Section 2541 of the PSC, 24 P.S. § 25-2541, specifies the transportation formula and criteria.

Section 2541(a) of the PSC, 24 P.S. § 25-2541(a), states, in part: “School districts shall be paid by the Commonwealth for every school year on account of pupil transportation which, and the means and contracts providing for which, have been approved by the Department of Education, in the cases hereinafter enumerated, an amount to be determined by multiplying the cost of approved reimbursable pupils transportation incurred by the district by the district’s aid ratio. In determining the formula for the cost of approved reimbursable transportation, the Secretary of Education may prescribe the methods of determining approved mileages and the utilized passenger capacity of vehicles for reimbursement purposes. . . .”

During our audit of the District’s student transportation data, we confirmed that the District reported incorrect data to PDE. As a result, the District was overpaid a total of \$1,089,261 during the 2013-14 and 2014-15 school years. The District was overpaid \$544,871 for the 2013-14 school year and \$544,390 for the 2014-15 school year.

The District received their transportation reimbursement for the 2013-14 school year in April 2015. At this time, due to receiving a significantly higher than usual transportation reimbursement payment, District personnel reviewed the data submitted to PDE and found errors. The District submitted revised transportation data to PDE on December 2, 2015, for the 2013-14 school year.

#### **Incorrect Mileage Submitted to PDE for the 2013-14 School Year**

The District had 90 contracted buses during the 2013-14 school year. Mileage traveled both with and without students are vital inputs to correctly determine a District’s transportation reimbursement amount. The District’s contracted transportation provider was documenting and reporting their individual mileage transported with and without students to the District. However, the District reported this source information incorrectly to PDE.

The District was entering miles transported with and without students into an internal spreadsheet, and this spreadsheet had a design error that was incorrectly calculating average numbers for these vital input categories (miles with and without students). These errors caused the approved daily miles, as reported to PDE, to be overstated by over 718,000 miles and resulted in an overpayment in regular transportation reimbursement of \$544,871.

*Criteria relevant to the finding  
(continued):*

Section 1726-A(a) of the CSL, 24 P.S. § 17-1726-A(a), addresses the transportation of charter school students by providing: “Students who attend a charter school located in their school district of residence, a regional charter school of which the school district is a part or a charter school located outside district boundaries at a distance not exceeding ten (10) miles by the nearest public highway shall be provided free transportation to the charter school by their school district of residence on such dates and periods that the charter school is in regular session whether or not transportation is provided on such dates and periods to students attending schools of the district. . . .”

Section 1726-A(a) further provides for districts to receive a state subsidy for transporting charter school students both within and outside district boundaries by providing: “. . . Districts providing transportation to a charter school outside the district and, for the 2007-2008 school year and each school year thereafter, districts providing transportation to a charter school within the district shall be eligible for payments under section 2509.3 for each public school student transported.”

Section 2509.3 of the PSC, 24 P.S. § 25-2509.3, provides that each school district shall receive a supplemental transportation payment of \$385 for each nonpublic school pupil transported. This payment is also applicable to charter school students through Section 1726-A(a) of the CSL.

This design error of the internal spreadsheet and the need for the District to recalculate both miles with and without students for all 90 contracted buses led to the significant time delay, from April 2015 to December 2015, for the District to recalculate the correct numbers and submit revised transportation reports to PDE. Our review of the District’s revised transportation reports that were submitted to PDE in December 2015 found no errors.

The District’s lack of review of the transportation data prior to submission to PDE for the 2013-14 school year was clearly evident in these errors. A rudimentary second level review of this information would have identified that the District’s spreadsheet was miscalculating three number averages. District officials modified the internal spreadsheet during the 2014-15 school year.

**Incorrect Number of Charter School Students Transported Reported to PDE for the 2014-15 School Year**

The District made different transportation reporting errors for the 2014-15 school year. Similar to what occurred in 2015, in April 2016, after receiving a significantly greater than usual transportation reimbursement amount for the 2014-15 school year, District officials performed an internal review of transportation data submitted to PDE. The District submitted revised transportation data to PDE in October 2016. As of March 31, 2017, PDE has not taken action on the revised transportation reports submitted by the District for the 2013-14 and 2014-15 school years.

The District incorrectly reported 1,414 more charter school students to PDE than were actually transported for the 2014-15 school year. The total number of charter school students transported during the 2014-15 school year was 106. The inflated figure reported to PDE resulted in the District being overpaid \$544,390 in transportation reimbursement for charter school students transported.

Section 1726-A(a) of the Charter School Law (CSL) requires school districts to provide free transportation to their students attending a charter school located within the school district or outside the school district not exceeding ten miles by the nearest public highway. This provision also allows school districts to receive a supplemental, state

*Criteria relevant to the finding (continued):*

Student transportation data is required to be submitted annually to PDE on a standardized form called, "Summary of Students Transported" (PDE-2089 form). This form is used to report the total number of students transported during the school year, including the number of charter school students transported within and outside the district.

#### **Annual Filing Requirement**

Section 2543 of the PSC, 24 P.S. § 25-2543, sets forth the requirement for school districts to annually file a sworn statement of student transportation data for the prior and current school year with PDE in order to be eligible for the transportation subsidies.

Section 2543, which is entitled, "Sworn statement of amount expended for reimbursable transportation; payment; withholding" of the PSC states, in part: "Annually, each school district entitled to reimbursement on account of pupil transportation shall provide in a format prescribed by the Secretary of Education, data pertaining to pupil transportation for the prior and current school year. . . . The Department of Education may, for cause specified by it, withhold such reimbursement, in any given case, permanently, or until the school district has complied **with the law or regulations** of the State Board of Education." [Emphasis added.]

#### **Record Retention Requirement**

Section 518 of the PSC, 24 P.S. § 5-518, requires that financial records of a district be retained by the district for a period of not less than six years.

transportation subsidy of \$385 per charter school student pursuant to Section 2509.3 of the PSC.

The charter school student reporting errors would have been revealed during a second level review of transportation data prior to submission to PDE, much like the District's errors in the 2013-14 school year.

### **Lack of Supporting Documentation for Transportation Reimbursement Received for the 2014-15 School Year**

Districts receive two separate transportation reimbursement payments. One reimbursement is based on the number of charter school and nonpublic students transported, as discussed in the preceding section. The other reimbursement is based on the number of students transported and the number of miles vehicles were in service both with and without students. The District received \$1,581,985 in transportation reimbursement from PDE based on the number of students transported and the number of miles vehicles were in service both with and without students. While we were able to review the spreadsheet calculations made by the District for the 2014-15 school year, we were unable to verify the accuracy of the over \$1.5 million transportation reimbursement because the District did not maintain adequate source documents that would provide support for the accuracy of the amounts used in the spreadsheet calculations.

We asked the District to provide us with student rosters that were used to prepare the transportation reports submitted to PDE. However, after multiple requests and conversations with District officials, the District was unable to produce the supporting documentation and failed to comply with the PSC.

As stated earlier, the District has submitted revised transportation reports to PDE for the 2013-14 and 2014-15 school year. We agree with the revisions made to the 2013-14 report and the revisions to the charter school students transported in 2014-15. However, the lack of required supporting documentation for the 2014-15 school year precludes us from fully reviewing to ensure the District was eligible for the over \$1.5 million received in transportation reimbursement for that school year.

We encourage the District to take a more active role in their transportation operations. It is important to ensure District personnel are adequately trained to perform their required responsibilities and a review process is implemented prior to transportation data being submitted to PDE.

Transportation reimbursement is a major income source for most districts, and it is important that reports are submitted accurately and timely to PDE so these funds are received timely. The specific recommendations below should significantly reduce the risk of future errors occurring.

### **Recommendations**

The *Millcreek Township School District* should:

1. Ensure all transportation data reports are reviewed for accuracy and completeness by a District staff member other than the preparer prior to submission to PDE. The review and approval of the reports should be documented.
2. Conduct a multi-year trend analysis of student transportation data annually as a procedure to identify unexpected fluctuations that may be indicative of errors. Any significant and unexpected fluctuations should be investigated to determine whether the data is accurate prior to the submission of data to PDE.
3. Maintain and update student rosters needed to compute the number of students assigned to each vehicle, whether district-owned or contracted, as instructed by PDE.
4. Retain all source documents and calculations supporting transportation reports submitted for reimbursement in accordance with the PSC and PDE instructions.

The *Pennsylvania Department of Education* should:

5. Adjust the District's subsidy to correct the overpayment of \$1,089,261.

## Management Response

District management provided the following response:

The Millcreek Township School District faced an unprecedented time beginning in the spring of 2013, including the following:

- Superintendent abruptly retired; Business Manager resigned.
- State and local audits revealed bad business decisions/budgeting, ineffective processes, and poor internal controls.
- District had a negative fund balance of over \$400,000- and faced an 8.8 million dollar deficit for 2013-14.
- Most importantly, the District's long time Supervisor of Transportation retired, and for budgeting purposes, we did not fill his position. His duties were assigned to the Director of Operations.
- The Director of Operations received no training on the Student Transportation Subsidy Report, and in addition, he relied exclusively on (the District's contracted busing provider) for the accuracy of the data submitted on these reports.

After being hired as superintendent in July of 2013, my initial goals were to bring financial security back to the District and restore an effective Business Office operation. We were in crisis mode and did eventually hire a new Business Manager (Director of Financial Operation) in February, 2014. Much of the first year on the job was committing to fixing the issues in the Business Office. Meanwhile, we assumed that, when it came time for the submission of the Transportation Subsidy report, that First Student was giving us accurate information. We trusted the data and submitted the reports accordingly.

Thanks to time and stronger internal processes and controls, our Director of Finance and Accounting DID eventually recognize this error and has submitted revised subsidy documentation to PDE. This is noted in your report. Our current Director of Operations is retiring this

July, and in anticipation of his retirement, we have made the following decisions and/or changes:

- We recently contracted with PASBO for an independent transportation audit.
- We have contracted with [an outside vendor] to do a complete rerouting of our routes for the 2017-18.
- We will hire a new supervisor for Transportation.
- This new supervisor and our Director of Finance and Accounting will be reviewing data reports and documenting their approvals.
- The supervisor will also conduct a multi-year analysis of student data to identify any unexpected fluctuations prior to submitting reports to PDE.
- The supervisor will also keep an updated roster of students assigned to each bus.
- The supervisor and Director of Finance and Accounting will retain all documents and calculations supporting transportation reports.

### **Auditor Conclusion**

We are pleased that District management noticed the issue after the fact and have developed corrective actions going forward. The effectiveness of these corrective actions will be determined in our next cyclical audit of the District.

It should be noted that while the contracted carrier did provide the District with accurate documentation for miles with and without students, the spreadsheet used to calculate the mileage sample average that contained an error was a District template.

## Status of Prior Audit Findings and Observations

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Our prior audit of the District released on July 16, 2013, resulted in three findings and three observations, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We reviewed the District's written response provided to PDE, interviewed District personnel, and performed audit procedures as detailed in each status section below.

### Auditor General Performance Audit Report Released on July 16, 2013

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**Prior Finding No. 1: Ineffective Administrative Management and Poor Board Oversight Lead to Breakdowns in the District's Fiscal Operations (Resolved)**

Prior Finding Summary: During our prior audit, we found that the District, between July 1, 2008, and June 30, 2012, experienced breakdowns in its fiscal operations, including incomplete or missing monthly financial reports, incorrect budgets, improper fund transfers, improper expenditure, and lost revenue.

Prior Recommendations: We recommended that the District should:

1. Ensure the Board Secretary, District Treasurer, and the District administrative personnel develop and present monthly and annual reconciliation reports as required by the PSC, as well as other financial information necessary for the Board of School Directors (Board) to make accurate and sound financial decisions, including monthly cash and income statements.
2. Revise its budget process to ensure that it develops realistic revenue and expenditure projections.
3. Ensure that bond funds are expended in accordance with the purposes identified in the bond resolution.
4. File all insurance claims in a timely manner to ensure reimbursement for misappropriated funds.
5. Implement the necessary procedures to ensure that budgetary transfers are presented timely and approved by the Board.

6. Develop a process for monitoring whether staff regularly follows established protocols. The District's strategy for implementing a system of accountability should include:
  - i. Establishing an organizational reporting structure that clearly defines areas of responsibility and authority, and appropriate lines of reporting.
  - ii. Identifying risks, analyzing potential consequences, and determining actions to mitigate the risks.
  - iii. Developing policies and procedure, techniques, and mechanisms that ensure goals are met and risk of error reduced.
  - iv. Keeping proper documentation to show the execution of important activities.

Current Status:

Our current audit found that the District implemented our recommendations.

1. Our review of minutes noted that beginning with the regular March 18, 2013 board meeting, treasurer reports were provided to the Board at the monthly board meetings.
2. On March 29, 2016, the Board revised Policy 603, *Budget Preparation*, which ensures the District has developed realistic revenue and expenditure projections. The policy provides for the Board authority and specific delegation of the responsibility for budget preparation.
3. On May 12, 2014, the Board approved the Bond Resolution Amendment to specifically amend the list of capital improvements identified with the General Obligation Bonds, Series of 2010, in regards to the District facilities.
4. Per the District's solicitor, there were no charges brought against the individual and, therefore, an insurance claim could be filed.
5. On March 29, 2016, the Board revised Policy 612, *Purchases Not Budgeted*. This updated procedures to ensure budgetary transfers are presented in a timely manner and approved by the Board.
6. The District developed a process for monitoring whether the staff regularly follows established protocols. The District has established a Month End Close Process checklist that tracks the status of significant activities and reports.



**Prior Finding No. 2: The District Delayed Its Applications for Commonwealth Reimbursement Totaling \$3,105,964 Resulting in Lost Investment Revenue (Resolved)**

Prior Finding Summary: We found in our prior review of the District’s lease payments, and its applications for reimbursement for school construction projects for the period covering July 1, 2007, through June 30, 2012, that the District failed to timely file its applications for reimbursement. This delay resulted in denying the District the opportunity to earn potential investment interest on that revenue.

Prior Recommendations: We recommended that the District should:

1. Establish a formal written procedure for the filing of the sinking fund reimbursement applications. This procedure should include deadlines for taking actions and directions on what happens if the District or PDE misses that deadline.

Current Status: Our current audit found that the District implemented our recommendation. Specifically, an email dated February 28, 2014, from the Superintendent to the Director of Finance and Accounting discussed the outstanding sinking fund reimbursement applications and responsibility for application submission. In addition, our review of the 2015-16 sinking fund reimbursement applications revealed the District filed all applications timely.

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**Prior Finding No. 3: Errors and Internal Control Weaknesses Related to Tuition Billings Involving \$2,124,278 (Resolved)**

Prior Finding Summary: During our prior audit of the District’s tuition records for the 2008-09 and 2009-10 school years, we found errors and internal control weaknesses related to tuition billings involving \$2,124,278. The District failed to bill for charter school students (\$331,016); billed for special education students at a lower rate (\$380,261); and the District was more than a year late billing other school districts for tuition (\$1,413,001).

Prior Recommendations: We recommended that the District should:

1. Establish an internal control review process to ensure business office personnel are properly billing for tuition in a timely manner and using correct tuition rates.
2. Revise tuition billings for sending school districts.

3. Include on invoices the approved daily tuition rate and the number of days of membership the sending district is being billed for, so the sending districts' personnel can also verify the accuracy of invoices.
4. Review tuition billings for years subsequent to our years of audit and revise them, if necessary.
5. Ensure adequate documentation is retained for internal control and audit purposes.

Current Status:

During our current audit we found that the District implemented all five recommendations from the previous audit.

1. District personnel created an Invoice Detail Listing that ensures proper tuition billing in a timely manner and using correct tuition rate.
2. Tuition billings were revised for sending school districts.
3. Tuition invoices now include approved daily tuition rate and number of day's membership the sending District is being billed, per review of the Invoice Detail Listing.
4. The District reviewed its tuition billings for the 2012-13, 2013-14, and 2014-15 school years for accuracy and timeliness.
5. The Invoice Detail Listing is retained on file for internal control and audit purposes.

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**Prior Observation No. 1: Questionable Taxpayer Benefit for Nonresident Tuition Agreement (Resolved)**

Prior Observation Summary:

Beginning in February 26, 2000, the District entered into an agreement with a local hockey club located in Erie, Pennsylvania, which permitted its players to attend school at the District tuition-free in exchange for various services. However, the hockey player students should have been charged tuition as nonresident students to enroll in the District. Consequently, the District lost tuition revenue, which calls into question whether the Agreement was in the best interest of District taxpayers. In addition, the hockey club was to provide the District with in-kind services in exchange for the open admission/tuition free arrangement; however, our audit found no documentation to support whether the hockey club complied with the provisions of the agreement.

Prior Recommendations: We recommended that the District should:

1. Implement written guidelines and parameters governing the operations of the Agreement to ensure adequate internal control.
2. Prepare and retain documentation of the actual recipients of free tickets and of the educational service hours that are provided to the District.
3. Review the Agreement to ensure the benefits received and the actual usage of tickets are in the best interest of the District's taxpayers.

Current Status:

Our current audit found that the District implemented all three of the prior recommendations.

1. The District developed an "Agreement Reconciliation" report that was completed for the 2012-13 through 2015-16 school years. This report reviewed all aspects of the agreement to ensure adequate internal control.
2. The District prepared and retained documentation of the actual recipients of free tickets, as noted in the review of the March 2, 2013 game ticket spreadsheet. In addition, the Agreement Reconciliation report documented the service hours completed by the hockey players.
3. District personnel, using the Agreement updated on April 17, 2012, and Agreement Reconciliation report, met yearly with the hockey club to discuss all aspects of the Agreement and Reconciliation Report.

While we are pleased that the District implemented our prior recommendations, it is important to note that on February 27, 2017, the District *terminated* the Agreement with the hockey team.

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**Prior Observation No. 2: The District Lacks Sufficient Internal Controls Over Its Student Record Data (Resolved)**

Prior Observation

Summary:

During our prior audit, we found that the District lacked adequate controls over data integrity to ensure continuity for student membership submission in the event that there was a sudden change in personnel. In addition, reports submitted to PDE for the 2009-10 school year contained reporting errors for the District's membership data.

Prior Recommendations: We recommended the District should:

1. Prepare documented procedures (e.g. procedure manuals, policies, written instructions, etc.) to ensure continuity over the Pennsylvania Information Management System (PIMS) data submission.
2. Cross-train individual(s) to familiarize them with PDE's child accounting reporting requirements and PIMS reporting procedures in event of a sudden personnel change.
3. Ensure documentation is obtained and retained of enrollment of students through intermediate unit (IU) programs.
4. Reference the PIMS manual of reporting for proper instructions in reporting nonresident students' membership days.
5. Strengthen internal controls to ensure adherence to PDE regulations when reporting nonresident students.
6. Review membership reports submitted to PDE for the school years subsequent to the audit, and if reporting errors are found, contact the PIMS help desk for guidance and submit revised reports.

Current Status:

Our current audit found the District implemented all six of the recommendations as follows:

1. A child accounting reconciliation report, dated May 2015, details procedures used to ensure continuity over PIMS data submission.
2. On December 22, 2016, we interviewed the Business Manager, who informed us that the PIMS coordinator, Child Accounting Coordinator, Assistant Child Accounting Coordinator, and Business Manager meet at the beginning and end of each year and are all familiar with PIMS data submission. In the event of anyone leaving suddenly, the others are capable of uploading PIMS data.
3. The District no longer needs to retain documentation on IU students since no IU programs are offered at the District.
4. District personnel reference the PIMS manual of reporting for proper instructions in reporting nonresident students' membership days.
5. Internal controls were put in place in May 2015 to help ensure adherence to PDE regulations when reporting nonresident students.

6. Each individual school has personnel who review all attendance and student membership information which is entered on the vendor membership report. The PIMS Coordinator reconciles vendor membership reports to the PIMS accuracy statement. The only errors found have been duplicate student IDs. Finally, according to the District, its employees contacted the PIMS help desk for guidance on revised reports to be submitted to PDE.
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### **Prior Observation No. 3: Unmonitored Vendor System Access and Logical Access Control Weaknesses (Resolved)**

#### Prior Observation Summary:

The District uses software purchased from an outside vendor for its critical student accounting applications. The software vendor has remote access into the District's network services.

We determined that 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 adequately monitored all vendor activity in its system.

#### Prior Recommendations: We recommended that the District should:

1. Develop and maintain written technology security policies and procedures to control the activities of the vendor.
2. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (e.g. every 30 days), to use passwords that are a minimum length of eight characters and include alpha, numeric, and special characters, and to maintain a password history (e.g. approximately ten passwords).
3. Allow access to its system only when the vendor needs access to make pre-approved changes/updates or to provide requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of the vendor's changes.
4. Develop necessary written reconciliation procedures performed that would allow District personnel to detect significant changes in membership/attendance data by District personnel, vendor employees, or others.
5. Require the vendor to assign unique userIDs and passwords for each employee accessing the system. Further, the District should

obtain a list of the vendor employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.

Current Status:

During our current audit, we found that the District implemented our recommendations as follows:

1. On January 28, 2013, the District signed an agreement with a new software vendor. This agreement establishes policies and procedures to control the activities of the vendor.
2. On September 15, 2016, in an email to the District, the software vendor stated that it would be impossible for the company to maintain a unique userID and password for each user, but the company takes complete responsibility and liability if any issues arise with District software. In addition, Management, in its response to our Observation, stated that in dealing with educational professionals, the changing of usernames and passwords actually promotes weaker security since users tend to write passwords down on paper and/or simply add sequential numerals to existing passwords. In conclusion, the District did not implement our recommendations to change passwords on a regular basis (Recommendation #2) and require vendor to assign unique userIDs for employees accessing the system (Recommendation #5).
3. In the agreement between the vendor and the District, signed on January 28, 2013, the vendor has access to the system on a 24/7 basis to preserve the integrity of the data. However, each time the system is accessed by the vendor, the user, browser, and IP address are identified. Also, all vendor employees use a time stamp to log in and out of system.
4. Each individual school has personnel who review all attendance and membership information, which is imputed on the vendor membership report. The PIMS Coordinator reconciles vendor membership report to PIMS accuracy statement. This review allows District personnel to detect significant changes to membership/attendance data.

## **Appendix: Audit Scope, Objectives, and Methodology**

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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, PDE, and other concerned entities.

Our audit, conducted under authority of Sections 402 and 403 of The Fiscal Code,<sup>7</sup> is not a substitute for the local annual financial 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. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

### **Scope**

Overall, our audit covered the period July 1, 2012, through June 30, 2016. In addition, the scope of each individual audit objective is detailed on the following pages.

The District's management is responsible for establishing and maintaining effective internal controls<sup>8</sup> to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, which 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.

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<sup>7</sup> 72 P.S. §§ 402 and 403.

<sup>8</sup> 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; and compliance with certain relevant state laws, regulations, contracts, and administrative procedures.

## Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, annual financial reports, annual budgets, new or amended policies and procedures, and the independent audit report of the District's basic financial statements for the fiscal years July 1, 2012, through June 30, 2016. We also determined if the District had key personnel or software vendor changes since the prior audit.

In addition, we examined citizen concerns that were brought to our attention prior to and during our audit. The topics of these concerns covered numerous areas and many are addressed in the status section of this report. As discussed during the recent audit review conference with district management, other concerns that we reviewed did not result in reportable issues.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies, and best business practices. Our audit focused on the District's efficiency and effectiveness in the following areas:

- Transportation Operations
- Data Integrity
- Bus Driver Requirements
- School Safety

As we conducted our audit procedures, we sought to determine answers to the following questions, which served as our audit objectives:

- ✓ In the areas where the District received transportation subsidies, was the District and its contracted vendors in compliance with applicable laws and procedures?
  - To address this objective, we randomly selected 23 of 90 contracted vehicles for the 2013-14 school year. For each vehicle selected, we reviewed data elements reported to PDE, including the number of students transported, and miles with and without students. To verify the accuracy of the data reported to PDE, we reviewed supporting documentation for all of the 106 charter school students transported for the 2014-15 school year.
  - In addition, we reconciled the transportation data the District reported to PDE to the District's final subsidy forms to ensure accuracy.

Our review of this objective disclosed reportable issues as noted in the Finding in the current report.



- ✓ Did the District ensure that the membership data it reported in the PIMS system was accurate, valid, and reliable?
  - To address this objective, we randomly selected 15 registered students (5 resident, 5 nonresident, and 5 area vocational-technical schools) from the vendor software listing for the 2014-15 through 2015-16 school year and verified that each child was appropriately registered with the District.
  - In addition, we reviewed both school terms reported on the Summary of Child Accounting and verified the school days reported on the Instructional Time Membership Report and matched them to the School Calendar Fact Template.

Our testing in this area did not result in a reportable condition.

- ✓ Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances as outlined in applicable laws?<sup>9</sup> Also, did the District have written policies and procedures governing the hiring of new bus drivers that would, when followed, provide reasonable assurance of compliance with applicable laws?
  - To address this objective, we selected 5 of the 67 bus drivers hired by the District bus contractor, during the period covering July 1, 2016, through February 8, 2017, and reviewed documentation to ensure the District complied with the requirements for bus drivers. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures, if followed, would ensure compliance with bus driver hiring requirements.

Our testing did not results in a reportable condition.

- ✓ Did the District take actions to ensure it provided a safe school environment?<sup>10</sup>
  - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, and after action reports. In addition, we conducted on-site reviews at 1 of the District's 11 school buildings to assess whether the District had implemented basic safety practices.<sup>11</sup> Due to the sensitive nature of school safety, the results of our review of this objective area are not described in our audit report; however, the results are shared with District officials and, if deemed necessary, with PDE.

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<sup>9</sup> 24 P.S. § 1-111, 23 Pa.C.S. § 6344(a.1), 24 P.S. § 2070.1a *et seq.*, 75 Pa.C.S. §§ 1508.1 and 1509, and 22 *Pa. Code Chapter 8.*

<sup>10</sup> 24 P.S. § 13-1301-A *et seq.*

<sup>11</sup> Basic safety practices evaluated were building security, bullying prevention, visitor procedures, risk and vulnerability assessments, and preparedness.

In addition to the above objectives, we conducted procedures to determine if the District implemented the recommendations from our prior audit report. The prior audit reported three findings, three observations, and a total of 26 recommendations. The results of this review can be found in the Status of Prior Audit Findings and Observations section of this report.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

**The Honorable Tom W. Wolf**

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Commonwealth of Pennsylvania  
Harrisburg, PA 17120

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