

MOUNT CARMEL AREA SCHOOL DISTRICT
NORTHUMBERLAND COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 2012

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

Mr. Nicholas Goretski, Board President
Mount Carmel Area School District
600 West Fifth Street
Mount Carmel, Pennsylvania 17851

Dear Governor Corbett and Mr. Goretski:

We conducted a performance audit of the Mount Carmel Area School District (MCASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period August 19, 2009 through January 12, 2012, 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 MCASD 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 these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

June 19, 2012

cc: **MOUNT CARMEL AREA SCHOOL DISTRICT** Board Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Mount Carmel Area School District (MCASD). 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 MCASD in response to our prior audit recommendations.

Our audit scope covered the period August 19, 2009 through January 12, 2012, 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

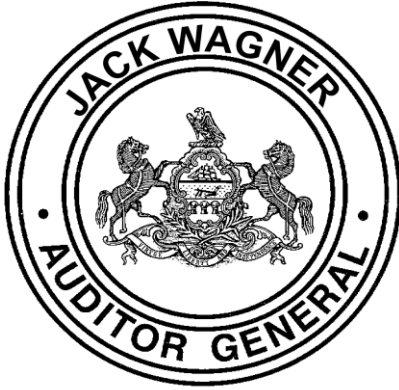
The MCASD encompasses approximately 24 square miles. According to 2010 federal census data, it serves a resident population of 12,577. According to District officials, in school year 2009-10 the MCASD provided basic educational services to 1,595 pupils through the employment of 120 teachers, 136 full-time and part-time support personnel, and 4 administrators. Lastly, the MCASD received more than \$10.2 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the MCASD 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 a Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Subsidy. Our audit of pupil membership reports submitted by the MCASD to the Department of Education for the 2009-10 school year found reporting errors as well as a 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 MCASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the MCASD had taken appropriate corrective action in implementing our recommendations pertaining to our observation regarding outside vendor system access (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 August 19, 2009 through January 12, 2012.

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 MCASD'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 District 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 that may impose 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 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.

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.

MCASD 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. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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 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 and pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 26, 2010, we reviewed the MCASD's response to DE dated July 10, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding →

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

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 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 Mount Carmel Area School District's (MCASD) pupil membership reports submitted to DE for the 2009-10 school year found reporting errors as well as a lack of internal controls. MCASD personnel inaccurately reported resident membership. The lack of internal controls resulted in the MCASD 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 resident children were understated by 1,463 elementary days and 1,432 secondary days.

The errors were due to District personnel incorrectly entering data into the child accounting vendor system, which was then uploaded incorrectly into PIMS.

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

Recommendations

The *Mount Carmel Area School District* should:

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

The *Department of Education* should:

3. Revise all reports that have been incorrectly completed and adjust the District's subsidy affected by the error.

Management Response

Management stated the following:

Recommendations have been implemented for the 2010-11 school year.

Status of Prior Audit Findings and Observations

Our prior audit of the Mount Carmel Area School District (MCASD) for the school years 2007-08 and 2006-07 resulted in one reported observation. The observation pertained to unmonitored intermediate unit (IU) system access. 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 MCASD 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 MCASD did implement recommendations related to the observation.

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

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

Observation Summary: Our prior audit found that the MCASD uses software purchased from the Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance). The CSIU has remote access into the MCASD's network servers, since the servers are housed at the MCASD.

Recommendations: Our audit observation recommended that the MCASD should:

1. Establish separate information technology policies and procedures for controlling the activities of the CSIU and have the CSIU sign this policy, or the District should require the CSIU to sign the MCASD's Acceptable Use Policy.
2. Implement a security policy and system parameter settings to lock out users after three unsuccessful access attempts.
3. Require the CSIU to assign unique userIDs and passwords to vendor employees authorized to access the MCASD's system. Further, the MCASD should obtain a list of CSIU employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.
4. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.

5. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and ensure warranty coverage. Specifically, the MCASD should install fire detectors.

Current Status:

During our current audit procedures we found that the MCASD did implement the recommendations found in our prior audit report.



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:

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