

NESHANNOCK TOWNSHIP SCHOOL DISTRICT
LAWRENCE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2013



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER
AUDITOR GENERAL**

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

Mr. Mark Hasson, Board President
Neshannock Township School District
3834 Mitchell Road
New Castle, Pennsylvania 16105

Dear Governor Corbett and Mr. Hasson:

We conducted a performance audit of the Neshannock Township School District (NTSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period March 18, 2010 through April 10, 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 NTSD 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 NTSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve NTSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the NTSD's cooperation during the conduct of the audit.

Sincerely,

/s/

**JACK WAGNER
Auditor General**

January 14, 2013

cc: **NESHANNOCK TOWNSHIP 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 Neshannock Township School District (NTSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period March 18, 2010 through April 10, 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 NTSD encompasses approximately 18 square miles. According to 2010 federal census data, it serves a resident population of 9,609. According to District officials, in school year 2009-10 the NTSD provided basic educational services to 1,315 pupils through the employment of 84 teachers, 53 full-time and part-time support personnel, and 6 administrators. Lastly, the NTSD received more than \$4.6 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the NTSD 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: Errors in Reporting Pupil Membership Resulted in a

Reimbursement Underpayment of \$38,495. Our audit of pupil membership reports submitted to the Pennsylvania Department of Education for the 2009-10 school year found reporting errors. NTSD personnel inaccurately reported membership for children placed in private homes as resident membership. These errors resulted in a reimbursement underpayment of \$38,495 (see page 6).

Status of Prior Audit Findings and

Observations. There were no findings or observations included in our prior audit report.



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 March 18, 2010 through April 10, 2012, except for the verification of professional employee certification which was performed for the period August 1, 2011 through January 30, 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 Pennsylvania Department of Education 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 NTSD'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 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 state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District receives transportation subsidies, are 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 are properly qualified, and do they 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?

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 findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observations and conclusions based on our audit objectives.

NTSD 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, bus driver qualifications, professional employee certification 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 NTSD operations.

Findings and Observations

Finding

Errors in Reporting Pupil Membership Resulted in a Reimbursement Underpayment of \$38,495

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; Limited English Proficiency 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 (PDE) now 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. PIMS replaces PDE's previous reporting system, the Child Accounting Database (CAD), which PDE ran concurrently until it brought PIMS completely online. PDE no longer accepts child accounting data through the CAD system.

Because PDE now uses the data in PIMS to determine each LEA's state subsidy, it is vitally important that the student information entered into this system is accurate, complete, and valid. Moreover, anytime an entity implements a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. LEA's must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our audit of pupil membership reports submitted to PDE for the 2009-10 school year found reporting errors. District personnel inaccurately reported membership for five nonresident children placed in private homes. The errors resulted in a reimbursement underpayment of \$38,495.

Criteria relevant to the finding:

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

PDE provides regulations and guidelines governing the classification of nonresident children placed in private homes by the court.

Section 2503 of the Public School Code provides for reimbursement on behalf of children placed in private homes.

Membership days for children placed in private homes were understated by 482 days for elementary students and 362 days for secondary students. When reporting the membership days for these students District personnel used residency codes that resulted in PIMS identifying the students as residents instead of nonresident children placed in private homes.

Children placed in private homes are defined as children placed in foster care. If the natural parents of such children live in another district, these children are considered nonresidents for child accounting purposes.

It should also be noted that 97 days for two other nonresident secondary students who were reported as children placed in private homes could not be verified, resulting in a loss of funding totaling \$4,529. Our auditors could not include these days for reimbursement because the District failed to maintain supporting documentation for students who withdrew from the District during the school year.

Additionally the auditor noted one elementary resident student that was incorrectly coded as a nonresident parent-paid student for 181 days. Although this error had no effect on the District's subsidy for the years of audit, it may affect the District's subsidy for future years, depending on the formula used to calculate the subsidy at that time.

We have provided PDE with a report detailing the errors for use in recalculating the District's reimbursement.

During our audit we noted other concerns which do not affect the District's subsidy, detailed as follows:

1. Permanent records reviewed were incomplete. There were no entry and withdrawal dates, no record of any classes taken, reason for withdrawal, parent names or telephone number.
2. There is no standard entry and withdrawal form used for elementary and secondary buildings.
3. There was no approval signature noted on the new student registration form as required by the form.

4. Child accounting personnel failed to notice that membership days for District students enrolled in intermediate unit classes in neighboring districts were not reported, and therefore the District did not receive proper credit.
5. The District reported one student for 302 days because they failed to adjust the percentage of time that the student was enrolled in alternative education and special education classes.

Recommendations

The *Neshannock Township School District* should:

1. Strengthen internal controls over pupil membership and the coding of nonresident students prior to uploading District membership data into PIMS to ensure accuracy.
2. Contact all districts educating District students in special education classes to verify that all District students are properly reported.
3. Review reports for subsequent school years and submit revised reports to PDE if errors are found.
4. Retain copies of student permanent records, and ensure that permanent record cards and entry and withdrawal forms are completed correctly.
5. To ensure consistency, develop a uniform registration form for use throughout the District and be sure the form shows administrative approval.

The *Pennsylvania Department of Education* should:

6. Adjust the District's future allocations to resolve the underpayment of \$38,495.

Management Response

Management stated the following:

I [the Superintendent] have met with all administrators and set up protocol on making sure the internal controls are in place on ensuring student records are completed.

Status of Prior Audit Findings and Observations

Our prior audit of the Neshannock Township School District resulted in no findings or observations.



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
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