



**NORTH CLARION COUNTY SCHOOL  
DISTRICT**

**CLARION COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**MARCH 2013**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**







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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

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

Mr. Scott Daum, Board President  
North Clarion County School District  
10439 Route 36  
Tionesta, Pennsylvania 16353

Dear Governor Corbett and Mr. Daum:

We conducted a performance audit of the North Clarion County School District (NCCSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period October 8, 2010, through October 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 NCCSD 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. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

**EUGENE A. DEPASQUALE**  
Auditor General

March 27, 2013

cc: **NORTH CLARION COUNTY SCHOOL DISTRICT** Board Members



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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the North Clarion County School District (NCCSD). 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 NCCSD in response to our prior audit recommendations.

Our audit scope covered the period October 8, 2010, through October 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 NCCSD encompasses approximately 112 square miles. According to 2010 federal census data, it serves a resident population of 4,857. According to District officials, in school year 2009-10 the NCCSD provided basic educational services to 667 pupils through the employment of 57 teachers, 30 full-time and part-time support personnel, and 4 administrators. Lastly, the NCCSD received more than \$4.3 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the NCCSD 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. In addition, we identified one matter unrelated to compliance that is reported as an observation.

**Finding: Errors in Reporting Pupil Transportation Data Resulted in a Net Subsidy Underpayment of \$12,358.** Errors in reporting contractor costs and nonpublic pupils transported resulted in a net underpayment to the NCCSD (see page 6).

**Observation: North Clarion County School District Lacks Sufficient Internal Controls Over Its Student Record Data.**

The NCCSD does not have adequate procedures in place to ensure continuity over its Pennsylvania Information Management System data submission (see page 8).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the NCCSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the NCCSD had not taken appropriate corrective action in implementing our recommendations pertaining to reporting transportation data (see page 10). The NCCSD has taken appropriate action pertaining to our finding regarding bus drivers' qualifications (see page 11), and our observation regarding unmonitored vendor system access and logical access control weaknesses (see page 11).





## Audit Scope, Objectives, and Methodology

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### 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 October 8, 2010, through October 12, 2012, except for the verification of professional employee certification which was performed for the period July 31, 2012, through October 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 Pennsylvania Department of Education (PDE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

### Objectives

*What is the difference between a finding and an observation?*

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the NCCSD'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?
- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System is complete, accurate, valid and reliable?

- ✓ 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?
- ✓ 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?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?

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

NCCSD 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. In conducting our audit, we obtained an understanding of the District's internal controls, including any IT controls, as they relate to the District's compliance with applicable state laws,

regulations, contracts, grant agreements and administrative procedures that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as board meeting minutes and pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 21, 2011, we reviewed the NCCSD's response to PDE dated April 10, 2012. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding →

### **Errors in Reporting Pupil Transportation Data Resulted in a Net Subsidy Underpayment of \$12,358**

*Criteria relevant to the finding:*

Contractor cost data are an integral part of the transportation subsidy formula and must be accurately reported to PDE, since they are a major factor in determining the District's transportation reimbursement.

The Public School Code, 24 P.S. § 25-2509.3, provides, in part:

"For the school year 2001-02 and each school year thereafter, each school district shall be paid the sum of \$385 for each nonpublic school pupil transported."

Nonpublic pupil counts must be reported accurately, in accordance with PDE guidelines and instructions, to ensure the District receives proper subsidy.

Our audit of the 2009-10 and 2008-09 school years found errors in the reporting of contracted transportation costs to the Pennsylvania Department of Education (PDE), resulting in transportation subsidy underpayments of \$15,704 for the 2009-10 school year and \$5,124 for the 2008-09 school year. Additionally, the North Clarion County School District was overpaid for nonpublic transportation subsidies by \$5,005 for the 2009-10 school year and \$3,465 for the 2008-09 school year.

For both years of audit, the contracted cost errors were the result of the District personnel omitting the cost of health insurance premiums for the contractors' drivers from the amount paid to contractors reported to PDE.

Prior to the 2007-08 school year, the contractors paid the District directly for the health care premiums. Beginning with the 2007-08 school year, the District began deducting the cost of health insurance premiums for contractors' drivers from the District's payments to the contractors. The District erroneously omitted this expense from the total contractor costs that were reported to PDE. The errors resulted in contractor costs being understated by \$15,704 for the 2009-10 school year and by \$9,093 for the 2008-09 school year. Subsidy is calculated based on the lesser of actual costs or PDE's formula for the calculation of allowable costs. In 2008-09, costs for two of four contractors exceeded the formula, so those errors did not affect the reimbursement.

In addition, the auditors found errors in the reporting of nonpublic pupils transported. For both years the reporting errors were caused by District personnel being unaware of certain reporting guidelines and failing to appropriately review documentation supporting the number of nonpublic pupils transported. As a result, the District overstated the number of nonpublic pupils transported by 13 pupils in school year 2009-10 and by 9 pupils in school year 2008-09. This resulted in nonpublic pupil transportation subsidy overpayments of \$5,005 and \$3,465, respectively.

We have provided PDE with reports detailing the errors for use in recalculating the District's pupil transportation reimbursement.

**Recommendations**

The *North Clarion County School District* should:

1. Thoroughly review all transportation data for accuracy before submitting reports to PDE.
2. Ensure that District personnel responsible for the submission of reports are aware of PDE guidelines and regulations.
3. Perform a review of subsequent years' data for accuracy and resubmit reports, if necessary, to PDE.

The *Pennsylvania Department of Education* should:

4. Adjust the District's transportation subsidy to correct the net underpayment of \$12,358.

**Management Response**

Management provided a response agreeing with the finding and making no further comment.

## Observation

### North Clarion County School District Lacks Sufficient Internal Controls Over Its Student Record Data

*Criteria relevant to the observation:*

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. Districts 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 district's to receive the incorrect amount of state reimbursement.

Our review of the North Clarion County School District's controls over data integrity found that internal controls need to be improved. Specifically, our review found that the District does not have adequate procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.

Currently, the District has two individuals (one in each building) whose responsibility is the submission of child accounting/PIMS data.

*Criteria relevant to the observation:*

State Board of Education Regulations, 22 Pa Code 11.11(b), provides, in pertinent part:

*“Enrollment.* A school district or charter school shall normally enroll a child the next business day, but no later than 5 business days of application. The school district or charter school has no obligation to enroll a child until the parent, guardian or other person having control or charge of the student making the application has supplied proof of the child’s age, residence, and immunizations as required by law.”

The auditors found that the District does not have documented procedures (e.g. procedure manuals, policies, written instructions, etc.) in place to ensure accurate reporting, nor does the District have anyone cross-trained to take over their responsibilities in the event of a change in personnel.

It should also be noted that there is no managerial review of either the reports generated and submitted to PDE or the work performed by the two individuals with responsibility for child accounting data prior to the submission of the reports to PDE.

Additionally, our audit found that the District is not following correct procedures when a new student enrolls in the District. Specifically, they are not requesting proof of residency as required by the District’s Board Policy Number 200, “Enrollment of Students and the Public School Code.” The policy states, in part, “the District shall not enroll a student until the parent/guardian has submitted proof of the student’s age, residence, and immunizations and a completed Parent Registration Statement, as required by law and regulations.”

## **Recommendations**

The *North Clarion County School District* should:

1. Prepare documented procedures (e.g. procedure manuals, policies, written instructions, etc.) to ensure continuity over PIMS data submission.
2. Cross-train individual(s) to familiarize them with PDE’s child accounting reporting requirements and PIMS reporting procedures in the event of a sudden change in personnel.
3. Adhere to board policy and require proof of residency for all students enrolling in the District.

## **Management Response**

Management provided a response agreeing with the observation and making no additional comment.

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the North Clarion County School District (NCCSD) for the school years 2007-08 and 2006-07 resulted in two reported findings and one observation. The first finding pertained to errors in reporting pupil transportation data, and the second finding pertained to lack of documentation to verify bus driver qualifications. The observation pertained to unmonitored vendor system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the NCCSD to implement our prior recommendations. We analyzed the NCCSD Board's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior findings and observation. As shown below, we found that the NCCSD did not implement recommendations related to the finding regarding the reporting of pupil transportation. NCCSD did implement recommendations regarding bus driver qualifications and unmonitored vendor system access and logical access control weaknesses.

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

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**Finding No. 1:       Errors in Reporting Pupil Transportation Data Resulted in Subsidy Underpayments Totaling \$54,372**

Finding Summary:   Our prior audit of transportation records found that the District failed to report miles for the transportation of pupils to and from the career center.

Recommendations:   Our audit finding recommended that the NCCSD:

1. Thoroughly review all transportation data for accuracy before submitting reports to PDE.
2. Ensure the transportation manager receives the necessary training to perform assigned duties.
3. Prepare and retain on file the source documentation necessary to support the transportation data reported to PDE.
4. Perform a review of subsequent years' data for accuracy and resubmit reports, if necessary, to PDE.

We also recommended that PDE:

5. Adjust the District's transportation subsidy to correct the underpayments of \$54,372.



Current Status: During our current audit procedures we found that the NCCSD did implement the recommendation regarding retaining documents on file. However, continuing errors in reporting transportation data resulted in another finding in the current audit report (see page 6).

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**Finding No. 2: Lack of Documentation Necessary to Verify Bus Drivers Qualifications**

Finding Summary: Our prior audit of records pertaining to the NCCSD's contracted bus drivers for the 2009-10 school year found a lack of documentation needed to verify that all contracted drivers possessed the minimum required qualifications for employment. Although all necessary bus drivers' qualification documents were not on file at the District, the District's transportation contractor provided them prior to the completion of the audit.

Recommendations: Our audit finding recommended that the NCCSD:

1. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
2. Maintain files, separate from the transportation contractors, for all District drivers and work with the contractor to ensure that the District's files are up-to-date and complete.

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

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

Observation Summary: During our prior audit we determined that a risk existed that unauthorized changes to the NCCSD's data could occur and not be detected because the District was unable to provide supporting evidence that it was adequately monitoring all vendor activity in its system.

Recommendations: Our prior audit observation recommended that the NCCSD:

1. Develop an agreement with the vendor to provide student accounting applications and related information technology (IT) services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination

responsibilities and liabilities (including penalty clauses. All contracts and contract changes should be reviewed by legal advisors.

2. Develop and maintain a written IT security policy and ensure that all employees are aware of this policy.
3. Establish separate IT policies and procedures for controlling the activities of vendor/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
4. Implement a security policy and system parameter settings to require all users, including the vendor to change passwords on a regular basis (i.e., every 30 days); to maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords); and to lock out users after three unsuccessful attempts.
5. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the district's system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
6. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on their system. Monitoring reports should include the date, time, and reason for the access, change(s) made and who made the change(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 maintains evidence to support this monitoring and review.
7. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors/install fire extinguishers in the computer room.

Current Status:

During our current audit procedures we found that the NCCSD did implement the recommendations. The auditors found the following: a signed contract between the District and the software vendor was available; screen shots were available to show the requirement to change passwords every 30 days; and Board Policy #815, adopted on February 8, 2010, includes the necessary language which controls the vendors and consultants. In addition, the server room now has the appropriate fire extinguishers.

## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following:

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