

NORTH EAST SCHOOL DISTRICT  
ERIE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

NOVEMBER 2011



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

Mr. Richard Winschel, Board President  
North East School District  
50 Division Street  
North East, Pennsylvania 18325

Dear Governor Corbett and Mr. Winschel:

We conducted a performance audit of the North East School District (NESD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period August 11, 2009 through June 24, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the NESD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the two findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

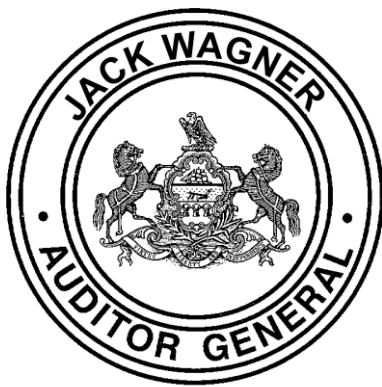
Sincerely,

/s/

JACK WAGNER  
Auditor General

November 9, 2011

cc: **NORTH EAST SCHOOL DISTRICT** Board Members

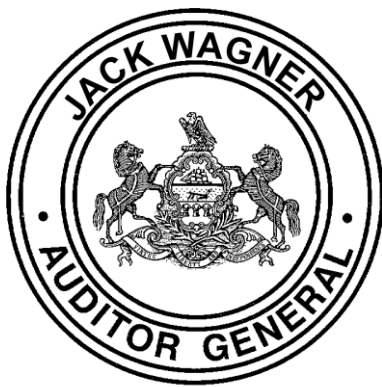


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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the North East School District (NESD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the NESD in response to our prior audit recommendations.

Our audit scope covered the period August 11, 2009 through June 24, 2011, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10 and 2008-09.

### **District Background**

The NESD encompasses approximately 50 square miles. According to 2010 federal census data, it serves a resident population of 10,609. According to District officials, in school year 2009-10 the NESD provided basic educational services to 1,721 pupils through the employment of 133 teachers, 110 full-time and part-time support personnel, and 13 administrators. Lastly, the NESD received more than \$11.1 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the NESD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings.

#### **Finding No 1: Errors in Reporting Data and Internal Control Weaknesses**

**Regarding Pupil Transportation.** Our audit of pupil transportation records submitted to the Department of Education (DE) for the 2009-10 and 2008-09 school years found an overpayment of \$9,199 and an underpayment of \$57,148, respectively, for regular transportation subsidy (see page 6).

#### **Finding No. 2: Final Child Accounting Summary Report Did Not Reflect Membership Days for Children Placed in Private Homes, Resulting in an Underpayment of \$41,183.**

During our audit of the 2009-10 nonresident membership records we noted that DE's final membership reports did not reflect the membership days for the NESD's children placed in private homes (see page 8).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the NESD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the NESD had taken appropriate corrective action in implementing our recommendations pertaining to tuition for children placed in private homes (see page 10). We found the NESD had not taken appropriate corrective action in implementing our recommendations regarding logical access control (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 August 11, 2009 through June 24, 2011.

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

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education (DE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

### Objectives

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

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a law, regulation, 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, regulations, and defined business practices. Our audit focused on assessing the NESD's compliance with applicable state laws, regulations, 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?
- ✓ 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?

- ✓ Is the District’s pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do 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 which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

## 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, regulations, 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.

NESD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

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

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes, nonresident pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 25, 2010, we reviewed the NESD's response to DE dated December 2, 2010. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### **Finding No. 1** →

### **Errors in Reporting Data and Internal Control Weaknesses Regarding Pupil Transportation**

*Criteria relevant to the finding:*

Pupil transportation data is an integral part of the transportation subsidy formula and must be accurately reported to DE, since they are major factors in determining the District's transportation reimbursement.

Instructions for completing DE's End-of-Year Pupil Transportation reports state that the local education agency (LEA) must maintain records of miles with pupils (to the nearest tenth), miles without pupils (to the nearest tenth), the greatest number of pupils assigned to each vehicle and the number of days transported. Additionally, the instructions state that the procedures, information and data used by the LEA should be retained for audit purposes.

Our audit of pupil transportation records and reports submitted to the Department of Education (DE) for the 2009-10 and 2008-09 school years found errors in the reporting of the number of pupils transported, miles with and without pupils, and the expenses for the purchase of new buses. These errors resulted in an overpayment of \$9,199 in 2009-10, and an underpayment of \$57,148 in 2008-09, for transportation reimbursement.

In the 2009-10 school year, the greatest number of pupils transported was overstated for four buses by 65 pupils.

In the 2008-09 school year, the greatest number of pupils was overstated for six buses by 89 students, miles with pupils was understated for one bus by 58.5 miles, and miles without pupils was understated for two buses by a net 35.5 miles. Additionally, the District understated the number of non-reimbursable pupils transported by four pupils.

Non-reimbursable pupils are elementary pupils living within one and a half miles of their school or secondary pupils living within two miles of their school who are transported by the District. Such pupils are not to be included in the calculation of the District's transportation reimbursement, unless they are classified as exceptional children, are being transported to the area vocational-technical school, or are transported over Pennsylvania Department of Transportation certified hazardous walking routes.

Daily mileage and the number of pupils transported are major factors used by DE to compute the District's total transportation reimbursement. This data must be accurately reported in accordance with DE instructions and regulations.

Our audit of the 2009-10 and 2008-09 PDE 2519 (Summary of Allowances and Expenditure Comparisons) and the annual financial reports' transportation schedules found that the District did not report the cost of buses purchased

out of the Capital Reserve Fund. This error caused an understatement of transportation expenses reported to DE of \$171,745 and \$160,888 for the respective years. As the result of our audit, on May 12, 2011, District personnel notified DE of this omission and revised transportation schedules for both 2009-10 and 2008-09.

The errors were caused by a failure to follow DE guidelines and instructions on reporting the greatest number of pupils transported; clerical errors in the reporting of non-reimbursable pupils transported and the number of miles with and without students; and misclassification of the cost of purchased school buses.

We have provided DE with reports detailing the reporting errors for use in recalculating the District's transportation reimbursements.

## **Recommendations**

The *North East School District* should:

1. Conduct an internal review to ensure daily mileage, pupil counts, and transportation costs are accurately reported to DE.
2. Ensure District personnel are familiar with transportation guidelines and instructions.

The *Department of Education* should:

3. Adjust the District's allocations to resolve the net underpayment of \$47,949.

## **Management Response**

Management stated the following:

Errors were corrected immediately.

**Finding No. 2**

**Final Child Accounting Summary Reports Did Not Reflect Membership Days for Children Placed in Private Homes, Resulting in an Underpayment of \$41,183**

*Criteria relevant to the finding:*

Section 1305 of the Public School Code provides for Commonwealth payment of tuition for children placed in private homes.

Section 2503(c) of the Public School Code provides, in part:

Each school district, regardless of classification, which accepts any nonresident child in its school under the provisions of section one thousand three hundred five . . . shall be paid by the Commonwealth an amount equal to the tuition charge per elementary pupil or the tuition charge per secondary pupil as the case may be. . . .

During our audit of the 2009-10 nonresident membership records we found that DE final membership reports did not reflect the membership days for the District’s children placed in private homes (foster students).

Prior to the 2009-10 school year, DE was using two child accounting reporting systems, the Pennsylvania Information Management System (PIMS) and the Child Accounting Data system. Beginning with the 2009-10 school year, PIMS was the only process DE used for reporting pupil membership. PIMS requires districts to enter specific residency codes for students who were placed in private homes from outside districts.

District child accounting personnel were unaware of the appropriate coding requirements when they entered the residency codes for the “funding district” and the “educating district” into the PIMS program. As a result, District personnel reported the same codes for the “funding district” and the “educating district.” This clerical error resulted in the students being identified by DE as resident foster students rather than nonresident foster students.

The nonresident foster student membership days that should have been reflected in the final Summary of Child Accounting Membership Report are as follows:

|              |          |
|--------------|----------|
| Kindergarten | 185 days |
| Grades 1-2   | 188 days |
| Grades 3-5   | 575 days |

After the proper coding is made to correct the students’ residency classification, the District will be entitled to \$41,183 in Commonwealth-paid tuition for nonresident children placed in private homes.

**Recommendations**

*The North East School District* should:

Contact the PIMS help desk at DE for guidance in changing the coding for the nonresident children placed in private homes.

*The Department of Education* should:

Adjust the District's reimbursement to correct the underpayment to the District.

**Management Response**

Management stated the following:

The district will follow-up with PDE regarding this underpayment.

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

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Our prior audit of the North East School District (NESD) for the school years 2007-08 and 2006-07 resulted in one finding and one observation. The first finding pertained to errors in reporting nonresident student membership. The observation pertained to logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the NESD's Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the NESD did implement recommendations related to the finding, but did not choose to implement recommendations related to the observation.

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

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**Finding:** **Continued Errors in Reporting Nonresident Pupil Membership Resulted in a Net Overpayment of \$17,707 in Tuition for Children Placed in Private Homes**

Finding Summary: Our prior audit of pupil membership reports submitted to DE for the 2007-08 and 2006-07 school years found discrepancies in nonresident membership for children placed in private homes, resulting in a net overpayment of \$17,707.

Recommendations: Our audit finding recommended that the NESD:

1. Strengthen its controls to ensure that personnel responsible for reporting pupil membership data to DE are more cognizant of the importance of properly identifying students' residency.
2. Review subsequent years' membership data to ensure students are properly classified and submit revised reports to DE, if necessary.

We also recommended that DE:

3. Adjust the District's allocations to recover the net overpayment of \$17,707.

Current Status: During our current audit we found that the NESD implemented the recommendations. However, other weaknesses related to new reporting procedures were found. These are addressed in our current Finding No. 2 (see page 8). As of June 24, 2011, DE had not yet recovered the net overpayment of \$17,707.

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**Observation: Continued Logical Access Control Weaknesses**

Observation

Summary:

The NESD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District's network servers.

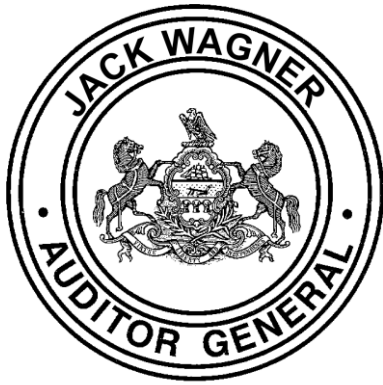
During our prior audit we determined that a risk existed that unauthorized changes to District data could occur and not be detected because the District was not able to provide evidence that it was adequately monitoring vendor activity in its system.

Recommendations: Our audit observation recommended that the NESD:

1. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes are made only by authorized vendor representatives.
2. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the District's Acceptable Use Policy.
3. Ensure that the District's Acceptable Use Policy include provisions for authentication (e.g. password security and syntax requirements). Further, all employees should be required to sign this 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). Passwords should be a minimum length of eight characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords), lock out users after three unsuccessful attempts, and log users off the system after a period of inactivity (i.e. 60 minutes maximum).

Current Status:

During our current audit, we found that the NESD chose not to implement the recommendations. The District administration provided the auditors with a written reply stating the reasons they felt that the District's child accounting security controls are appropriate. We reiterate our opinion that the District should consider our recommendations.



## **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.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

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

The Honorable Ronald J. Tomalis  
Secretary of Education  
1010 Harristown Building #2  
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The Honorable Robert M. McCord  
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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).

