



**NORTHERN CAMBRIA SCHOOL DISTRICT
CAMBRIA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JANUARY 2014

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. Ronald Dolansky, Board President
Northern Cambria School District
601 Joseph Street
Northern Cambria, Pennsylvania 15714

Dear Governor Corbett and Mr. Dolansky:

We conducted a performance audit of the Northern Cambria School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period January 4, 2010 through July 12, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2012, 2011, 2010, and 2009. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 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 District complied, in all significant respects with relevant requirements, except as detailed in the two (2) audit findings noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

January 13, 2014

cc: **NORTHERN CAMBRIA SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

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

Our audit scope covered the period January 4, 2010 through July 12, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2011-12, 2010-11, 2009-10, and 2008-09 school years.

District Background

The District encompasses approximately 62 square miles. According to 2010 federal census data, it serves a resident population of 7,898. According to District officials, the District provided basic educational services to 1,183 pupils through the employment of 89 teachers, 69 full-time and part-time support personnel, and eight (8) administrators during the 2011-12 school year. Lastly, the District received \$11,627,480 in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for two (2) compliance related matters reported as findings.

Finding No. 1: Errors in Reporting Non-Resident Membership Resulted in an Underpayment of \$25,104 in Tuition for Children Placed in Private Homes.

Our audit of the Northern Cambria School District's pupil membership reports submitted to the Pennsylvania Department of Education for the 2011-12 school year revealed that non-resident membership for children placed in private homes was understated by 540 days for elementary grades. The errors resulted in an underpayment of \$25,104 in tuition for children placed in private homes payable in the 2012-13 school year (see page 6).

Finding No. 2: Possible Conflicts of Interest. Our review of the Northern Cambria School District (District) Board of School Directors (Board) minutes of the meetings of the District's Board covering the period July 15, 2008 through March 19, 2013, found possible conflicts of interest pertaining to votes made for payment of bills and votes to approve a confidential settlement agreement (see page 9).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Northern Cambria School District (District) from an audit released on August 27, 2010, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to the errors in reporting nonpublic pupil transportation. This is the third consecutive audit of the District that has included this deficiency (see page 11).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 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 January 4, 2010 through July 12, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2011-12, 2010-11, 2009-10, and 2008-09 school years.

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 District's compliance with certain relevant 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:

- ✓ In areas where the District received state subsidies 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 received transportation subsidies, was the District, and any contracted vendors, in compliance with applicable state laws and procedures?

- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were votes made by the District’s Board of School Directors free from apparent conflicts of interest?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ Were there any declining fund balances that may pose a risk to the District’s fiscal viability?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

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 certain relevant state 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 results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

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

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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on August 27, 2010, we reviewed the District's response to PDE dated December 10, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Errors in Reporting Non-Resident Membership Resulted in an Underpayment of \$25,104 in Tuition for Children Placed in Private Homes

Criteria relevant to the finding:

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. 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 of Residence. Therefore, PDE requires that student records are complete with these data fields.

The Pennsylvania Department of Education (PDE) 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 individual student data for each student served by Pennsylvania's Pre-K through Grade Twelve (12) public education systems.

PDE began calculating the LEA's state subsidy using the data the LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our audit of the Northern Cambria School District's (District) pupil membership reports submitted to PDE for the 2011-12 school year revealed that non-resident membership for children placed in private homes (foster children) was understated by 540 days for elementary grades. The error resulted in an underpayment of \$25,104 in tuition for foster children payable in the 2012-13 school year.

District personnel misclassified three (3) non-resident foster children as resident students. The misclassification is the result of District personnel incorrectly coding the students within the District's child accounting software.

*Criteria relevant to the finding
(continued):*

Additionally, according to the *Federal Information System Controls Audit Manual*, 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.

Section 1305 of the Public School Code (PSC), 24 P.S. § 1305, provides for Commonwealth payment of tuition for non-resident children placed in private homes.

Section 2503 (c) of the PSC, 24 P.S. § 2503 (c), specifies the amount of Commonwealth-paid tuition on behalf of non-resident children placed in private homes by providing, in part:

“Each school district, regardless of classification, which accepts any non-resident 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 . . .”

Additionally, the District’s child accounting functions are not centralized. The elementary/middle school and the high school each handle the child accounting functions separately. The District does not have an employee who would be responsible for overseeing the membership data submitted by the individual school buildings. Due to this lack of oversight, the District may not efficiently identify errors in the reporting of their child accounting data prior to the submission to PDE.

However, in April of each school year, PDE provides the District with a Preliminary Summary of School Accounting report, based on data uploaded into PIMS. This report is to be used by District personnel to ensure that the data reported was accurate and provides the District with an opportunity to make corrections, if necessary, prior to PDE finalizing the District’s reported data in June. Had the District performed this review of the reported data, they would have noticed that the students were not reported correctly.

It is the responsibility of management to have internal policies and procedures in place to ensure that student data is collected and reported accurately and timely. Without such internal controls, the District cannot be assured that its student data is correct or that it is receiving the appropriate subsidy.

Non-resident pupil membership data must be maintained and reported in accordance with PDE guidelines and instructions, since it is a major factor in determining the Commonwealth’s payments for tuition for children placed in private homes.

Recommendations

The *Northern Cambria School District* should:

1. Establish a centralized review process to ensure membership data is accurately maintained.
2. Thoroughly review all child accounting data for accuracy prior to submission to PDE.

3. Perform a detailed review of PDE’s Preliminary Summary of Child Accounting report to ensure accurate reporting of students.
4. Review reports submitted subsequent to the years audited and submit revised reports to PDE, if errors are found.

The *Pennsylvania Department of Education* should:

5. Adjust the District’s future allocations to correct the \$25,104 underpayment of tuition for children placed in private homes.

Management Response

Management stated the following:

“The Northern Cambria School District agrees with the audit finding concerning the misclassification of non-resident students who were mistakenly classified as resident students, this misclassification caused the District to lose out on tuition that the Commonwealth will pay for providing education to nonresident students placed in private homes. In the future the District will train its staff to properly account for these students in the District’s attendance software and be sure that proper documentation is received for each student as well [as] review membership data thoroughly to ensure students are properly classified prior to submission of annual reports.”

Auditor Conclusion

We are encouraged that the District agrees with the finding and will take steps to address the deficiency in student data reporting. We will follow up on our recommendations during our next cyclical audit.

Finding No. 2

Possible Conflicts of Interest

Criteria relevant to the finding:

Section 1102 of the Public Official and Employee Ethics Act (Ethics Act), 65 Pa. C.S. § 1102, defines “conflict” or “conflict of interest” as “use by a public official or public employee of the authority of his office or employment or any confidential information received through his holding public office or employment for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or a member of his immediate family is associated.”

Section 1103(a) of the Ethics Act, 65 Pa. C.S. § 1103 (a), provides that no public official shall engage in conduct that constitutes a conflict of interest.

Section 1103(j) of the Ethics Act, 65 Pa. C.S. § 1103 (j), provides, in part:

“Voting Conflict - . . . Any public official or public employee who in the discharge of his official duties would be required to vote on a matter that would result in a conflict of interest shall abstain from voting and, prior to the vote being taken, publicly announce and disclose the nature of his interest as a public record in a written memorandum filed with the person responsible for recording the minutes of the meeting at which the vote is taken . . .”

Our review of the Northern Cambria School District (District) Board of School Directors (Board) minutes of the meetings of the District’s Board covering the period July 15, 2008 through March 19, 2013, found possible conflicts of interest pertaining to votes made for payment of bills and votes to approve a confidential settlement agreement.

Our audit of the Board meeting minutes found that one (1) Board Member voted to approve a \$1,500 payment for the reimbursement of airfare for an educational conference attended by a District employee. The employee was the Board Member’s spouse. Our review noted that the educational conference was provided by an independent educational group and the check for the airfare was made payable to the educational group, not the employee.

Additionally, our audit of the board meeting minutes found that one (1) Board Member voted to approve a confidential settlement agreement and general release regarding personal matters between the District and a parent of students enrolled in the District. The Board Member in question was the spouse of the parent. As part of the agreement, the District, through its insurance carrier, agreed to pay the complainant’s attorneys fees in the capped amount of \$12,000.

The Pennsylvania Public School Code requires Board Members to publicly announce or disclose the nature of their interests as a matter of public record. The Board Members did not do this in either instance, nor did the Board Members file a written memorandum with the District’s Board Secretary. As a result, the Board Members’ actions and/or lack of disclosure may have been in violation of the Ethics Act.

A copy of this audit finding will be forwarded to the State Ethics Commission for additional review and investigation as it deems appropriate.

Recommendations

The *Northern Cambria School District* should:

1. Require the Board Members to abstain from voting to approve payments, contracts, and transactions that involve family matters.
2. Require the Board Members to publicly announce and disclose the nature of their interests as a public record in a written communication to the Board Secretary.

Management Response

Management stated the following:

“The Northern Cambria School District agrees with the audit finding concerning possible conflicts of interest from board members when it comes to voting on agenda items. It is our understanding that there were two instances where board members should have abstained from voting on an agenda item because a family member could have potential gain from the positive vote. In the future the board will be educated on items that they should abstain from and if and when the board member does abstain they will be required to fill out a form as to why they abstained.”

Auditor Conclusion

We are encouraged that the District agrees with the finding. We will follow up on our recommendations during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Northern Cambria School District (District) released on August 27, 2010, resulted in one (1) finding. The finding pertained to incorrect reporting of nonpublic pupils transported. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior finding. As shown below, we found that the District did not implement our recommendations related to a net underpayment of \$9,240 in nonpublic pupil transportation subsidy.

Auditor General Performance Audit Report Released on August 27, 2010

Finding:	Net Underpayment of \$9,240 in Nonpublic Pupil Transportation Subsidy
<u>Finding Summary:</u>	Our prior audit of the 2007-08, 2006-07, 2005-06, and 2004-05 school years' pupil transportation data found the District incorrectly reported the number of nonpublic pupils transported for two (2) years, resulting in a net underpayment of \$9,240.
<u>Recommendations:</u>	<p>Our audit finding recommended that the District should:</p> <ol style="list-style-type: none">1. Develop a system of review to ensure nonpublic pupil transportation data is accurately reported to PDE for reimbursement. <p>We also recommended that PDE should:</p> <ol style="list-style-type: none">2. Adjust the District's future allocations to correct the net underpayment of \$9,240.
<u>Current Status:</u>	<p>During our current audit, we found that the District did not implement our prior audit recommendation. Although the ongoing issue (third consecutive audit) dealing with the District's reporting of nonpublic pupils transported was insignificant during the period tested during this audit, we will again follow up during our next audit of the District.</p> <p>Additionally, PDE has yet to make the adjustment for the underpayment of \$9,240. We again recommend PDE make the adjustment to correct the net underpayment of \$9,240.</p>

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following stakeholders:

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This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.