

NORTHERN LEBANON SCHOOL DISTRICT
LEBANON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FEBRUARY 2012

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

Mr. David Hauck, Board President
Northern Lebanon School District
P.O. Box 100
Fredericksburg, Pennsylvania 17026

Dear Governor Corbett and Mr. Hauck:

We conducted a performance audit of the Northern Lebanon School District (NLSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period December 2, 2009 through October 6, 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 NLSD 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 NLSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve NLSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the NLSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

February 24, 2012

cc: **NORTHERN LEBANON SCHOOL DISTRICT** Board Members

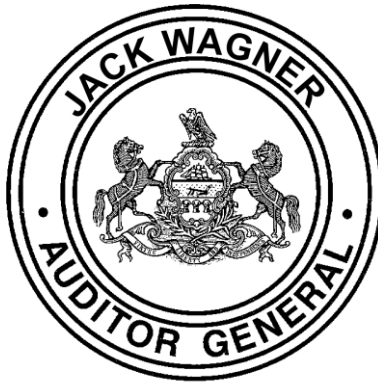
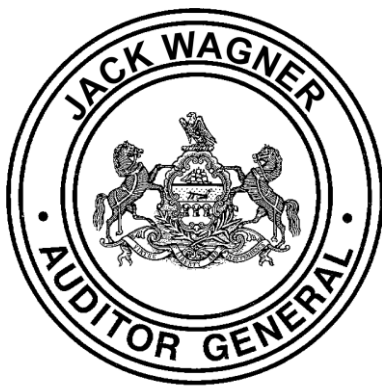


Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding – Membership Reporting Errors and the Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Reimbursement	6
Status of Prior Audit Findings and Observations	8
Distribution List	11



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Northern Lebanon School District (NLSD). 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 NLSD in response to our prior audit recommendations.

Our audit scope covered the period December 2, 2009 through October 6, 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

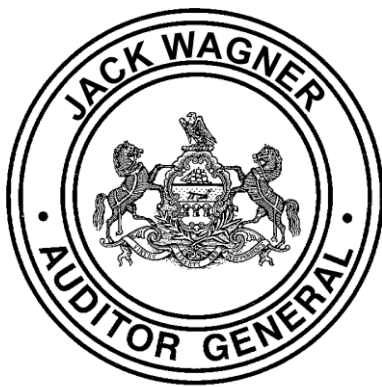
The NLSD encompasses approximately 144 square miles. According to 2000 federal census data, it serves a resident population of 14,992. According to District officials, in school year 2009-10 the NLSD provided basic educational services to 2,364 pupils through the employment of 189 teachers, 128 full-time and part-time support personnel, and 13 administrators. Lastly, the NLSD received more than \$11.6 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the NLSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

Finding: Membership Reporting Errors and the Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Reimbursement. Our audit of NLSD's pupil membership reports submitted to the Department of Education (DE) for the 2009-10 school year found reporting errors as well as the lack of internal controls. NLSD personnel inaccurately reported the membership for children placed in private homes and children placed in institutions. The lack of internal controls resulted in the NLSD failing to reconcile preliminary data reports from DE which resulted in incorrect data being reported on the Final Summary of Child Accounting Membership Report (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the NLSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the NLSD had taken appropriate corrective action in implementing our recommendations pertaining to continued unmonitored intermediate unit system access and logical access control weaknesses (see page 8).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period December 2, 2009 through October 6, 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 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 NLSD's compliance with applicable state laws, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ Does the LEA have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?

- ✓ In areas where the District receives transportation subsidies, is the District and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ 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?
- ✓ Did the District, and any contracted vendors, ensure that its current bus drivers are properly qualified, and does it have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances which may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with Local Law Enforcement?
- ✓ Were votes made by the District's Board members free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, contracts, grant requirements and administrative procedures.

NLSD 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.

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, 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 NLSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on August 27, 2010, then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

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

Criteria and Public School Code section relevant to the finding:

According to PDE's 2009-10 PIMS User Manual, all Pennsylvania LEAs must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; LEP Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the *Federal Information Systems Control Manual (FISCAM)*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

Beginning with the 2009-10 school year, the Department of Education (DE) now bases all local education agencies' state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse", designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems. PIMS replaces DE's previous reporting system, the Child Accounting Database (CAD), which DE ran concurrently until it brought PIMS completely online. DE no longer accepts child accounting data through the CAD system.

Our audit of the Northern Lebanon School District's (NLSD) pupil membership reports submitted to DE for the 2009-10 school year found reporting errors as well as the lack of internal controls. NLSD personnel inaccurately reported the membership for children placed in private homes and children placed in institutions. The lack of internal controls resulted in the NLSD failing to reconcile preliminary data reports from DE which resulted in incorrect data being reported on the Final Summary of Child Accounting Membership Report.

Membership days for children placed in private homes were understated 195 days for elementary and 137 days for secondary. The error resulted in the NLSD being underpaid \$16,064 and the other districts listed incorrectly being overpaid.

The errors were due to NLSD personnel reporting that the foster district was the natural parent district when in fact NLSD should have been reported as the foster district.

Criteria relevant to the finding:

Section 2503(c) provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court when such resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

Membership data for nonresident children placed in private homes and institutions must be maintained and reported accurately and in accordance with DE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

Membership days for children placed in institutions were understated 92 days for secondary membership from other districts that were educated by NLSD. The error resulted in the other districts not being reimbursed for their institutionalized students.

The errors were due to NLSD personnel reporting the children placed in institutions as other district paid tuition.

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

Recommendations

The *Northern Lebanon School District* should:

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

The *Department of Education* should:

3. Revise all reports that have been incorrectly completed and adjust all districts' reimbursement affected by the error.

Management Response

Management stated the following:

We will follow recommendation.

Status of Prior Audit Findings and Observations

Our prior audit of the Northern Lebanon School District (NLSD) for the school years 2007-08 and 2006-07 resulted in one reported observation. The observation pertained to the continued unmonitored intermediate unit (IU) system access and 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 performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the NLSD did implement recommendations related to the continued unmonitored IU system access and logical access control weaknesses.

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

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

Observation
Summary:

Our prior audit found that the NLSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The District has remote access into the Lancaster-Lebanon Intermediate Unit #13's (IU) network servers which maintain the vendor software.

Recommendations: Our audit observation recommended that the NLSD:

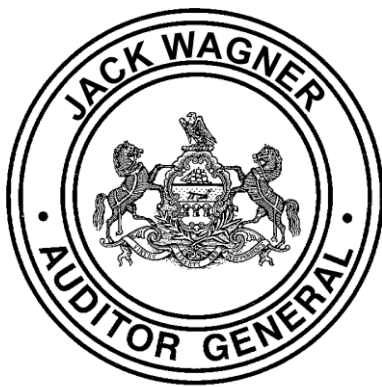
1. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the IU and the outside vendor sign this policy, or the District should require the IU and the outside vendor to sign the District's Acceptable Use Policy.
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
3. Implement a security policy and system parameter settings to require all users, including the IU and the outside vendor, to change their passwords on a regular basis (i.e. every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric, and special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e. last ten passwords).
4. Only allow access to its system when the IU and the outside vendor, needs access to make pre-approved changes/updates or with requested assistance. This access should be removed when the IU and the

outside vendor has completed its work. The procedure would also enable the monitoring of IU and the outside vendor changes.

5. Generate monitoring reports (including firewall logs) of IU, the outside vendor and employee access and activity on its system. Monitoring reports should include the date, time, and reason for access, changes made and who made the changes. 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 is maintaining evidence to support this monitoring and review.

Current Status:

During our current audit procedures, we found that the NLSD did implement our recommendations related to the weaknesses listed in the prior audit report.



Distribution List

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

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