

NORTHERN LEHIGH SCHOOL DISTRICT
LEHIGH COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2012



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

**JACK WAGNER
AUDITOR GENERAL**

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

Mr. Edward E. Hartman, Board President
Northern Lehigh School District
1201 Shadow Oaks Lane
Slatington, Pennsylvania 18080

Dear Governor Corbett and Mr. Hartman:

We conducted a performance audit of the Northern Lehigh School District (NLSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period September 23, 2009 through April 13, 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 NLSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in 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 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**

December 20, 2012

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



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Northern Lehigh School District (NLSD). Our audit sought to answer certain questions regarding the NLSD'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 September 23, 2009 through April 13, 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 NLSD encompasses approximately 27 square miles. According to 2000 federal census data, it serves a resident population of 13,200. According to District officials, in school year 2009-10 the NLSD provided basic educational services to 1,950 pupils through the employment of 150 teachers, 118 full-time and part-time support personnel, and 15 administrators. Lastly, the NLSD received more than \$10.3 million in state funding in school year 2009-10.

Audit Conclusion and Results

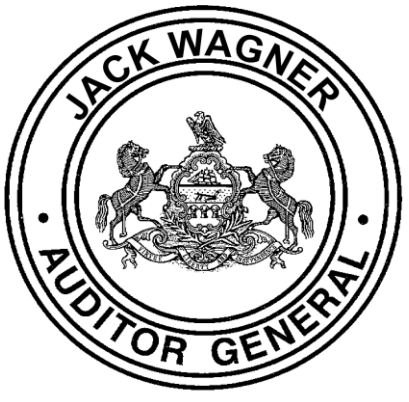
Our audit found that the NLSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified two compliance-related matters reported as findings.

Finding No. 1: Inadequate Documentation and Errors in Membership Reported for Children Placed in Private Homes Resulted in a

Reimbursement Underpayment of \$62,379. Our audit of NLSD's pupil membership reports submitted to the Pennsylvania Department of Education for the 2009-10 school year found reporting errors. NLSD personnel did not maintain adequate documentation and inaccurately reported membership for children placed in private homes (see page 6).

Finding No. 2: Possible Inaccurate Reporting of Retirement Wages. Our audit found that NLSD reported wages for several individuals to the Public School Employees' Retirement System that may have been ineligible as qualified for retirement purposes (see page 9).

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 has not taken appropriate corrective action in implementing our recommendations pertaining to their logical access control weaknesses for the student accounting application (see page 11).



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 September 23, 2009 through April 13, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011 through March 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 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:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District receives transportation subsidies, is the District and any contracted vendors in compliance with applicable state 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 that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board members free from apparent conflicts of interest?
- ✓ 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, 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 and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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

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

Our audit examined the following:

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

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 January 26, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1 →

Inadequate Documentation and Errors in Membership Reported for Children Placed in Private Homes Resulted in a Reimbursement Underpayment of \$62,379

Criteria relevant to the finding:

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

Our audit of the Northern Lehigh School District's (NLSD) pupil membership reports submitted to PDE for the 2009-10 school year found reporting errors. NLSD personnel did not maintain adequate documentation and inaccurately reported membership for children placed in private homes. These errors resulted in an underpayment of \$62,379 for the 2009-10 school year.

Membership days for children placed in private homes were understated by 190 for elementary students and by 1,047 for secondary students during the 2009-10 school year.

These errors occurred because NLSD personnel failed to maintain proper documentation on these children and lacked familiarity with the PIMS system.

These errors had an insignificant effect on basic education funding.

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

Section 2503(c) of the Public School Code (PSC) 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 district than the district in which the foster parent resides.

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

Recommendations

The *Northern Lehigh School District* should:

1. Review PDE instructions and compile the nonresident listing accordingly.
2. Review membership data thoroughly for residency classifications prior to submitting reports to PDE.
3. Review reports submitted subsequent to the years audited and, submit revised reports to PDE, if errors are found.
4. Maintain placement letters for all children placed in private homes for audit.

The *Pennsylvania Department of Education* should:

5. Adjust the NLSD's membership reports and reimburse the underpayment of \$62,379.

Management Response

Management stated the following:

This error occurred because the District of Residence was not listed correctly in the PIMS system for our non-resident students. When reporting in the CAD system, it was not necessary to list the district of residence of the natural

parents of non-resident students. Currently the 2010-11 school year is being corrected and resubmitted. The 2011-12 school year information is also being corrected and will be submitted correctly August of 2012.

Finding No. 2 →

Possible Inaccurate Reporting of Retirement Wages

Criteria relevant to the finding:

PSERS allows only qualified salary and wages to be included for retirement purposes. According to Pennsylvania School Employees' Retirement Board Regulations, Section 211.2, reported compensation should: exclude . . . payments or similar emoluments which may be negotiated in a collective bargaining agreement for the express purpose of enhancing the compensation factor for retirement benefits.

Furthermore, the PSERS Reference Manual for Reporting includes under unqualified earnings:

[P]ayment to an employee in lieu of a benefit the employee is eligible to receive, or any reimbursement received by the employee (these payments do not become part of your standard pay.

Our review of the Northern Lehigh School District's (NLSD) employment contracts, Act 93 administrator's contracts, payroll records, and retirement records found that retirement wages may have been overstated in reports submitted to the Public School Employees' Retirement System (PSERS) for the 2010-11 school year for seven administrators. The total possible ineligible payments reported for the administrators were \$24,058.

Effective the 2010-11 school year, the board approved a payment for unused vacation days for all Act 93 members. Per contract, a maximum of five days vacation may be carried over or the member will receive their daily rate for said days upon the approval of the superintendent.

In the 2010-11 school year, seven administrators exercised this option and received their daily per diem rate in a single payment. For each administrator, the total monies received were reported to PSERS as retirement wages.

The language in the PSERS Reference Manual clearly prohibits the inclusion of payments for unused sick leave and unused vacation leave into the salary reported for retirement purposes.

The *Northern Lehigh School District*, in conjunction with PSERS' determination, should:

1. Ensure that NLSD personnel report to PSERS only those wages allowable for retirement purposes, as stated in the PSERS regulations and guidelines.

The *Public School Employees' Retirement System* should:

2. Review the 2010-11 compensation reported for the administrators cited in this report and render an opinion on the propriety of the wages reported by the NLSD.
3. Make the necessary correction to the pension benefits and contributions if any part of the payments are determined to be ineligible for retirement.

Recommendations

Management Response

Management stated the following:

First time payment to employees for unused vacation days. It was treated as retirement wages in error. PSERS will be contacted to insure the problem is corrected in the proper manner.

Status of Prior Audit Findings and Observations

Our prior audit of the Northern Lehigh School District (NLSD) for the school years 2007-08 and 2006-07 resulted in one observation. The observation pertained to their logical access control weakness for the student accounting applications. 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 not implement recommendations related to their logical access control weakness for the student accounting applications.

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

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

Observation
Summary:

Our prior audit found that the District had the following weaknesses over vendor access to the District's system:

1. The District's Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).
2. The District's system parameter settings do not require all users, including the Carbon-Lehigh Intermediate Unit #21 (CLIU), to change their passwords every 30 days; to use passwords that are a minimum length of eight characters and to lock out users after three unsuccessful attempts.
3. The CLIU has unlimited access (24 hours a day/7 days a week) into the District's system.
4. The District does not have evidence they are generating or reviewing monitoring reports of user access and activity on the system (including CLIU and District employees). There is no evidence that the District is performing procedures in order to determine which data the CLIU may have altered or which CLIU employees accessed their system.

Recommendations: Our audit observation recommended that the NLSD:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).

2. Implement a security policy and system parameter settings to require all users, including the CLIU, to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters. Also, the District should lock out users after three unsuccessful attempts.
3. Allow access to their system only when the CLIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the CLIU has completed its work. This procedure would also enable the monitoring of CLIU changes.
4. Generate monitoring reports (including firewall logs) of CLIU and employee access and activity on their system. Monitoring reports should include the date, time, and reason for 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 is maintaining evidence to support this monitoring and review.

Current Status:

During our current audit procedures we found that the NLSD did implement two of the recommendations. Those that were implemented are:

1. The District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. The District requires all users, including the CLIU, to change their passwords every 30 days; to use passwords that are a minimum length of eight characters and to lock out users after three unsuccessful attempts.

NLSD did not implement recommendations numbers 3 and 4. We continue to urge the District to consider implementing the remaining recommendations.

Distribution List

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

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