

PANTHER VALLEY SCHOOL DISTRICT
CARBON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Mr. Jeff Markovich, Board President
Panther Valley School District
1 Panther Way
Lansford, Pennsylvania 18232

Dear Governor Corbett and Mr. Markovich:

We conducted a performance audit of the Panther Valley School District (PVSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period November 23, 2009 through July 22, 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 PVSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in three 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 PVSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PVSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the PVSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 26, 2012

cc: **PANTHER VALLEY 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 Panther Valley School District (PVSD). 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 PVSD in response to our prior audit recommendations.

Our audit scope covered the period November 23, 2009 through July 22, 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 PVSD encompasses approximately 40 square miles. According to 2000 federal census data, it serves a resident population of 12,516. According to District officials, in school year 2009-10 the PVSD provided basic educational services to 1,725 pupils through the employment of 126 teachers, 84 full-time and part-time support personnel, and 9 administrators. Lastly, the PVSD received more than \$10.8 million in state funding in school year 2009-10.

Audit Conclusion and Results

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

Finding No. 1: Continued Inadequate Documentation and Errors in Membership Reported for Children Placed in Private Homes Resulted in Net Reimbursement Underpayment of \$63,596. Our audit of PVSD's pupil membership reports submitted to the Department of Education for the 2009-10 and 2008-09 school years found continued reporting errors. PVSD personnel did not maintain adequate documentation demonstrating the nonresident status of its children placed in private homes, and inaccurately reported the membership for these students. These errors resulted in an underpayment of \$86,229 for the 2009-10 school year and an overpayment of \$22,633 for the 2008-09 school year. In total, these errors resulted in a net reimbursement underpayment of \$63,596 (see page 6).

Finding No. 2: Continued Inadequate Transportation Procedures Regarding Bus Drivers' Qualifications. Our audit of the PVSD's school bus drivers' qualifications for the 2010-11 school year found that the PVSD still had not established adequate procedures for obtaining all required documentation, as recommended in our prior finding (see page 8).

Finding No. 3: Possible Conflict of Interest Transaction. Our review of Statements of Financial Interests Forms for calendar years 2008, 2009 and 2010, School Board of Director’s meeting minutes and interviews with PVSD personnel found a possible conflict of interest transaction involving a board member who may have engaged in prohibited conduct (see page 11).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the PVSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the PVSD had not taken appropriate corrective action in implementing our recommendations pertaining to inadequate documentation and errors in membership reported for children placed in private homes (see page 13), inadequate transportation procedures regarding bus drivers’ qualifications and unmonitored intermediate unit system access and logical access control weaknesses (see page 14).

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 November 23, 2009 through July 22, 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 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 PVSD'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?
- ✓ 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, 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.

PVSD 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 bus driver qualifications, professional employee certification, state ethics compliance, 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 PVSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 1, 2010, we reviewed the PVSD's response to DE dated November 11, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Continued Inadequate Documentation and Errors in Membership Reported for Children Placed in Private Homes Resulted in Net Reimbursement Underpayment of \$63,596

Public School Code and 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 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.

Our audit of Panther Valley School District's (District) pupil membership reports submitted to the Department of Education (DE) for the 2009-10 and 2008-09 school years found continued reporting errors. District personnel did not maintain adequate documentation demonstrating the nonresident status of its children placed in private homes, and inaccurately reported the membership for these students. These errors resulted in an underpayment of \$86,229 for the 2009-10 school year and an overpayment of \$22,633 for the 2008-09 school year. In total, these errors resulted in a net reimbursement underpayment of \$63,596.

Our prior audit of the District's 2007-08 and 2006-07 school years, found that it inaccurately reported membership for the District's children placed in private homes to DE. These errors resulted in reimbursement overpayments of \$14,042 for the 2007-08 school year and \$6,508 for the 2006-07 school year. In addition, we also found that District personnel did not maintain adequate documentation demonstrating the nonresident status of children placed in private homes.

District personnel understated membership days for children placed in private homes by 695 for elementary students and 1504 for secondary students during the 2009-10 school year. District personnel overstated membership days for children placed in private homes by 415 for elementary students and 180 for secondary students during the 2008-09 school year.

These errors occurred because District personnel made clerical errors and failed to maintain proper documentation demonstrating the nonresident status of children placed in private homes. The errors had an insignificant effect on the District's basic education funding.

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

Recommendations

The *Panther Valley School District* should:

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

The *Department of Education* should:

5. Adjust the District's membership reports and reimburse the PVSD \$63,596.

Management Response

Management stated the following:

Better attention to detail is needed when reporting 1305 students.

Finding No. 2

Continued Inadequate Transportation Procedures Regarding Bus Drivers' Qualifications

Criteria relevant to the finding:

Section 111 of the Public School Code, 24 P.S. § 1-111 (Act 34 of 1985, as amended) requires prospective school employees who have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Additionally, as of April 1, 2007, under Act 114 of 2006 as amended, (see 24 P.S. § 1-111(c.1)), public and private schools have been required to review federal criminal history record information (CHRI) records for all prospective employees and independent contractors who will have contact with children, and make a determination regarding the fitness of the individual to have contact with children. The Act requires the report to be reviewed in a manner prescribed by PDE. The review of CHRI reports is required prior to employment, and includes school bus drivers and other employees hired by independent contractors who have contact with children.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. Our audit of the Panther Valley School District's (PVSD) school bus drivers' qualifications for the 2010-11 school year found that the PVSD continued to use inadequate procedures to obtain all required qualifications as recommended in our prior finding. We reviewed the following six requirements:

1. Possession of a valid driver's license;
2. Completion of school bus driver skills and safety training;
3. Passing a physical examination;
4. Lack of convictions for certain criminal offenses;
5. Federal Criminal History Record; and
6. Official child abuse clearance statement.

The first three requirements were set by regulations issued by the Pennsylvania Department of Transportation (PennDOT). As explained further under criteria, the fourth and fifth requirements were set by the Public School Code of 1949, as amended (Public School Code). The sixth requirement was set by the Child Protective Services Law. In addition, when bus drivers change employers, they must obtain new clearances.

We reviewed the personnel records of six bus/van drivers currently employed by the PVSD's pupil transportation contractor. Our review found that one individual failed to file their Act 114 – Federal Bureau of Investigation Clearance. Additionally, this individual's physical examination expired. Further, another individual lacked current Act 151 – Child Abuse Clearance and Act 34 – Criminal History Clearance. Although this individual has both on file, they are dated approximately 14 years prior to

Criteria relevant to the finding:

Similarly, Section 6355 of the Child Protective Services Law, 23 PaC.S. §6355, known as Act 151, requires prospective school employees to submit an official clearance statement obtained from the Department of Public Welfare. The CPSL prohibits the hiring of an individual named as the perpetrator of a founded report of child abuse or is named as the individual responsible for injury or abuse in a founded report for school employee.

employment. As stated in the paragraph above, when bus drivers change employers, they must obtain new clearances. Our prior audit of these personnel records found similar problems. These issues included drivers with missing or untimely filed Act 34 – Criminal History Clearances, drivers with missing or out of date Act 151 – Child Abuse Clearances, and drivers with missing, untimely filed or out of date Act 114 – Federal Bureau of Investigation Clearances. We also found that these errors occurred because the PVSD had inadequate personnel record review procedures.

On May 31, 2011, we informed PVSD management of the missing documentation and instructed them to immediately obtain the necessary documents so that they can ensure the drivers are properly qualified to continue to have direct contact with children. As of the end of our fieldwork on July 22, 2011, PVSD management did not provide us with the necessary documentation. Therefore, we were unable to verify that drivers were properly qualified to have direct contact with children.

This continued lapse in ensuring bus drivers were properly certified occurred because the PVSD’s transportation coordinator had inadequate personnel record review procedures in place which allowed the discrepancies to go undetected.

Recommendations

The *Panther Valley School District* should:

1. Immediately obtain, from the contractor, the missing documentation referred to in our finding in order to ensure that drivers transporting students in the District possess proper qualifications.
2. Ensure that the District’s transportation coordinator reviews each driver’s qualifications prior to that person transporting students.
3. Maintain files, separate from the contractors, for all District drivers and work with the contractors to ensure that the District’s files are up-to-date and complete.

Management Response

Management stated the following:

Said contactor employees were suspended until clearances are obtained. Clearances will be monitored more closely in the future.

Finding No. 3

Possible Conflict of Interest Transaction

Criteria relevant to the finding:

The Public Official and Employee Ethics Act (Ethics Act), 65 Pa.C.S. § 1101 *et seq.*, requires all candidates for public office, public officials and certain public employees to complete a Statement of Financial Interests for the preceding calendar year annually no later than May 1st of each year they hold their positions and of the year after leaving such positions.

The Ethics Act (65 Pa.C.S. § 1102) defines “conflict of interest” as follows:

Use by 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.

Our review of the PVSD Statements of Financial Interests forms (SFI) for calendar years 2008, 2009 and 2010, PVSD Board of Directors (board) meeting minutes from September 10, 2009, through March 10, 2011 and interviews with PVSD personnel found a possible conflict of interest transaction. Specifically, it appeared that one board member may have engaged in prohibited conduct, and also failed to file SFIs.

Public office is a public trust sustained by assuring the people of the impartiality and honesty of public officials and public employees. Therefore, the Ethics Act specifically requires public officials and certain public employees to disclose matters on the SFIs that currently or potentially could create conflicts of interest with their public duties. When a public official does not properly file a required disclosure, the public cannot examine the disclosure in order to determine whether conflicts of interest exist. This in turn erodes the public’s trust. We concluded that the board members’ failure to file the SFIs constituted a violation of the Ethics Act.

Our review found that the board did not publicly announce their intent to contract with a third party to provide special education services. The possible conflict of interest transaction occurred when it was found that two companies contracted to provide these services were owned by the spouse of a current school board member. Furthermore, these two business entities were paid more than \$500 each to provide special education services.

Our review of the board meeting minutes from September 10, 2009, through March 10, 2011, found that the board member whose spouse owned the entities did abstain on both the approval of the contracts and from voting to pay for the invoices. However, since the transactions are more than \$500 and a related party situation exists, bidding should be required. The PVSD entered into both contracts without providing public notice for the solicitation of competitive bids.

The Ethics Act (65 Pa. C.S. § 1103 (f)) provides, in part:

Contract. – No public official or public employee or his spouse or child or any business in which the person or his spouse or child is associated shall enter into any contract valued at \$500 or more with the governmental body with which the public official or public employee is associated or any subcontract valued at \$500 or more with any person who has been awarded a contract with the governmental body with which the public official or public employee is associated, unless the contract has been awarded through an open and public process, including prior public notice and subsequent public disclosure of all proposals considered and contracts awarded. In such a case, the public official or public employee shall not have any supervisory or overall responsibility for the implementation or administration of the contract. . . .

As a result, the board member’s action and/or lack of disclosure were in violation of the Public School Code and possibly 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 *Panther Valley School District* should:

1. Require that the District strengthen controls regarding the review process of the SFIs forms, to help ensure detection of any potential conflicts of interest.
2. Strengthen controls to help ensure compliance with state laws regarding board members conducting business with the District.

Management Response

Management waived the opportunity to reply.

Status of Prior Audit Findings and Observations

Our prior audit of the Panther Valley School District (PVSD) for the school years 2007-08 and 2006-07 resulted in two reported findings and one observation. The first finding pertained to membership reported for children placed in private homes, and the second finding pertained to bus driver qualifications. The observation pertained to their student accounting applications. As part of our current audit, we determined the status of corrective action taken by the PVSD to implement our prior recommendations. We analyzed the PVSD Superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned PVSD personnel regarding the prior findings and observation. As shown below, we found that the PVSD did not implement recommendations related to membership reported for children placed in private homes, bus driver qualifications and their student accounting applications.

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

Finding No. 1: Inadequate Documentation and Errors in Membership Reported for Children Placed in Private Homes Resulted in Reimbursement Overpayments of \$20,550

Finding Summary: Our prior audit found that during the 2007-08 and 2006-07 school years, PVSD personnel inaccurately reported to DE its membership for children placed in private homes. Furthermore, PVSD personnel did not maintain adequate documentation for children placed in private homes. These errors resulted in reimbursement overpayments of \$14,042 for the 2007-08 school year and \$6,508 for the 2006-07 school year.

Recommendations: Our audit finding recommended that the PVSD:

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

Current Status: During our current audit procedures, we found that the PVSD did not implement the recommendations. Please refer to our follow-up finding in the current report (see page 6).

Finding No. 2: Inadequate Transportation Procedures Regarding Bus Drivers' Qualifications

Finding Summary: Our prior audit found that PVSD had inadequate procedures over bus drivers' qualifications which resulted in missing or untimely filings of criminal history, child abuse and Federal Bureau of Investigation clearances for certain drivers.

Recommendations: Our audit finding recommended that the PVSD:

1. Immediately obtain, from the contractor, the missing documentation referred to in our finding in order to ensure that drivers transporting students in the District possess proper qualifications.
2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
3. Maintain files, separate from the contractors, for all District drivers and work with the contractors to ensure that the District's files are up-to-date and complete.

Current Status: During our current audit procedures, we found that the PVSD did not implement the recommendations. Please refer to our follow-up finding in the current report (see page 8).

Observation: Unmonitored Intermediate Unit System Access and Logical Access Control Weaknesses.

Observation Summary:

Our prior audit found that the PVSD uses software purchased from Carbon Lehigh Intermediate Unit #21 (IU) for its critical student accounting applications (membership and attendance). Additionally, the PVSD's entire computer system, including all its data and the above software are maintained on the IU's servers which are physically located at the IU. The PVSD has remote access into the IU's network servers, with the IU providing system maintenance and support.

We noted that PVSD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over intermediate unit access to the student accounting applications

Recommendations: Our audit observation recommended that the PVSD:

1. Ensure that the PVSD's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
4. Implement a security policy and system parameter settings to require all users, including the IU, 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 PVSD should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
5. Only allow access to their system when the IU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the IU has completed its work. This procedure would also enable the monitoring of IU changes.

Current Status: During our current audit procedures, we found that the PVSD did implement three of the five recommendations. We will follow up on the remaining two recommendations during our next audit. The recommendations that were implemented are:

1. PVSD included provisions for authentication (password security and syntax requirements) in their Acceptable Use Policy.
2. PVSD requires written authorization before adding, deleting, or changing a userID.
3. PVSD maintains proper documentation to evidence that terminated employees were removed from the system in a timely manner.



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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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.

