

PENNS VALLEY AREA SCHOOL DISTRICT
CENTRE 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. Jay Martin, Board President
Penns Valley Area School District
4528 Penns Valley Road
Spring Mills, Pennsylvania 16875

Dear Governor Corbett and Mr. Martin:

We conducted a performance audit of the Penns Valley Area School District (PVASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period February 5, 2010 through January 30, 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 PVASD 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. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

December 20, 2012

cc: **PENNS VALLEY AREA 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 Penns Valley Area School District (PVASD). 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 PVASD in response to our prior audit recommendations.

Our audit scope covered the period February 5, 2010 through January 30, 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 PVASD encompasses approximately 235 square miles. According to local census data, it serves a resident population of 11,382. According to District officials, in school year 2009-10 the PVASD provided basic educational services to 1,460 pupils through the employment of 120 teachers, 78 full-time and part-time support personnel, and 10 administrators. Lastly, the PVASD received more than \$7.8 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the PVASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedure, except for two compliance-related matters reported as findings. In addition, a matter unrelated to compliance is reported as an observation.

Finding No. 1: Pupil Transportation Reporting Errors Resulted in a Net Overpayment of \$21,619. Our audit of the transportation records for the 2009-10 and 2008-09 school years found errors in the data reported to the Pennsylvania Department of Education (PDE). The errors were due to WASD personnel inaccurately reporting the daily mileage, the number of days transportation was provided, and the number of charter school pupils transported (see page 6).

Finding No. 2: Errors in Reporting Pupil Membership Resulted in a Net Reimbursement Underpayment of \$7,708 for Nonresident Children Placed in Private Homes. Our audit of pupil membership reports submitted to PDE for the 2009-10 school year found reporting errors. The errors resulted in a net underpayment of \$7,708 for nonresident children placed in private homes (see page 9).

Observation: The Penns Valley Area School District Lacks Sufficient Internal Controls Over Its Student Record Data.

Our review of the PVASD's controls over student data integrity found that internal controls need to be improved (see page 11).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the PVASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the PVASD had not taken appropriate corrective action in implementing our recommendations pertaining to student transportation (see page 13). However, we found that the PVASD had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor 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 February 5, 2010 through January 30, 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 (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 PVASD'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 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 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 their current bus drivers are properly qualified, and do they 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

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

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.

PVASD 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 pupil transportation, 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 PVASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 4, 2011, we reviewed the PVASD's response to PDE dated November 16, 2011. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Pupil Transportation Reporting Errors Resulted in a Net Overpayment of \$21,619

Criteria relevant to the finding:

Section 2541 of the Public School Code provides that school districts shall be paid by the Commonwealth for every school year on account of pupil transportation.

Section 2509.3 of the Public School Code provides that school districts shall be paid by the Commonwealth \$385 for each nonpublic and charter school pupil transported.

Miles with and without pupils, the number of days transported and the number of charter school pupils transported are all integral parts of the pupil transportation reimbursement formula and must be reported accurately to PDE in order for districts to receive the correct reimbursement.

Our audit of the District's transportation records for the 2009-10 and 2008-09 school years found errors in data reported to the Pennsylvania Department of Education (PDE) that resulted in a net overpayment of \$21,619.

Errors were found in the following areas:

- Daily mileage with and without pupils;
- The number of days transportation was provided; and
- The number of charter school pupils transported.

The errors resulted in a net overpayment of \$21,619, as follows:

	<u>(Over)/Underpayments</u>		<u>Totals</u>
	<u>2009-10</u>	<u>2008-09</u>	
Charter School Pupil Subsidy	\$ -	\$19,250	\$ 19,250
Regular Subsidy	<u>(24,995)</u>	<u>(15,874)</u>	<u>(40,869)</u>
Totals	<u>\$(24,995)</u>	<u>\$ 3,376</u>	<u>\$(21,619)</u>

Daily Mileage With and Without Pupils

In both the 2009-10 and 2008-09 school years we found that the miles with and without pupils were incorrectly reported for two buses that were used on afterschool activity routes.

As a result, for the 2009-10 school year daily miles with pupils were overstated by 56.7 miles, and daily miles without pupils were overstated by 29.0 miles.

In addition to the activity buses, in the 2008-09 school year, we found clerical errors were made in the reporting of miles with and without pupils for two other vehicles. The combined reporting errors resulted in miles with pupils being overstated by 52.9 miles, and miles without pupils were overstated by 27.0 miles.

During a discussion with the transportation coordinator we were told that the transportation coordinator was new to the position and misunderstood the reporting instructions. She thought it was necessary to report an activity bus with the regular buses, and again as an activity bus.

The Number of Days Transportation Was Provided

The auditor found that in the 2008-09 school year, one bus was reported as providing transportation services for 168 days. However, supporting documentation showed that the bus was in use for 177 days.

Charter School Pupil Data

We also noted that in the 2008-09 school year the District provided transportation to 50 students attending charter schools outside the District. District personnel failed to report these pupils to PDE when compiling the end-of year information.

We have provided PDE with reports detailing the errors to be used in the recalculation of the District's pupil transportation reimbursement.

Recommendations

The *Penns Valley Area School District* should:

1. Continue to provide training for transportation personnel.
2. Strengthen internal controls to ensure accurate reporting of transportation data.
3. Thoroughly review all transportation data for accuracy prior to submission to PDE.
4. Review reports subsequent to the audit period and, if similar errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

5. Adjust future District allocations to correct the net overpayments of \$21,619.

Management Response

Management stated the following:

“The District acknowledges this finding. This overpayment may be the result of how the E-trans system requires data entry of vehicles used for activity runs. For 2008-2010, both activity buses were NOT regular Penns Valley route buses, but were additional vehicles used only for activity runs. We will review our data entry procedures with transportation subsidy representatives at PDE to prevent future problems. The District will also file a corrected E-tran report with PDE for 2010-11, if necessary.”

Finding No. 2 →

Errors in Reporting Pupil Membership Resulted in a Net Reimbursement Underpayment of \$7,708 for Nonresident Children Placed in Private Homes

Criteria relevant to the finding:

Membership data must be reported in accordance with PDE guidelines and instructions to ensure that the correct subsidies and reimbursements are received.

PDE provides guidelines governing the classification of nonresident children placed in private homes by the court.

Section 2503 of the Public School Code provides for reimbursement on behalf of children placed in private homes.

Our audit of pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 school year found reporting errors. The errors resulted in a net underpayment of \$7,708 in Commonwealth-paid tuition for nonresident children placed in private homes.

The auditor found that District personnel overreported membership days by 177 days for one kindergarten student who was placed in a pre-adoptive home. The student should have been reported as a resident student and not as a nonresident child placed in a private home. Failing to appropriately classify this student resulted in an overpayment of \$7,866.

Additionally, District personnel also inaccurately reported membership days for four nonresident secondary students. These errors were the result of District personnel reporting the incorrect district of residence code for three students, and failing to report membership days for one additional student who was a ward of the state. The total understated secondary days were 311. The secondary membership day errors caused the District to receive \$15,574 less than they were entitled to.

The total effect of the District's membership reporting errors was a net underpayment of \$7,708 for Commonwealth-paid tuition.

We have provided PDE with a report detailing the errors for use in recalculating the District's Commonwealth-paid tuition for nonresident children placed in private homes.

Recommendations

The *Penns Valley Area School District* should:

1. Provide training for child accounting personnel.
2. Strengthen internal controls to ensure accurate reporting of pupils.

3. Thoroughly review all child accounting data for accuracy prior to submission to PDE.
4. Review reports subsequent to the audit period and if similar errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

5. Adjust future District allocations to correct the net underpayment of \$7,708.

Management Response

Management stated the following:

“The District acknowledges this finding. The net underpayment is a result of clerical errors, specifically improper coding of student residency status. The District will institute quality controls to eliminate clerical errors of this type. Additionally, graduated student records will be maintained until subsequent audits of that year have been completed.”

Observation →

The Penns Valley Area School District Lacks Sufficient Internal Controls Over Its Student Records Data

Criteria relevant to the observation:

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; Limited English Proficiency 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' (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 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.

Because PDE now uses the data in PIMS to determine each LEA's state subsidy, it is vitally important that the student information entered into this system is accurate, complete, and valid. Moreover, anytime an entity implements a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. LEAs must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our review of the District's controls over data integrity found that internal controls need to be improved. Specifically, our review found that:

1. The District does not maintain adequate evidence of manual compensating controls (i.e. supporting documentation) to support its student registrations. Specifically, we found four of seven registration forms for pupils selected for review were not retained in District files.
2. The District does not have adequate procedures in place to ensure that the membership data it reports in the PIMS system is complete, accurate, valid and reliable.

Recommendations

The *Penns Valley Area School District* should:

1. Retain student registration documentation until after the school year is audited.
2. Continue to provide training for PIMS personnel.
3. Strengthen internal controls to ensure accurate reporting of pupils.
4. Thoroughly review PIMS data for accuracy prior to submission to PDE.

The *Pennsylvania Department of Education* should:

5. Continue to provide training for PIMS personnel.

Management Response

Management stated the following:

“The District acknowledges this observation. The District will be in communication with PDE to discover the source of data inconsistencies. The District will institute quality controls to eliminate clerical errors of this type.”

Status of Prior Audit Findings and Observations

Our prior audit of the Penns Valley Area School District (PVASD) for the school years 2007-08 and 2006-07 resulted in one reported finding and one observation. The finding pertained to errors in reporting pupil transportation data, and the observation pertained to unmonitored vendor 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 analyzed the PVASD Board's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the PVASD did not implement recommendations related to pupil transportation, but did implement the necessary corrective action related to unmonitored vendor system access and logical access control weaknesses.

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

Finding: **Errors in Reporting Pupil Transportation Data Resulted in a Net Reimbursement Overpayment of \$17,983**

Finding Summary: Our prior audit found that the District inaccurately reported two activity runs for one contractor as "daily runs," failed to report an activity run for one contractor, underreported charter school pupils transported, overreported miles with and without pupils for two District vans, and underreported the greatest number of pupils transported daily. These errors resulted in an overpayment of \$20,678 in public transportation reimbursement and an underpayment of \$2,695 in charter school transportation reimbursement. These errors were clerical and also caused by a misinterpretation of PDE instructions.

Recommendations: Our audit finding recommended that the PVASD:

1. Continue to provide training for transportation personnel.
2. Accurately report "activity runs" to PDE when the vehicle is not used for a "daily run."
3. Strengthen internal controls to ensure accurate reporting of charter school pupils.
4. Thoroughly reconcile all transportation data for accuracy prior to submission to PDE.
5. Review reports submitted subsequent to the audit period and if similar errors are found submit revised reports to PDE.

We also recommended that PDE:

6. Adjust the District's allocations to correct the net overpayment of \$17,983.

Current Status:

During our current audit procedures we found that the PVASD did not implement the recommendations. See Finding No. 2, page 9, for continued transportation reporting concerns.

As of January 30, 2012, PDE had not corrected the net overpayment of \$17,983.

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation

Summary:

The PVASD uses software purchased from Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance). CSIU has remote access into the District's network servers.

Our prior audit found that unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the District's membership information and result in the District not receiving the funds to which it was entitled from the state.

Recommendations:

Our audit observation recommended that the PVASD:

1. Perform reconciliations between system-generated membership and attendance reports and manually keep membership and attendance records to ensure that any unauthorized change within the system would be detected in a timely manner.
2. Require CSIU to assign userIDs and passwords to vendor employees authorized to access the District's system. Further, the District should obtain a list of CSIU employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
3. Consider implementing additional environmental controls around the network sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors and fire extinguishers in the computer room.

Current Status: During our current audit procedures we found that the PVASD did implement corrective actions to answer our prior recommendations. District personnel indicated that they were in contact with representatives from CSIU and the necessary changes were made to tighten access to the District's system. Additionally, the District has installed fire extinguishers in the computer room.



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:

The Honorable Tom Corbett
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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.

