



**PHILIPSBURG-OSCEOLA AREA
SCHOOL DISTRICT**

CLEARFIELD COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

NOVEMBER 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mrs. Rebecca Timchak, Board President
Philipsburg-Osceola Area School District
200 Short Street
Philipsburg, Pennsylvania 16866

Dear Governor Corbett and Mrs. Timchak:

We conducted a performance audit of the Philipsburg-Osceola Area School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period July 15, 2011 through July 5, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2012 and June 30, 2011. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the District complied, in all significant respects, with relevant requirements, except as detailed in two findings noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

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

EUGENE A. DEPASQUALE
Auditor General

November 13, 2013

cc: **PHILIPSBURG-OSCEOLA AREA SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

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

Our audit scope covered the period July 15, 2011 through July 5, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2011-12 and 2010-11 school years.

District Background

The District encompasses approximately 222 square miles. According to 2010 federal census data, it serves a resident population of 15,412. According to District officials, the District provided basic educational services to 1,967 pupils through the employment of 139 teachers, 64 full-time and part-time support personnel, and 13 administrators during the school year. Lastly, the District received \$15,290,743 million in state funding in the 2011-12 school year.

Audit Conclusion and Results

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

Finding No. 1: Continued Errors in Reporting Nonresident Pupil Membership Resulted in a Foster Child Subsidy Underpayment Totaling \$238,516.

For the second consecutive audit, we found that the Philipsburg-Osceola School District's (District) nonresident pupil membership reports for the 2011-12 and 2010-11 school years included discrepancies in the reporting of nonresident children placed in private homes (foster children). As a result, the District received \$238,516 less in state subsidy payments for educating the foster children living within its borders (see page 5).

Finding No. 2: Recurring Internal Control Weaknesses and a Lack of Supporting Documentation in Pupil Transportation Reimbursement.

For the fourth consecutive audit, we have found that the Philipsburg-Osceola School District's (District) pupil transportation data contained inaccuracies (see page 9).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the Philipsburg-Osceola School District (District) from an audit released on November 10, 2011, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to nonresident membership reporting errors (see page 12) and pupil transportation errors (see page 13).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

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

Our audit covered the period July 15, 2011 through July 5, 2013.

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

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education (PDE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?

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

Methodology

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

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an

What are internal controls?

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

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

understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

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

Our audit examined the following:

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 10, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Continued Errors in Reporting Nonresident Pupil Membership Resulted in a Foster Child Subsidy Underpayment Totaling \$238,516

Criteria relevant to the finding:

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

According to PDE's 2009-10 *PIMS User Manual*, all Pennsylvania local education agencies 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.

For the second consecutive audit, we found that the Philipsburg-Osceola School District's (District) nonresident pupil membership reports for the 2011-12 and 2010-11 school years included discrepancies in the reporting of nonresident children placed in private homes (foster children). These errors resulted in the District receiving less state subsidy for educating the foster children living within its borders. The underpayments we identified were as follows:

Foster Child Subsidy Underpayments	
School Year	Subsidy Underpayment
2011-12	\$134,930
2010-11	\$103,586
Total	\$238,516

Our prior audit of the District released on November 10, 2011, also found that because of inaccurate reporting, the District was underpaid for its nonresident foster students by \$78,051 (see page 12).

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives through the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse" for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

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

Criteria relevant to the finding (continued):

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

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

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

“Each school district, regardless of classification, which accepts any nonresident child in its school under the provisions of section one thousand three hundred five shall be paid by the Commonwealth an amount equal to the tuition charge per elementary pupil or the tuition charge per secondary pupil as the case may be . . .”

Our review of the 2011-12 and 2010-11 school years also found that membership data reported through the District’s child accounting software did not agree with the membership information uploaded into PIMS. It appears that students who withdraw from the District during the school year are not being included in the PIMS uploads, but we were unable to confirm this with the information available for audit.

These errors in reporting pupil membership occurred because the District hired new child accounting personnel in the 2010-11 school year, and they were not provided appropriate training in the coding requirements of nonresident students. As a result, these District personnel used the incorrect “District Code of Residence” when reporting the foster students. The correct “District Code of Residence” should be the code of the natural/adoptive parent or legal guardian. By using the incorrect code, the District was not credited for the foster children it educated.

In addition, the new employees were not instructed on the importance of reconciling the District’s student information system data with the data uploaded into PIMS. If an internal review process comparing PDE’s preliminary Summary of Child Accounting Report to the District’s reports had been in place, these reporting errors would have been noted and corrected before the Final Summary of Child Accounting Data report was received in June.

It is the responsibility of District management to ensure that internal policies and procedures are in place to verify that student data is accurately collected and reported to PDE. Without these internal controls, the District is at risk of not receiving its proper subsidy. The \$238,516 underpayment has a real effect on the funding available to educate the District’s students.

We have provided PDE with a report detailing the errors for use in recalculating the District’s tuition for foster children.

Recommendations

The *Philipsburg-Osceola Area School District* should:

1. Immediately adopt the practice of reconciling membership data printouts from the District's child accounting software with the information uploaded into PIMS database. If differences are noted, make corrections as needed.
2. Contact PDE and/or the Pennsylvania Chapter of the Attendance/Child Accounting Professional Association to determine what training is available on the proper reporting of child accounting information. Once that is established, immediately enroll the District's child accounting personnel in the appropriate courses.
3. Reference the PIMS manual of reporting for proper instructions in reporting nonresident students.
4. Review membership reports submitted to PDE for years subsequent to the audit, and if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

5. Adjust the District's allocations to correct the reimbursement underpayment of \$238,516.

Management Response

Management stated the following:

“The Commonwealth auditors noted that there were errors in reporting on the non-resident pupil membership over the past few years. This process is commonly referred to PIMS. This was the result of initiating a new process that was established by PDE and insufficient instruction on training of staff personnel in the new reporting initiative. Another concern, in this matter, was the downloading of files from the PIMS. The technology department did not correctly follow-up on the data verification of the files that were downloaded and then uploaded to PDE. This is an important part of the process and procedures will need to be established to insure the accuracy of this process.

The student services office (SSO) is responsible for the reporting and will make a diligent effort to train and support its staff in this new initiative in order to achieve accurate reporting. The SSO will work to ensure that staff training is completed and a sufficient knowledge of the process is established with the staff. The SSO will also work in conjunction with the technology department to insure their understanding and that technology department will establish data verification procedures that will enable accurate data transfers to be made at the time the data is being processed.”

Auditor Conclusion

While we are encouraged that the District reports that it is taking steps to address this deficiency, we again note that this is a repeat finding from our last audit of the District (see page 12). The underpayment of the state subsidy due to the District’s incorrect reporting of student data constitutes a real budgetary effect on the funds available for educating the District’s students. Consequently, it is imperative that the District take immediate action to address its membership reporting issues. We will again review the student data reporting process during our next audit of the District.

Finding No. 2

Recurring Internal Control Weaknesses and a Lack of Supporting Documentation in Pupil Transportation Reimbursement

Criteria relevant to the finding:

Section 2541 of the Public School Code (PSC), 25 P.S. § 2541, states, in part, “school districts shall be paid by the Commonwealth for every school year on account of pupil transportation. . . .”

Section 2509.3 of the PSC, 25 P.S. § 2509.3, provides for payments for nonpublic pupil transportation.

The Pennsylvania Department of Education’s (PDE) reporting guidelines state that if a local education agency (LEA) has a situation in which it is more cost effective to have a vehicle layover rather than make two round trips, layover allowance is available. A written request for layover hours allowance that identifies the vehicle (LEA-owned/contractor name and Vehicle ID Code) and number of hours and minutes of layover must be submitted to PDE. In addition, the request must contain cost calculations that demonstrate that it is more economical for the driver to layover than it is to drive the vehicle without pupils. Upon approval, PDE will enter the ‘Layover Time’.

For the fourth consecutive audit, we have found that the Philipsburg-Osceola School District’s (District) pupil transportation data contained inaccuracies. The District then reported this incorrect information to the Pennsylvania Department of Education (PDE) for reimbursement for the 2011-12 school years. While the data inaccuracies in those years may not significantly impact the District’s state transportation subsidy, the District’s continued failure to establish proper internal controls over its data puts the District at high risk of not receiving the correct state transportation reimbursement. In addition, the District had no documentation to support that it received the correct amount of state transportation reimbursement for the 2010-11 school year, which totaled \$672,439.

Internal Control Weaknesses

Inaccuracies in the transportation data reported for the 2011-12 school year were as follows:

- One bus run that was not eligible for reimbursement was reported to PDE. The run was for “gifted” students transported between schools.
- Nonpublic pupils were overstated by one.
- Lack of information regarding the total reported number of students transported due to hazardous walking conditions. The District began using new transportation software during the school year, and only hazardous students from one contractor were reported.¹
- Failure to request permission from PDE to authorize layover hours for three buses. Two of the bus runs were for area vocational-technical school students. The other bus run was for nonpublic school students. If PDE decides to deny

¹ Hazardous students are students living in an area where the highway, road, or traffic conditions are such that walking constitutes a hazard to the safety of the children. Students in this category are identified by the Pennsylvania Department of Transportation.

reimbursement for these layover hours, it could potentially cost the District \$20,878 in additional transportation reimbursement for the 2011-12 school year.

Although the reporting inaccuracies noted may not significantly impact the District's funding, they represent weaknesses in the District's transportation review procedures. If these review procedures are not tightened up, the District opens itself to possible larger errors in the future.

Lack of Documentation

We were unable to perform a detailed review of the 2010-11 school year records supporting \$672,439 in pupil transportation reimbursement because documentation was not available for audit. According to the District, this lack of documentation resulted from the District moving transportation offices. During the move, the supporting documentation was misplaced.

Recommendations

The *Philipsburg-Osceola Area School District* should:

1. Immediately contact PDE or the Pennsylvania Association of School Business Officials (PASBO) to determine what training is available regarding how to properly report and maintain transportation data.
2. Contact PASBO, PDE, or another professional organization for information on how to develop strong internal controls over the District's transportation data.
3. Immediately establish a series of policies and procedures for conducting thorough reviews of all the data elements in the calculation of the state pupil transportation reimbursement. This process should include tracing the information in the District's database back to its original source.
4. Only report runs eligible for reimbursement.
5. Ensure that all documentation to support transportation data reported to PDE is retained for audit.

6. Perform an internal review of data before submission to PDE.
7. Review subsequent school years' transportation reports for accuracy and resubmit, if necessary.
8. Annually submit a written request to PDE outlining the cost justification layover hours.

Management Response

Management stated the following:

“The Commonwealth auditors noted that there was an internal control weakness in the reporting of layover hours for the career center and parochial school. This was the result of the business office not following-up on the reports or learning the correct process of reporting the time on the annual PDE transportation report.

The central business office is aware of this inaccuracy and will make a diligent effort to follow-up and report this time correctly on future reports.”

Auditor Conclusion

While we are cautiously encouraged that the District reports that it will be making a diligent effort to follow up and correct the reports, this is an area in which we have previously found costly deficiencies at the District (see page 13). Therefore, we cannot overemphasize the importance of ensuring that the District takes immediate steps to implement our recommendations, and if necessary, seeks out assistance from PDE or another professional organization to ensure it develops an effective internal control system. We believe that it is unacceptable that the District is not able to provide required documentation for program funding equal to over four percent of its total state subsidy. We will again follow up on the District's efforts to correct this chronic deficiency during our next audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Philipsburg-Osceola Area School District (District), released on November 10, 2011, resulted in two findings. The first finding pertained to nonresident membership reporting errors, and the second finding pertained to pupil transportation errors. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We performed audit procedures and interviewed District personnel regarding the prior findings. As shown below, we found that the District did not implement our recommendations related to the prior audit findings.

Auditor General Performance Audit Report Released on November 10, 2011

Finding No. 1: **Errors in Reporting Nonresident Pupil Membership Resulted in an Underpayment of Tuition for Children Placed in Private Homes of \$78,051**

Finding Summary: Our prior audit of nonresident pupil membership for the 2009-10 school year found discrepancies in reports submitted to the Pennsylvania Department of Education (PDE). These errors resulted in a reimbursement underpayment of \$78,051.

Recommendations: Our audit finding recommended that the District should:

1. Reference the Pennsylvania Information Management System's manual of reporting for instructions in the proper reporting of nonresident students.
2. Review membership reports submitted to PDE for years subsequent to the audit, and if similar errors are found, submit revised reports to PDE.

We also recommended that PDE should:

3. Adjust the District's allocations to correct the reimbursement underpayment of \$78,051.

Current Status: During our current audit, we found that the District did not implement our prior recommendations, as noted in Finding No. 1 of our audit report (see page 5).

As of July 5, 2013, PDE had not yet adjusted the District's allocations to correct the reimbursement underpayment of \$78,051.

Finding No. 2: Continued Errors in Reporting Pupil Transportation Data Resulted in a Net Overpayment of \$17,421

Finding Summary: Our prior audit of pupil transportation data for the 2009-10 and 2008-09 school years found inaccuracies with data reported to PDE for reimbursement. The errors led to a net transportation overpayment of \$17,421.

This was a repeat finding. The previous audit report found transportation reporting errors during the 2004-05 through 2007-08 school years totaling \$23,355, and the audit report prior to our previous report found reporting errors during the 2002-03 and 2003-04 school years totaling \$77,221.

Recommendations: Our audit finding recommended that the District should:

1. Accurately report all data elements in the calculation of pupil transportation reimbursement.
2. Accurately report all runs eligible for reimbursement.
3. Perform an internal review of data before submission to PDE.
4. Review subsequent school years' transportation reports for accuracy and resubmit, if necessary.

We also recommended that PDE should:

5. Adjust the District's allocations to correct the net overpayment of \$17,421.

Current Status: During our current audit, we found that the District did not implement our prior recommendations, as noted in Finding No. 2 of our audit report (see page 9).

As of the end of fieldwork, PDE has not yet adjusted the District's allocations to correct the net overpayment of \$17,421.

Distribution List

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

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