

REDBANK VALLEY SCHOOL DISTRICT
CLARION COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2012

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

Mr. Glenn Watson, Board President
Redbank Valley School District
920 Broad Street
New Bethlehem, Pennsylvania 16242

Dear Governor Corbett and Mr. Watson:

We conducted a performance audit of the Redbank Valley School District (RVSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period June 11, 2010 through February 17, 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 RVSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. 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 finding, observation and recommendations have been discussed with RVSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve RVSD's operations and facilitate compliance with legal and administrative requirements.

We appreciate the RVSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

August 13, 2012

cc: **REDBANK 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 Redbank Valley School District (RVSD). Our audit sought to answer certain questions regarding the RVSD's compliance with applicable state laws, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period June 11, 2010 through February 17, 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 RVSD encompasses approximately 165 square miles. According to 2010 federal census data, it serves a resident population of 7,991. According to District officials, in school year 2009-10 the RVSD provided basic educational services to 1,245 pupils through the employment of 111 teachers, 71 full-time and part-time support personnel, and 3 administrators. Lastly, the RVSD received more than \$10.6 million in state funding in school year 2009-10.

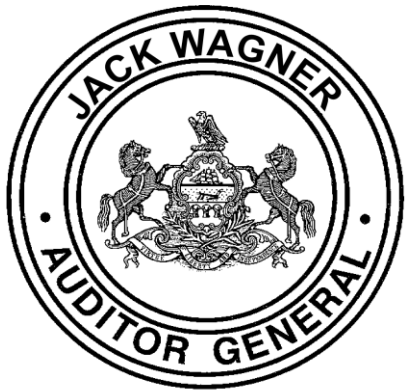
Audit Conclusion and Results

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

Finding: Errors in Reporting Pupil Membership Resulted in Reimbursement Underpayments of \$26,318. Our audit of pupil membership reports submitted to the Pennsylvania Department of Education for the 2009-10 and 2008-09 school years found reporting errors. RVSD personnel inaccurately reported membership for nonresident children placed in private homes as resident membership in the 2009-10 and 2008-09 school years. These errors resulted in reimbursement underpayments of \$20,867 and \$5,451 for the 2009-10 and 2008-09 school years, respectively (see page 6).

Observation: The Redbank Valley School District Lacks Sufficient Internal Controls Over Its Student Record Data. Our review of RVSD's controls over data integrity for the 2009-10 school year found that internal controls need to be improved (see page 9).

Status of Prior Audit Findings and Observations. There were no findings and observations included in our prior audit report.



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 June 11, 2010 through February 17, 2012, except for the verification of professional employee certification, which was performed for the period August 28, 2011 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 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 RVSD'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, are 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?

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, 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.

RVSD 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.

Additionally, we interviewed selected administrators and support personnel associated with RVSD operations.

Findings and Observations

Finding

Errors in Reporting Pupil Membership Resulted in Reimbursement Underpayments of \$26,318

Criteria relevant to the finding:

Resident and nonresident membership data must be maintained in accordance with DE guidelines and instructions, since they are major factors in determining the district's subsidies and reimbursements.

Section 2503 of the Public School Code provides for Commonwealth payment of tuition for children placed in private homes.

Our audit of pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years found reporting errors. Redbank Valley School District (RVSD) personnel inaccurately reported membership days for nonresident children placed in private homes as resident membership in the 2009-10 and 2008-09 school years. These errors resulted in underpayments of \$20,867 and \$5,451 in Commonwealth-paid tuition for children placed in private homes for the 2009-10 and 2008-09 school years, respectively, totaling \$26,318.

Nonresident Membership

For the 2009-10 school year, membership days for nonresident children placed in private homes were understated by 75 elementary days and 364 secondary days.

Of the 364 secondary days, 96 days were for two nonresident students who were enrolled at the Clarion County Career Center (CCCC). Child accounting personnel at the CCCC did not appropriately report these students as being in foster placement in the RVSD. The other errors involved RVSD's failure to report membership for some students and incorrectly reporting the district of residence for others.

For the 2008-09 school year, District personnel made a clerical error when reporting membership days for one secondary nonresident child who was placed in a private home in RVSD. As a result, nonresident membership days were understated by 120.

Resident Membership

In the 2009-10 school year we found that kindergarten resident membership days were understated by 215 days, elementary membership days were understated by 946 days, and secondary membership days were understated by 2,155 days.

The resident membership errors resulted when the District incorrectly uploaded their child accounting report labeled Active Student Report to the Pennsylvania Information Management System (PIMS), rather than their All Student File. This omitted all students who had withdrawn during the school year, and resulted in their days not being included in the District's membership on the PIMS reports.

The audit also found that the District did not report membership days for elementary and secondary students who were enrolled in intermediate unit special education classes, but who were receiving mainstream educational services in District classrooms.

The resident reporting errors had no effect on reimbursements.

We have provided PDE with reports detailing the errors for use in recalculating the District's membership data and tuition for children placed in private homes.

Recommendations

The *Redbank Valley School District* should:

1. Reference the PIMS manual of reporting instructions for the proper reporting of nonresident students' membership days.
2. Strengthen internal controls to ensure adherence to PDE regulations when reporting PIMS membership data to ensure accuracy.
3. Review membership reports submitted to PDE for school years subsequent to the audit and, if reporting errors are found, contact the PIMS help desk for guidance in changing coding and submit revised reports to PDE.

4. Contact the CCCC to ensure that they properly identify RVSD's nonresident student membership when completing their PIMS child accounting membership reports to PDE.

The *Pennsylvania Department of Education* should:

5. Adjust the District's future allocations to resolve the underpayment of \$26,318.

Management Response

Management stated the following:

“District personnel will have increased training as to pupil membership data reporting for non-resident and resident membership.

“The school district will review documentations submitted for the audit years and following years reported to ensure compliance.”

Observation →

The Redbank Valley School District Lacks Sufficient Internal Controls Over Its Student Record 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. 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 Redbank Valley School District's (RVSD) controls over data integrity for the 2009-10 school year found that internal controls need to be improved. Specifically, our review found that:

1. Our testing of nonresident student registrations found that the RVSD incorrectly reported five of five students.
2. Our testing of intermediate unit students found that students' mainstreaming time was not being reported for classes housed in the District.

3. Our testing of resident and nonresident students found that the total days on RVSD's system and the PIMS Summary Report did not agree. The RVSD had downloaded the report titled All Active Student File instead of the file titled All Student File. This resulted in days for students that had withdrawn during the school year not being included.
4. The District does not have adequate procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.

Recommendations

The *Redbank Valley School District* should:

1. Maintain adequate evidence of manual compensating controls (i.e. supporting documentation) to support its student registrations.
2. Perform a detailed comparison of PDE's Summary of Child Accounting Membership to the PIMS's Instructional Time and Membership Report to ensure that all membership days were appropriately uploaded and accounted for.
3. Have adequate written procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.

Management Response

Management stated the following:

“District personnel will have increased training as to pupil membership data reporting for non-resident and resident membership.

“The school district will review documentations submitted for the audit years and following years reported to ensure compliance.”

Status of Prior Audit Findings and Observations

Our prior audit of the Redbank Valley School District resulted in no findings or observations.



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
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Ronald J. Tomalis
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Nichole Duffy
Director, Bureau of Budget and
Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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