



RICHLAND SCHOOL DISTRICT
CAMBRIA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MARCH 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

Mr. Michael Bodolosky, Board President
Richland School District
319 Schoolhouse Road
Johnstown, Pennsylvania 15904

Dear Governor Corbett and Mr. Bodolosky:

We conducted a performance audit of the Richland School District (RSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period November 13, 2009, through January 27, 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 RSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in the 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 RSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve RSD's operations and facilitate compliance with legal and administrative. We appreciate the RSD's cooperation during the conduct of the audit.

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

March 18, 2013

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

Our audit scope covered the period November 13, 2009, through January 27, 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 RSD encompasses approximately 25 square miles. According to 2010 federal census data, it serves a resident population of 14,902. According to District officials, in school year 2009-10 the RSD provided basic educational services to 1,600 pupils through the employment of 102 teachers, 30 full-time and part-time support personnel, and 7 administrators. Lastly, the RSD received more than \$5.5 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the RSD 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 Nonresident Membership Resulted in Underpayments of \$10,196 in Tuition for Children Placed in Private Homes. Our audit of pupil membership reports submitted to the Pennsylvania Department of Education found that nonresident membership for children placed in private homes was understated for the 2009-10 and 2008-09 school years (see page 6).

Observation: The District Lacks Sufficient Internal Controls Over Its Student Data. Our review of the RSD's controls over data integrity found that internal controls need to be improved (see page 8).

Status of Prior Audit Findings and Observations. There were no findings or 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

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 13, 2009, through January 27, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011, through October 6, 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 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 RSD'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 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

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.

RSD 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, state ethics compliance, and financial stability.
- Items such as board meeting minutes and pupil membership records.

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

Findings and Observations

Finding

Errors in Reporting Nonresident Membership Resulted in Underpayments of \$10,196 in Tuition for Children Placed in Private Homes

Criteria relevant to the finding:

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

The PIMS manual of reporting provides guidelines for the reporting of all residency classifications.

Our audit of the District's nonresident pupil membership for the 2009-10 and 2008-09 school years found discrepancies in reports submitted to the Pennsylvania Department of Education (PDE). These errors resulted in underpayments of \$10,196 in Commonwealth-paid tuition for children placed in private homes.

For the 2009-10 school year, nonresident membership for secondary students was understated by 36 days. This resulted in an underpayment of \$1,675 in tuition for children placed in private homes. The errors were caused by District personnel incorrectly reporting the "District Code of Residence" for the children in the Pennsylvania Information Management Systems (PIMS).

District personnel responsible for entering student data into the PIMS system were not familiar with the PIMS residency code reporting guidelines.

For the 2008-09 school year, nonresident membership for elementary students was understated by 241 days. This resulted in an underpayment of \$8,521 in tuition for children placed in private homes. District personnel incorrectly classified two nonresident children as resident students.

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

Recommendations

The *Richland School District* should:

1. Review the PIMS manual of reporting for instructions on 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.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to correct the underpayments of \$10,196.

Management Response

Management stated the following:

“The School District will improve internal controls and reporting to ensure that the . . . nonresident students are properly reported as outlined in the PIMS manual. The District shall also review subsequent membership reports submitted to the Department of Education to determine if any similar errors have occurred. If any are found, revised reports will be submitted to the Department.”

Observation

The District Lacks Sufficient Internal Controls Over Its Student Data

Criteria relevant to the observation:

Webinars focusing on the reporting of school year 2009-10 Child Accounting data within the summer of 2010 PIMS reporting period were held throughout June, July and August 2010.

Numerous emails from PDE were sent to all PIMS administrators and Child Accounting contacts for all school districts stressing the importance of carefully reviewing the membership data since this is how allocations are generated for final subsidy calculation.

Additional emails reminded the districts to “keep the submitted documentation with the 2009-10 child accounting records for the State Auditor’s review.”

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. LEA’s 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 LEA’S controls over data integrity found that internal controls need to be improved. Specifically, our review found that:

1. District personnel in charge of child accounting and PIMS reporting did not print out the required validation reports from the District’s vendor or from their Student Information System (SIS) vendor software after the data was uploaded to PIMS at the end of the 2009-10 school year. Consequently, the District did not reconcile their SIS vendor membership reports with PIMS reports. District personnel attempted to print the 2009-10 reports from their SIS vendor membership software at the time of our audit. However, the data was not accurate, since the information had already been rolled over into the next school year. Without

these reports, we could not verify the accuracy of the District's child accounting data submitted to PIMS.

2. Our testing of school calendar facts found that morning half day kindergarten had 180 days in session while afternoon half day kindergarten had only 179. However, afternoon kindergarten students were incorrectly reported as enrolled for 180 days on the student calendar fact template.
3. The rotation pattern for the home portion of area vocational-technical school (AVTS) membership was incorrectly reported. The percentage of enrolled time was listed on the student calendar fact template as 100 percent instead of 50 percent for these students. This resulted in the home portion of membership days to be reported as 180 days instead of 90 days. We were unable to calculate an over reporting error total because, as noted in bullet number 1 above, the accuracy of the District's child accounting software data is in question.
4. The District does not have adequate documented 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 *Richland School District* should:

1. Print out SIS membership reports and PIMS reports after the PIMS upload is completed for that school year and perform reconciliations between the District's child accounting software data and the PIMS reports, and retain them for our audit purposes.
2. Contact the SIS software vendor to determine whether the vendor's SIS software has the capability of backing up school year specific data.
3. Contact the SIS software vendor or the PIMS help desk to resolve differences between calendar fact templates.
4. Reference the PIMS manual of reporting for instructions in the proper reporting of the home portion of AVTS rotation patterns.

5. Develop documented procedures (e.g. procedure manuals, policies or other written instructions) to ensure continuity over PIMS data submission if those involved persons were to leave the LEA suddenly or otherwise be unable to upload PIMS data to PDE.
6. Review membership reports submitted to PDE for years subsequent to the audit, and if similar errors are found, submit reviewed reports to PDE.

Management Response

Management stated the following:

1. Richland School District personnel responsible for child accounting will print the required validation reports from [vendor software] and the Student Information System . . . after the data is uploaded to PIMS at the conclusion of future school years.
2. The Richland School District only offers full day kindergarten; therefore reporting errors of half day kindergarten students has been eliminated.
3. Richland School District personnel responsible for reporting membership will take greater care when verifying AVTS membership on the calendar fact template.

Status of Prior Audit Findings and Observations

Our prior audit of the Richland 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:

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