



**RIVERSIDE SCHOOL DISTRICT  
LACKAWANNA COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**OCTOBER 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. Robert Bennie, Board President  
Riverside School District  
300 Davis Street  
Taylor, Pennsylvania 18517

Dear Governor Corbett and Mr. Bennie:

We conducted a performance audit of the Riverside 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 May 27, 2009 through July 13, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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 one finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding 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 DePASQUALE  
Auditor General

October 29, 2013

cc: **RIVERSIDE SCHOOL DISTRICT** Board of School Directors

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Riverside 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 May 27, 2009 through July 13, 2012, 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 2009-10 and 2008-09 school years.

### **District Background**

The District encompasses approximately 12 square miles. According to 2010 federal census data, it serves a resident population of 11,978. According to District officials, the District provided basic educational services to 1,491 pupils through the employment of 129 teachers, 74 full-time and part-time support personnel, and 9 administrators during the 2009-10 school year. Lastly, the District received more than \$7 million in state funding in the 2009-10 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 one compliance related matter reported as a finding.

#### **Finding: A Lack of Internal Controls Over the Process for Reporting Pupil Membership Resulted In Errors.**

Our audit of the Riverside School District's (District) pupil membership reports, submitted to the Pennsylvania Department of Education, found that the District overstated the instructional days for resident students in the 2009-10 school year. The net overstatement of the District's resident membership did not impact its 2009-10 basic education funding. However, if the District does not establish strong internal controls over the process for reporting its membership information, there is a significant risk that future errors could impact its basic education subsidy (see page 7).

**Status of Prior Audit Findings and Observations.**

With regard to the status of our prior audit recommendations to the Riverside School District (District) from an audit released on March 25, 2010, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to its certification documentation (see page 10), policies for reviewing bus driver qualifications (see page 11) and Memorandum of Understanding with local law enforcement (see page 11).

## Audit Scope, Objectives, and Methodology

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### 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 May 27, 2009 through July 13, 2012, except for the verification of professional employee certification, which was performed for the period July 1, 2011 through June 4, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 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:

- ✓ Were professional employees certified for the positions they held?
- ✓ 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?

- ✓ 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?
- ✓ 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?
- ✓ Were there any declining fund balances that may pose a 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 did the current employment contract(s) contain adequate termination provisions?
- ✓ 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 votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ 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

### *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, regulations, 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 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 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 March 25, 2010, we reviewed the District's response to PDE dated July 6, 2010. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### A Lack of Internal Controls Over the Process for Reporting Pupil Membership Resulted In Errors

*Criteria relevant to the finding:*

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (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 *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. 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.

The Pennsylvania Department of Education (PDE) 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 individual student data 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 that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this 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.

Our audit of the Riverside School District's (District) pupil membership reports, submitted to PDE, found that the District overstated the instructional days for resident students in the 2009-10 school year. The net overstatement of the District's resident membership did not impact its 2009-10 basic education funding. However, these errors were caused by the District's failure to establish effective internal controls over its reporting process. As a result, if the District does correct this problem, and establish a strong set of internal controls over its membership reporting process, there is a significant risk that future errors could impact its basic education subsidy. Such internal controls should include the reconciliation of preliminary data reports to ensure that accurate information is reported on the Final Summary of Child Accounting Report uploaded to PDE.

It is the responsibility of District management to have internal policies and procedures in place to ensure that student data is properly collected, is accurate, and is correctly reported to PDE. Without appropriate internal controls, the District cannot be assured that it is receiving the proper state subsidy.

PDE has been provided a report detailing the errors for use in recalculating the District's subsidy.

### **Recommendations**

The *Riverside School District* should:

1. Establish effective internal controls over the membership reporting process that includes reconciliation of preliminary data before it is uploaded into PIMS, and the verification of actual membership days to computer generated reports.
2. Provide child accounting staff with training to ensure they understand PDE's guidelines and instructions for reporting pupil membership.
3. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
4. Review subsequent years' reports and if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

5. Adjust the District's allocations to resolve any net overpayments in future funding based on these errors.

### **Management Response**

Management provided the following:

“Review of codes will occur to implement the appropriate actions for correct PIMS child accounting data. PIMS is understood better and all errors and omissions have been corrected to the best of our understanding.”

### **Auditor Conclusion**

We are encouraged that the District has corrected the errors in its PIMS reporting. We will review the internal controls during our next audit.

## Status of Prior Audit Findings and Observations

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Our prior audit of the Riverside School District (District) released on March 25, 2010, resulted in three reported findings and one observation as shown below. 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 District Superintendent's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior findings and observation. As shown below, we found that the District did implement our recommendations.

### Auditor General Performance Audit Report Released on March 25, 2010

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**Finding No. 1: Certification Deficiency**

Finding Summary: Our prior audit of the professional employees' certificates and assignments for the period January 1, 2007 through March 31, 2009, was conducted to review compliance with the Public School Code, Bureau of School Leadership and Teacher Quality (BSLTQ), and PDE's Certification and Staffing Policies and Guidelines. We found one secondary mathematics teacher was employed in the 2008-09 school year with a lapsed certificate.

Recommendations: Our audit finding recommended that the District:

1. Strengthen controls to help ensure that individuals' certificates are kept current.
2. Monitor years of service for all non-permanently certified employees.
3. Develop procedures to determine that applications for permanent certificates have been received by BSLTQ.

Current Status: During our current audit, we found that the District did implement our prior recommendations. The secondary math teacher received her permanent certification effective August 2009 and the District strengthened controls to ensure individuals' certificates were current. PDE calculated a subsidy forfeiture of \$2,833, which was deducted from their basic education funding payment in February 2011.

**Finding No. 2: Lack of Documentation Needed to Verify Bus Drivers' Qualifications**

Finding Summary: Our prior audit found that the District failed to obtain and retain the required documentation/clearances for two contracted van drivers.

Recommendations: Our audit finding recommended that the District:

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

Current Status: During our current audit, we found that the District did implement our prior recommendations. The District obtained the proper documentation/clearances for the two contracted van drivers effective May and June 2009. The District also strengthened internal controls over its review of current drivers and maintained the necessary documentation.

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**Finding No. 3: Lack of Memorandum of Understanding**

Finding Summary: Our prior audit of the District's records found that the District did not have a signed Memorandum of Understanding (MOU) with local law enforcement agencies available for audit.

Recommendations: Our audit finding recommended that the District:

1. Develop and implement a MOU between the District and local law enforcement agencies.
2. Adopt a policy requiring the administration to review and re-execute all MOUs every two years

Current Status: During our current audit, we found that the District did implement our prior recommendations. The District implemented a current MOU between the District and the local law enforcement agencies effective June 2009 and June 2011.

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**Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications**

Observation

Summary:

Our prior audit found the District did not have written policies or procedures in place to be used in the hiring of contracted drivers to ensure that they are aware if prospective employees have been charged with or convicted of serious criminal offenses, which should be considered for the purpose of determining an individual's suitability to be in direct contact with children.

Recommendations:

Our audit observation recommended that the District:

1. Implement written policies and procedures to determine, on a case-by-case basis, whether prospective employees of the District or the District's transportation contractor have been charged with or convicted of crimes that, even though not barred by state law, affect their suitability to have direct contact with children.
2. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District or the District's transportation contractor have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.

Current Status:

During our current audit, we found that the District did implement our prior recommendations. The District created a checklist used for hiring bus drivers, effective June 2009. Subsequently, it also implemented an Arrest and Conviction Report and Certification Form under Act 24 of 2011, which requires prospective drivers to report arrests/convictions.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at [www.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following stakeholders:

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

The Honorable Carolyn Dumaesq  
Acting Secretary of Education  
1010 Harristown Building #2  
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Harrisburg, PA 17126

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This report is a matter of public record and is available online at [www.auditor.gen.state.pa.us](http://www.auditor.gen.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@auditor.gen.state.pa.us](mailto:news@auditor.gen.state.pa.us).