

THE SCHOOL DISTRICT OF THE CITY OF ERIE
ERIE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2013



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER
AUDITOR GENERAL**

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

Ms. Mary Frances Schenley, Board President
The School District of the City of Erie
148 West 21st Street
Erie, Pennsylvania 16502

Dear Governor Corbett and Ms. Schenley:

We conducted a performance audit of the School District of the City of Erie (SDCE) to determine its compliance with applicable state laws, contracts, grant requirements and administrative procedures. Our audit covered the period May 15, 2008, through January 18, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008, and June 30, 2007. 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 SDCE complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in seven findings noted in this report. In addition, we identified two matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

**JACK WAGNER
Auditor General**

January 14, 2013

cc: **THE SCHOOL DISTRICT OF THE CITY OF ERIE** Board Members



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Executive Summary

Audit Work

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

Our audit scope covered the period May 15, 2008, through January 18, 2011, 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 2007-08 and 2006-07.

District Background

The SDCE encompasses approximately 19 square miles. According to 2000 federal census data, it serves a resident population of 103,562. According to District officials, in school year 2007-08 the SDCE provided basic educational services to 12,504 pupils through the employment of 1,123 teachers, 566 full-time and part-time support personnel, and 201 administrators. Lastly, the SDCE received more than \$79.4 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the SDCE complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for seven compliance-related matters reported as findings. In addition, we identified two matters unrelated to compliance that are reported as observations.

Finding No. 1: District Reported a General Fund Deficit of \$7,930,597 as of June 30, 2010. Our audit of the SDCE's annual financial reports, local auditor's reports and general fund budgets for the fiscal years ended June 30, 2007, 2008, 2009 and 2010 found deteriorating financial conditions (see page 6).

Finding No. 2: Improper Tuition Agreement and Waivers Cost the District Taxpayers \$1,185,177. Our audit found that the approval of the Amended Regional Choice Initiative allowed for a reduced tuition rate to be charged to 12 neighboring districts for students educated in the Northwest Pennsylvania Collegiate Academy. In addition, the SDCE also improperly approved the waiving of tuition for students from neighboring districts (see page 12).

Finding No. 3: Internal Control Weaknesses and Errors in Pupil Transportation Reporting Resulted in a Net Overpayment of \$143,246. Our audit of the SDCE's pupil transportation records and reports submitted to the Pennsylvania Department of Education (PDE) for the 2007-08 and 2006-07 school years found an underpayment of \$1,899 for regular pupil

transportation, and a net overpayment of \$145,145 for nonpublic and charter school pupil transportation. In addition, internal control weaknesses were noted (see page 15).

Finding No. 4: Certification Deficiencies. Our audit of the professional employees' certification found deficiencies (see page 19).

Finding No. 5: Errors in Reporting Charter School Tuition Resulted in a Net Reimbursement Underpayment of \$28,748. Our audit of the SDCE's 2007-08 and 2006-07 tuition payments to charter schools and the charter school reimbursement applications submitted to PDE found the SDCE failed to properly report the actual tuition paid (see page 20).

Finding No. 6: Improper Student Activity Fund Practices and Lack of Documentation. Our audit of the SDCE's 2009-10 school year student activity funds at three of the SDCE's high schools and one middle school found various improper activities and deficiencies in internal controls over these funds, as well as a lack of documentation (see page 22).

Finding No. 7: Possible Improper Re-employment of Retired District Employees. Our audit of SDCE found the SDCE rehired a number of the SDCE's retired employees as consultants to perform the same jobs as the employees hired to replace them, a possible violation of the Public School Employees Retirement Code (see page 28).

Observation No. 1: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We determined that SDCE personnel should improve controls over remote access to its computers. In

particular, controls should be strengthened over outside vendor access to the student accounting applications (see page 31).

Observation No. 2: Memorandum of Understanding Not Updated Timely. Our audit of the SDCE's records found that the SDCE had on file a properly signed Memorandum of Understanding (MOU) between the SDCE and its local law enforcement agency. However, the MOU had not been updated since February 2, 1999 (see page 34).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the SDCE from an audit we conducted of the 2005-06 and 2004-05 school years, we found the SDCE had taken appropriate corrective action in implementing our recommendations pertaining to Social Security and Medicare wages (see page 37), driver education (see page 40), and bus driver qualifications (see page 42), but did not take appropriate corrective action in implementing our recommendations pertaining to tuition billing (see page 35), pupil transportation (see page 36), certification (see page 38), charter school tuition payments (see page 39), and student activity funds (see page 40).

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 May 15, 2008, through January 18, 2011, except for the review of board meeting minutes which were reviewed from February 13, 2008, to April 28, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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 SDCE'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?

- ✓ 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?
- ✓ Is the District's pupil transportation department, including any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do 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 which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

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

SDCE 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.

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 membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 2, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

District Reported a General Fund Deficit of \$7,930,597 as of June 30, 2010

Criteria relevant to the finding:

The Public School Code (PSC), 24 P.S. § 6-609, provides, in part:

No work shall be hired to be done, no materials purchased, and no contracts made by any board of school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.

24 P.S. § 6-691(a) provides, in part:

A school district shall be deemed to be distressed when any one of the following circumstances shall arise and the Secretary of Education, after proper investigation of the district's financial condition, the administrative practices of the board and such other matters deemed appropriate by the Secretary of Education, has issued a certificate declaring such district in financial distress: . . .

(6) The school district has accumulated and has operated with a deficit equal to two per centum (2%) or more of the assessed valuation of the taxable real estate within the district for two successive years.

Our audit of the School District of the City of Erie's (SDCE) annual financial reports, local auditor's reports, and general fund budgets for the fiscal years ended June 30, 2007, 2008, 2009 and 2010 found a deteriorating financial condition, as indicated in the following schedule:

<u>Fiscal Year</u>	<u>Beginning Fund Balance</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Ending Fund Balance/ (Deficit)</u>
2006				\$2,290,967
2007	\$2,290,967	\$155,768,399	\$151,140,187	6,919,179
2008	6,919,179	158,347,612	161,949,739	3,317,052
2009	3,317,052	160,454,930	165,759,411	(1,987,429)
2010	(1,987,429)	166,600,288	172,543,456	(7,930,597)

The SDCE's total fund balance declined \$14,849,776 from June 30, 2007 through June 30, 2010.

The SDCE's total revenue was less than its total expenditures for three of the past four school years, detailed as follows:

<u>Year Ended</u>	<u>Total Revenue</u>	<u>Total Expenditures</u>	<u>Expenditures (Over)/Under Current Revenue</u>
2010	\$166,600,288	\$172,543,456	\$(5,943,168)
2009	160,454,930	165,759,411	(5,304,481)
2008	158,347,612	161,949,739	(3,602,127)
2007	155,768,399	151,140,187	4,628,212

We noted that the 2009-10 budgeted revenues and expenditures were significantly higher than the 2008-09 budgeted amounts. This revenue increase can be attributed to the increased federal funding the SDCE received as part of the American Reinvestment and Recovery Act. These additional funds resulted in the creation of three new fund

accounts: (1) Individuals with Disabilities Education Act (IDEA), Part B; (2) the State Fiscal Stabilization Fund; and (3) Child Care and Development Block Grants.

The following factors contributed to the SDCE's deteriorating financial conditions:

1. Inaccurate Budgeting

Failing to develop a realistic and accurate budget demonstrates a lack of proper financial planning on the part of a district and can lead to deterioration of its overall financial condition. In addition, spending more than its adopted budget violates the Public School Code 24 P.S. § 6-609, which states that school directors shall not over expend their budget. To determine whether poor financial planning contributed to the District's general fund deficit and to assess its compliance with the Public School Code, we compared the District's original budgeted expenditures with its actual expenditures for a four year audit period, for the fiscal years ended (FYE) June 30, 2007 to 2010. Although we found that the District's expenditures for the most current year reviewed, FYE June 30, 2010, were \$7,510,200 under budget, the other three years reviewed demonstrated that the district had a history of poor budgeting. Specifically, the actual expenditures for FYE ended June 30, 2009, 2008, and 2007, greatly exceeded the original budgeted expenditures for those years, as detailed in the following chart.

<u>Year Ended</u> <u>June 30</u>	<u>Budgeted</u> <u>Expenditures</u>	<u>Actual</u> <u>Expenditures</u>	<u>Actual Over</u> <u>Budget</u>
2009	\$161,237,876	\$164,883,845	\$3,645,969
2008	156,810,623	160,859,258	4,048,635
2007	146,534,812	151,125,271	<u>4,590,459</u>
		Total	<u>\$12,285,063</u>

This comparison between budgeted and actual expenditures also found the following budgeted line items were overexpended in each of the three school years:

- Other Instructional Programs (which includes drivers education, summer school, homebound instruction, alternative regular education programs, instructional

programs outside the established school day, and additional other instructional programs);

- Pupil health;
- Student transportation services;
- Community services; and
- Capital outlays.

In addition, SDCE failed to appropriately budget for salaries and benefits. Specifically, they underbudgeted for salaries and overbudgeted for benefits, creating a net amount of \$(4,262,687) that was not correctly accounted for, as detailed in the following chart.

<u>Year Ended</u>			<u>Actual (Over)/</u>
<u>June 30</u>	<u>Budgeted Salaries</u>	<u>Actual Salaries</u>	<u>Under Budget</u>
2009	\$79,914,575	\$83,209,230	\$(3,294,655)
2008	78,311,961	79,754,873	(1,442,912)
2007	73,687,525	76,895,201	<u>(3,207,676)</u>
		Total	\$(7,945,243)
	<u>Budgeted Benefits</u>	<u>Actual Benefits</u>	
2009	\$32,459,932	\$29,553,216	\$2,906,716
2008	29,907,068	29,307,227	599,841
2007	27,382,324	27,206,325	<u>175,999</u>
		Total	\$3,682,556
		Net Difference	<u>\$(4,262,687)</u>

Finally, in the 2006-07 school year, the SDCE failed to budget for debt that it entered into for textbooks in the amount of \$3,035,000. It made six payments totaling \$3,301,773 for the lease agreement, including interest through August 14, 2009.

2. Duplication of Duties

SDCE implemented a practice of rehiring retired District employees, with no or limited time lapse after retirement, to perform the same duties as new employees (see Finding No. 7, page 28).

3. Poorly Timed Salary Increases

Our audit of the SDCE's contractual wages found its administrators received salary increases totaling 14 percent for the period 2006-07 through 2009-10.

- The contractual wage increase for the three District support personnel union contracts was 3 percent each school year for the period 2006-07 through the 2009-10 school year.
- The District teachers' wage increases for the school years 2006-07 through 2009-10 were not based on a percentage increase, but were based on step increases.
- Employees' contractual wage increases for the 2010-11 school year were 3 percent for the three support personnel union contracts, three percent for the administrative personnel, and an average of 4 percent for the District's educators.

We could not determine how the District anticipated generating sufficient revenue to cover these contractual salary increases.

However, in June 2010, the school board of directors did vote to eliminate 40 jobs in order to address the District's general fund deficit. Furthermore, during that meeting the Board also approved a property tax millage increase of .73 mills beginning in the 2010-11 school year that will generate an estimated increase in local revenue of approximately \$1.3 million.

4. Increase in Charter School Expenditures

For the 2006-07, 2007-08 and 2008-09 school years, the SDCE's total budgeted charter school and cyber charter school expenditures were \$26,255,000. However, the actual total expenditures were \$28,283,378. The Commonwealth of Pennsylvania reimbursed the District for a percentage of its charter school expenses in the amount of \$7,674,756.

Summary

SDCE's failure to properly address and mitigate increases in its expenditures while its revenues declined, as well as its lack of foresight in its financial planning, contributed to its deteriorating financial position. The current instability of both the national and state economies make correcting these problems crucial to ensuring that the District more effectively uses its taxpayer dollars for the education of its students.

Recommendations

The *School District of the City of Erie* should:

1. Provide for a planned systematic reduction of the general fund deficit.
2. Research and implement cost saving measures that could reduce District expenditures or increase District revenue.
3. Examine proposed budgets carefully for realistic increases/decreases in budgeted revenue and expenditures.
4. Prepare realistic budgets which provide adequate funding for the operation of the District, specifically salaries and benefit expenditures. Base estimates on historical data and verifiable revenue and expenditure projections.
5. Recognize all debt payments when preparing the general fund budgets.
6. Hire retired employees only on an "emergency" basis.
7. Ensure funding is available to cover the contractual pay increases of current professional and support staff employees of the District.

The *Pennsylvania Department of Education* should:

8. Monitor the District's budgeted appropriations and actual expenditures in future school years to ensure compliance with the PSC, and take whatever action they may deem appropriate.

Management Response

Management did not provide a response to our finding.

Finding No. 2

Improper Tuition Agreement and Waivers Cost the District Taxpayers \$1,185,177

Criteria relevant to the finding:

The Public School Code (PSC), 24 P.S. § 25- 2561, provides, in part:

A school district or vocational school district receiving elementary or high school students or vocational or other extending education pupils who are residents of another school district or another vocational school district **shall** (emphasis added) compute the tuition charges as follows: [There follows a lengthy, detailed formula for determining each district's tuition rate.]

Also, 24 P.S. § 25-2562 provides, in pertinent part:

For each elementary or high school pupil attending a public school of another district, the receiving district shall bill the sending district, and the sending district shall pay the amount of the tuition charge per elementary pupil, or the tuition charge per high school pupil, as the case may be.

While other sections of the Public School Code address joint actions between political subdivisions, none concern themselves with setting a different tuition rate than the one outlined in 24 P.S. § 25-2561.

Our audit found that the School District of the City of Erie (SDCE) school board entered into an improper tuition agreement with 12 neighboring school districts. In addition, District personnel improperly waived tuition for 23 students.

During the 2007-08 school year, the SDCE's school board of directors (Board) entered into an amended Regional Choice Initiative (RCI) agreement. The agreement enables districts to "enter into a regional cooperation agreement which will allow students of each district to participate in certain, defined programs offered in other districts, as well as courses that may be offered by the participating districts at a central location and to provide for the payment of the RCI rate by and between school districts." This agreement allows students of the 13 participating districts to attend other districts involved in the RCI at a tuition rate that is lower than the state mandated rate. For 2007-08, the RCI rate was \$3,100, to be paid by the resident district to the host district.

Improper Tuition Agreement

The creation of this agreement violates the PSC and cost the District \$1,004,994 in uncollected tuition for school year 2007-08. This uncollected tuition from outside districts places an undue burden on the taxpayers of the SDCE, who should not have to subsidize the education of students from other school districts.

The SDCE's legally mandated approved secondary tuition rate for the 2007-08 school year was \$8,129 (a \$45.93 daily rate). However, in accordance with the RCI agreement, during the 2007-08 school year the SDCE billed \$3,100 for each nonresident student enrolled at the Northwest Pennsylvania Collegiate Academy (NWPCA), one of the secondary schools of the SDCE. The SDCE created NWPCA in the 1997-98 school year as a type of magnet school for students who excel academically.

The undercharges for the 2007-08 school year were as follows:

<u>Sending District</u>	<u>Number of Secondary Students</u>	<u>Amount Billed</u>	<u>Amount Due Per Tuition Rate</u>	<u>Undercharges</u>
Fairview	2	\$ 6,200	\$ 16,259	\$ 10,059
Fort LeBoeuf	25	44,950	196,856	151,906
General McLane	10	31,000	81,296	50,296
Girard	11	37,200	89,426	52,226
Harbor Creek	18	44,950	141,418	96,468
Iroquois	6	21,700	48,778	27,078
Millcreek Township	78	182,900	628,033	445,133
North East	3	9,300	24,389	15,089
Union City Area	1	3,100	8,129	5,029
Wattsburg Area	<u>22</u>	<u>31,000</u>	<u>182,710</u>	<u>151,710</u>
Totals	<u>176</u>	<u>\$412,300</u>	<u>\$1,417,294</u>	<u>\$1,004,994</u>

Criteria relevant to the finding:

Section 202 of board policy states, in part:

[T]uition rates shall be determined in accordance with statute.

The PSC, 24 P.S. § 13-1316, states that the board of school directors of any school district may permit any non-resident pupils to attend the public schools in its district upon such terms as it may determine, subject to the provisions of this act.

Improper Waiving of Tuition

In addition to the use of the improper tuition rate, District personnel waived the tuition for 23 nonresident students attending NWPCA from several surrounding school districts, claiming they were involved in a “work-study” program. There is no provision in the PSC for such a program. The total number of membership days for the waived students was 3,923. Using the legally mandated daily tuition rate of \$45.93, the amount lost to the District as a result of waiving tuition for these 23 students was \$180,183.

According to the PSC, 24 P.S. § 13-1316, only the board of directors of a school district has the right to waive tuition. There is no evidence of board approval of the waiver for these 23 students. Furthermore, the District stated that the RCI agreement was a factor in the waiving of the tuition. The RCI agreement is, in our opinion, in conflict with the PSC. For this reason, as well as the absence of board approval, we concluded that the waiving of tuition for these students was not proper.

Additional Information

Although the scope of our audit was the 2007-08 school year, it should be noted that a limited review of records for

the 2008-09 and 2009-10 school years found that the \$3,100 tuition rate was still in effect for nonresident students at NWPCA for both years. Also, there were ten students in both school years for whom tuition was waived because of their involvement in a “work-study” program.

This is the third consecutive audit that the tuition practices for nonresident students at NWPCA were cited in an audit finding (see page 35).

Recommendations

The *School District of the City of Erie* should:

1. Require District personnel to bill nonresident students’ district of residence for educational services provided by the District at the approved tuition rate provided for by the PSC, 24 P.S. § 25-2561 for the 2007-08 school year, and subsequent years.
2. Enforce Section 202 of District board policy that states that “tuition rates shall be determined in accordance with statute.”
3. Ensure that board policies and actions of the administration in regard to tuition are in compliance with the PSC.
4. Ensure that the administration is clear as to the intent of the board’s policies and resolutions regarding tuition, and insist that these policies and resolutions be carried out accordingly.
5. Ensure that all tuition waivers are approved by the board.

The Pennsylvania *Department of Education* should:

6. Review the propriety of the RCI agreement between the 13 districts in Erie County. It has been the long standing position of the Department of the Auditor General that this agreement is in violation of the PSC.

Management Response

Management did not provide a response to our finding.

Finding No. 3 →

Internal Control Weaknesses and Errors in Pupil Transportation Reporting Resulted in a Net Overpayment of \$143,246

Criteria relevant to the finding:

Chapter 23 of the State Board of Education Regulations, 22 Pa Code § 23.4, states, in part:

The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following: . . .

(6) The maintenance of a record of pupils transported to and from school, including determination of pupils' distances from home to pertinent school bus loading zones.

The Public School Code, 24 P.S. § 25-2509.3, provides for payments on account of transportation of nonpublic school pupils. It states that each school district, regardless of classification, shall be paid by the Commonwealth for the 2001-02 school year, and every school year thereafter, the sum of \$385 for each nonpublic school pupil transported.

Instructions for completing PDE's End-of-Year Pupil Transportation reports provide that the local education agency (LEA) must maintain records of miles with pupils (to the nearest tenth), miles without pupils (to the nearest tenth), and the greatest number of pupils assigned to ride each vehicle. Additionally, the instructions provide that procedures, information and data used by the LEA should be retained for audit purposes.

Our audit of the District's pupil transportation records and reports submitted to the Pennsylvania Department of Education (PDE) for the 2007-08 and 2006-07 school years found an underpayment of \$1,899 for regular pupil transportation, and a net overpayment of \$145,145 for nonpublic and charter school pupil transportation. In addition, internal control weaknesses were noted.

2007-08 School Year

The 2007-08 reports contained the following errors:

District-owned services:

- miles with pupils were understated by 10.7 miles, for 8 buses;
- miles without pupils were understated by 10.5 miles, for 8 buses;
- the greatest number of pupils transported was understated by 57.6 pupils, for 8 buses;
- the number of days transported was overstated by 51 days, for 7 buses;
- one bus used as a spare was not reported for reimbursement;
- one bus was reported for reimbursement which was not used for transportation during the 2007-08 school year;
- the number of nonpublic pupils was over reported by 231 pupils;
- the number of charter school pupils was under reported by 43 pupils;
- the year of manufacture was reported incorrectly for 3 buses; and

Also, the instructions for completing PDE-2089 (Summary of Pupils Transported) define nonpublic school pupils as children whose parents are paying tuition for them to attend a nonprofit private or parochial school. Any child that a district is financially responsible to educate is a public pupil.

Instructions for completing DE's End-of-Year Child Accounting reports defines an approved private school as a private school licensed by the State Board of Private Academic Schools where the specific special education program for certain exceptional handicapped persons is approved by the Secretary of Education through the Bureau of Special Education and is thereby eligible to receive payment for tuition and maintenance from school district and/or Commonwealth funds.

Non-reimbursable pupils are elementary pupils living within 1.5 miles of their school or secondary pupils living within 2.0 miles of their school who are transported by the district. Such pupils do not qualify districts for transportation reimbursement unless they are classified as exceptional children, are being transported to area vocational-technical schools, or are transported over certified hazardous walking routes.

- the reported amount paid to one contractor was understated by \$1,636.

The errors resulted in a net underpayment of \$1,899 in regular transportation and a net overpayment of \$72,380 in nonpublic and charter school pupil transportation for the 2007-08 school year.

2006-07 School Year

The 2006-07 reports contained the following errors:

- the number of nonpublic pupils was over reported by 68 pupils; and
- the number of charter school pupils was over reported by 121 pupils.

The errors resulted in a net overpayment of \$72,765 in nonpublic and charter school pupil transportation for the 2006-07 school year.

Internal Control Weaknesses

For both school years, bus mileage report work sheets failed to identify odometer readings between all bus stops and schools, as required by Chapter 23, State Board of Education Regulations.

The monthly mileage reports provided for audit identified odometer readings at the beginning of a run, first pick-up, last drop-off, and end of the run.

The lack of detailed bus routes, including odometer readings, at each bus stop, from start to finish of each bus run, resulted in the auditors not being able to confirm that all bus routes and mileages were accurately reported.

Additionally, the auditors could not verify if there were any non-reimbursable pupils or if the number of pupils transported on approved hazardous routes was accurately reported.

Inaccuracies were caused by the District's failure to follow PDE guidelines and instructions and clerical errors. Also, District personnel incorrectly reported pupils transported to an approved private school, which provides district-paid special educational services to the District's students, as nonpublic pupils. The District also reported pupils transported to Millcreek Township School District as charter school pupils. These students were members of the former PA Global Academy Charter School, which is no longer in operation.

The buses used to provide transportation, daily mileage, hazardous pupil counts, the greatest number of pupils transported, the number of days transported, the number of nonpublic pupils transported, the number of charter school pupils transported, the year of manufacture, and the amounts paid for pupil transportation services are all integral parts of the pupil transportation reimbursement formula and must be maintained in accordance with the Commonwealth Board of Education regulations. These factors must be accurately reported in accordance with PDE guidelines and instructions to ensure that correct reimbursement is received.

PDE has been provided reports detailing the errors for use in recalculating the District's transportation reimbursement.

It should be noted that pupil transportation operations were the subject of a finding in the District's prior four audit reports (see page 36).

Recommendations

The *School District of the City of Erie* should:

1. Conduct an internal review to ensure all buses are reported, and that the daily mileage, pupil counts, the number of days transported, the year of manufacture, the number of nonpublic pupils, and the number of charter school pupils are accurately recorded and reported to PDE.
2. Prepare a listing of all students transported because of hazardous routes.
3. Revise the bus mileage report work sheets to include odometer readings between all bus stops and the school.

4. Review reports submitted after the audit period for accuracy and resubmit, if necessary, to PDE.

The *Pennsylvania Department of Education* should:

5. Adjust the District's allocations to recover the net reimbursement overpayment of \$143,246.

Management Response

Management did not provide a response to our finding.

Finding No. 4 →

Certification Deficiencies

Criteria relevant to the finding:

The Public School Code (PSC), 24 P.S. § 12-1202, provides, in part:

No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.

24 P.S. § 25-2518 provides, in part:

[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio.

Our audit of the professional employees' certification was completed for the 2009-10 school year. Our audit of the 2008-09 school year was limited to those questionable employees found in the 2009-10 school year. The audit found that the District employed 24 individuals as behavior specialists and 14 individuals as mental health specialists for the 2009-10 school year. For the 2008-09 school year the District employed 22 individuals as behavior specialists and 14 individuals as mental health specialists. None of these individuals were properly certified.

In the prior audit, job descriptions were submitted for the same positions noted above to the Department of Education's Bureau of School Leadership and Teacher Quality (BSLTQ). On May 29, 2008, BSLTQ confirmed the employees were not properly certified (see page 38). The District has since then revised the job description for the behavior specialists; however, they did not submit a copy of the job description to BSLTQ for review.

The deficiencies were due to SDCE personnel's failure to ensure individuals were properly certified for their assignments.

Information pertaining to the assignments was submitted to BSLTQ for its review. On September 10, 2010, BSLTQ again confirmed the employees were not properly certified, therefore subjecting the District to subsidy forfeitures of \$58,824 for the 2009-10 school year and \$54,590 for the 2008-09 school year.

Recommendations

The *School District of the City of Erie* should:

Require professional employees to obtain proper Pennsylvania certification for their positions, or reassign them to areas for which they are certified.

The *Pennsylvania Department of Education* should:

Adjust the District's allocations to recover the appropriate subsidy forfeitures.

Management Response

Management did not provide a response to our finding.

Finding No. 5

Errors in Reporting Charter School Tuition Resulted in a Net Reimbursement Underpayment of \$28,748

Criteria relevant to the finding:

The Public School Code (PSC), 24 P.S. § 25-2591.1, provides that the Commonwealth shall pay to each school district with resident students enrolled in a charter school an amount equal to 30 percent of the total funding required.

For the 2006-07 school years, districts' reimbursements were capped by PDE at 99.428 percent of the reimbursement called for by the PSC because of a shortage in the funds available for this reimbursement.

Our audit of the District's 2007-08 and 2006-07 tuition payments to charter schools and the charter school reimbursement applications submitted to the Pennsylvania Department of Education (PDE) found the District failed to properly report the actual tuition paid for the school years of service. As a result, the District was underpaid \$74,050 for the 2007-08 school year and overpaid \$45,302 for the 2006-07 school year, resulting in a net underpayment of \$28,748 in charter school reimbursement.

For the 2007-08 school year, the errors occurred when District personnel underreported tuition paid to the Montessori Regional Charter School and the Perseus House Charter School of Excellence in the amounts of \$706 and \$246,126, respectively. While these payments were made in the 2008-09 school year, they were actually tuition expenses incurred during the 2007-08 school year.

For the 2006-07 school year, the errors occurred when District personnel over reported tuition paid to Perseus House Charter School of Excellence and Robert Benjamin Wiley Community Charter School in the amounts of \$122,055 and \$29,790, respectively. These payments were tuition expenses incurred during the 2005-06 school year and paid in the 2006-07 school year. The District reported these payments to PDE on the 2005-06 charter school reimbursement applications and subsequently was already reimbursed for them.

The clerical errors made in reporting the tuition payments were due to District personnel's failure to reconcile charter school tuition payments for the school years to the charter school applications for reimbursement submitted to PDE.

Recommendations

The *School District of the City of Erie* should:

1. Require District personnel to reconcile all charter school tuition payments for the school years to the charter school reimbursement applications submitted to PDE.

2. Require District personnel to establish internal review procedures to ensure the accuracy of expenditures reported to PDE for charter school reimbursement.
3. Perform a review of subsequent years' data and applications for accuracy and resubmit reports, if necessary, to PDE.

The *Pennsylvania Department of Education* should:

4. Adjust the District's allocations to resolve the reimbursement net underpayment of \$28,748.

Management Response

Management did not provide a response to our finding.

Finding No. 6 →

Improper Student Activity Fund Practices and Lack of Documentation

Criteria relevant to the finding:

The Public School Code (PSC), 24 P.S. § 5-511, provides, in part:

(a) The board of school directors in every school district shall prescribe, adopt, and enforce such reasonable rules and regulations as it may deem proper, regarding (1) the management, supervision, control, or prohibition of exercises, athletics, or games of any kind, school publications, debating, forensic, dramatic, musical, and other activities related to the school program, including raising and disbursing for any and such purposes and for scholarships, and (2) the organization, management, supervision, control, financing, or prohibition of organizations, clubs, societies, and groups of the members of any class or school. . . .

(d) . . . Such funds shall not be the funds of the school district but shall remain property of the respective school, class, organization, club, or group . . . The treasurer or custodian . . . shall submit a financial statement to the board quarterly or oftener, at the direction of the board, and shall submit the accounts to be audited in like manner as the accounts of the school district.

Our audit of the District’s 2009-10 school year student activity funds at three of the District’s high schools and one middle school found various improper activities and deficiencies in internal controls over these funds and a lack of documentation. The 2009-10 school year audit focus was limited to the areas of concern from the prior audit (see page 40), as follows:

- Commingling of the student activity fund and athletic fund at one school, leading to improper disbursements;
- Graduated class monies remaining in the class accounts with no commitment for distribution;
- Disbursements made without receipts to verify the purchases;
- Excessive account balance; and
- Inactive and improper accounts.

The board adopted the publication issued by the Pennsylvania Association of School Business Officials, titled “Student Activity Funds Guide” (SAFG), as the District’s student activity fund board policy.

The conditions were the result of the failure of District administrators, club advisors, and the student activity fund bookkeeper to adhere to provisions of the SAFG and the PSC, 24 P.S. § 5-511, for the operation of the District’s student activity fund.

Commingling of the Student Activity Fund and Athletic Fund at One School, Leading to Improper Disbursements

Records were unavailable for the East High school’s student activity account, where the improper commingling of funds was found in our prior audit. Consequently we were unable to determine if this issue was resolved.

Board Policy No. 618 provides, in part:

An administrator of the school shall be responsible for the proper administration of the financial activities of each Student Fund in accordance with the directions of the Business Office, provisions of State Law, and appropriate accounting procedures and practices. . . . Records shall be maintained of the receipt and disbursement of all such funds in designated accounts according to the activity involved.

Graduated Class Monies

Our audit found no monies for graduated classes at Central High School retained within the student activity fund. However, the audit did find that graduated class monies from the Class of 2009 at the Strong Vincent High School were improperly retained, and the monies therein uncommitted.

The SAFG provides that graduating classes must use the unexpended balance of its account for a school-related purpose prior to graduation, or commit to its use for such purpose.

A school-related purpose for graduating class monies should be determined at the end of the school year, prior to graduation, while student officers and members of the class are on hand to make decisions.

Disbursements Made Without Supporting Receipts

Records were unavailable for audit for the East High and Wilson middle schools, in violation of Board Policy No. 618. The auditor requested the documentation three times during the audit from the District's student activity coordinator, but no records were provided. Consequently, we were unable to determine if this issue was resolved.

Sound business practice dictates the establishment of a system of internal control to ensure that accounting records provide the information necessary to adequately identify the purpose of disbursements. Receipts and invoices are the documentation that support the entries in the accounting records, and should be maintained and filed in such a way that they can be readily located.

The practice of not requiring receipts could lead to the possibility of fraud, theft, or misuse of student activity and athletic funds. The District administration should insist that no fund disbursement be approved by activity fund custodians without the presence of receipts to verify the transactions.

Excessive Account Balance

Our audit found that at the end of the 2009-10 school year the student council fund at Central High School had an account balance of \$9,670. The prior audit report noted that at the end of the 2006-07 school year the student council fund had a balance of \$14,667. The current balance is an improvement, but District officials should strive to lower it even further.

The SAFG encourages policies that prescribe maximum activity or club balances. Limiting the accumulation of funds encourages the utilization of money by the students who participated in the activity and accumulated the funds, rather than by students who may join the club or activity in the future. District policies should be established addressing how this will be achieved. Additionally, the size of the account should be limited to a reasonable amount and large accumulations of money over more than a year should be avoided.

The large account balances had no specific purpose and could result in misuse or questionable use of student funds. Setting annual fund-raising financial goals for a specific school-related purpose and expending funds for the same is encouraged.

Inactive and Improper Accounts

Our audit noted three improper accounts within the student activity fund at Strong Vincent High School: the Scully Award Fund, the Contingency Fund, and the Special Fund.

The Scully Award Fund was funded by donations and used to defray expenses for exceptional students, and should be accounted for as a trust and agency fund. The Contingency Fund was used to cover expenses not specified in any other club and was inactive during the school year. The Special Fund also served the purpose of covering expenses not specified in any other club. No documentation was provided to support any student participation in the decision-making process related to these accounts.

The Special Fund was controlled by the building principal. Deposits into the fund included student and teacher contributions to “dress down” days, a \$500 deposit of Erie

Community Foundation funds, vending money, and \$250 from the Northwest Tri-County Intermediate Unit #5.

Funds from this account were used for the following purposes:

- \$1,667 for faculty/staff luncheons, food for teacher in-service days, and food for faculty meetings;
- \$176 for administrative breakfast vouchers submitted by the principal;
- \$75 for fruit baskets for the superintendent, assistant superintendent, and director of high school education;
- \$254 for a digital camera and memory card for the principal's office; and
- \$250 for payment of parking tickets for various individuals.

Additionally, our review of Strong Vincent High School student activity records found a payment from the Student Council account in the amount of \$200 was made to a teacher for extra time spent on organizing homecoming activities. This payment was made without student authorization. In addition, the payment was made without the proper payroll taxes being withheld. According to the Internal Revenue Service and Commonwealth of Pennsylvania, Department of Revenue regulations, all payments made to individuals are taxable where an employer-employee relationship exists. Failure to withhold the proper payroll taxes could result in fines and penalties to the school district.

The SAFG dictates that "Student Activity Funds should be used for student activity purposes and for those students currently in school, particularly when those students have contributed to the accumulation of the funds." While the SAFG states that student activity funds should be collected and disbursed under the general direction of the building principal, it also states that students should be involved in the decision-making process regarding the disbursement of the funds: "Participation by students should be supported

by minutes, student signatures on purchase orders, requisitions and check requests whenever possible.”

There was no evidence of any student participation in the decision making leading to these purchases.

Not only is it improper that student monies were used to pay for the above items, we must question the propriety of spending money from the Erie Community Foundation (a public charitable organization) and the intermediate unit on such items.

Negative Balances

During our limited follow-up review of concerns noted in the prior audit of the Strong Vincent High School activity funds, we noted seven funds with negative balances totaling \$8,831. Additionally, the follow-up review of the Central High School activity fund accounts found two accounts with negative balances totaling \$1,532. These negative balances required the use of other clubs’ funds to cover the shortfalls. Negative balances are not sanctioned by the SAFG.

The use of other clubs’ fund balances resulted in the loss of interest earned on their account balances.

Good business practices prohibit accounts operating with deficit balances. The operation of student activity accounts with deficit balances teaches students poor business practices.

In Summary

Student activity fund operations should be an educational learning process for the students. Monies should be raised for a specific, approved, school-related purpose and expended for the same, particularly when students contribute to the accumulation of funds. Patrons purchase goods through student fundraisers for student-related purposes, not to support other District endeavors. Additionally, documentation of involvement of students in the decision-making process must be maintained.

Recommendations

The *School District of the City of Erie* should:

1. Adhere to and enforce the SAFG (which is also the official board policy of the District), the PSC, 24 P.S. § 5-511, and Board Policy No. 618.
2. Establish a procedure whereby student activity records are available for audit. The SAFG states that records must be available for audit by local auditors and the Department of the Auditor General.
3. Resolve the issue of graduated class accounts with unexpended balances in accordance with the recommendations of the SAFG.
4. Continue to work to eliminate excessive account balances.
5. Abolish all inactive and improper accounts within the student activity fund.
6. Ensure a formal student organization controls each account operating within the student activity fund.
7. Ensure proper student authorization is obtained on all payment authorization forms.
8. Ensure all payroll taxes are withheld when an employer-employee relationship exists.
9. Require administrative personnel to resolve the negative account balances and discontinue the practice of allowing expenditures to be made without adequate revenue in the individual accounts by requiring advisors/club treasurer's to keep track of their individual account balances.
10. Provide an extensive training program for all District administrative personnel, secretaries, and club advisors in reference to the student activity accounts operations, record keeping and student involvement.

Management Response

Management did not provide a response to our finding.

Finding No. 7

Possible Improper Re-employment of Retired District Employees

Criteria relevant to the finding:

Section 8346 of the Public School Employees' Retirement Code (PSERC), "Termination of annuities," provides, in part:

(a) If an annuitant returns to school service or enters or has entered State service and elects multiple service membership, any annuity payable to him under this part shall cease effective upon the date of his return to school service or entering State service and in the case of an annuity other than a disability annuity the present value of such annuity, adjusted for full coverage in the case of a joint coverage member who makes the appropriate back contributions for full coverage, shall be frozen as of the date such annuity ceases. . . .

(b) Return to school service during emergency. - When, in the judgment of the employer, an emergency creates an increase in the work load such that there is serious impairment of service to the public or in the event of a shortage of appropriate subject certified teachers or other personnel, an annuitant may be returned to school service for a period not to extend beyond the school year during which the emergency or shortage occurs, without loss of his annuity. The annuitant shall not be entitled to earn any credited service, and no contributions may be made by the annuitant, the employer or the Commonwealth on account of such employment.

Our audit of the School District of the City of Erie (SDCE) found that the District rehired a number of its retired employees as consultants to perform the same jobs as employees hired to replace them. This is a possible violation of the Public School Employees' Retirement Code (PSERC).

The audit found that during the 2006-07 through 2009-10 school years 17 former employees had retired prior to or during the period, but were immediately rehired. The former employees were rehired to the same positions they formerly held, with no or limited lapse in service. Six were paid as contracted service providers, nine were paid through the District's payroll system, and the other two employees were paid through the District's payroll system for some school years, and as contracted service providers for other school years.

Twelve of the retired employees had contracts for the services they were to provide, while the other five had no contracts on file at the District.

According to Internal Revenue Service regulations, all payments made to individuals are taxable where an employer-employee relationship exists. Failure to withhold the proper payroll taxes could result in fines and penalties to the school district.

The total amounts paid during each school year are as follows:

<u>School Year</u>	<u>Number of Employees</u>	<u>Total Wages Paid</u>	<u>Total Payroll Taxes Paid</u>
2006-07	11	\$144,207	\$ 9,340
2007-08	7	147,688	7,008
2008-09	13	220,982	10,844
2009-10	11	195,626	13,363

Additionally, we found seven of the retired employees received retirement incentive payments totaling \$70,501 during the four school years.

(b.1) Return to school service in an extracurricular position. –
(1) An annuitant may be employed under separate contract by a school entity or charter school in an extracurricular position outside regular instructional hours and not part of mandated curriculum without loss of annuity. . . .
Further, such contract shall contain a waiver whereby the annuitant waives any potential retirement benefits that could arise from the contract and release the employer and the board from any liability for such benefits.

The Public School Employees' Retirement System (PSERS) Retired Member Handbook, "Employment Due to Emergency of Shortage of Personnel," states:

Whenever a school employer determines there has been an increase in workload that creates a serious impairment of service to the public or there is a shortage of personnel, a retiree may return to Pennsylvania school service for a period not to exceed beyond the school year during which the emergency or shortage occurs.

The employer makes the determination that these elements have been satisfied. Employers are expected to first make a "good faith" effort to secure non-retired school personnel. PSERS, however, reserves the right to review an employer's determination that a qualifying emergency of shortage exists.

Recommendations

Our audit of payroll documentation found the employees did not have retirement deductions withheld from the wages paid.

In cases where there is an emergency, the public schools are authorized to employ a retired public school employee who is collecting a retirement annuity for up to six months. However, in most cases new employees were hired to fill the positions in question while the former employees were also re-hired to the same positions or, ostensibly, as consultants to the new hires. It is therefore questionable if an emergency actually existed. Furthermore, in most cases, the individuals were employed not for six months or less but for a period of several school years.

These additional salary and benefit payments resulted in increased costs to the SDCE taxpayers.

The *School District of the City of Erie* should:

1. Review the practice of re-employing retired District personnel with the District's solicitor and Public School Employees' Retirement System (PSERS).

2. In the future, ensure there is an “emergency” within the meaning of Section 8346(b) of the PSERC that would justify any former employees returning to work for the District.
3. Evaluate the need to rehire retired personnel to positions for which new employees were hired.

A copy of this finding will be forwarded to PSERS for their review and whatever action they may deem appropriate.

Additionally, a copy of this finding will be forwarded to the Internal Revenue Service for their review and determination if the individuals in question are properly defined as independent contractors or employees subject to payroll taxes.

Management Response

Management did not provide a response to our finding.

Observation No. 1

What is logical access control?

“Logical access” is the ability to access computers and data via remote outside connections.

“Logical access control” refers to internal control procedures used for identification, authorization, and authentication to access the computer systems.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The School District of the City of Erie uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District’s network servers.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the District’s data could occur and not be detected because the District was not able to provide supporting evidence that it is adequately monitoring vendor activity in its system. However, since the District has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated. Membership and attendance reconciliations are performed between manual reports and reports generated from the student accounting system.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the District’s membership information and result in the District not receiving the funds to which it was entitled from the state.

Best practices in information technology (IT) security include: limiting access to authorized users; ensuring individual accountability for actions; managing vendor services; monitoring the system to ensure integrity of key databases and applications; regulating changes to software; restricting physical access; implementing and maintaining minimum environmental controls; and planning for contingencies.

During our review, we found the District had the following weaknesses over vendor access to the District's system:

1. The District does not have a non-disclosure agreement with the vendor.
2. The District's IT security policy does not address password security and syntax requirements. It also does not address what violations are to be reported and to whom.
3. The District does not have current IT policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the District's Computer Security Policy.
4. The District's system parameter settings do not require all users, including the vendor, to change passwords every 30 days; to use passwords that have a minimum length of eight characters and include alpha, numeric and special characters; does not lock out a user after three unsuccessful password attempts; and does not maintain a password history (i.e. approximately ten passwords).
5. The vendor uses a group userID rather than requiring that each employee have a unique userID and password.
6. The District does not remove the vendor's access to the system data after the vendor has completed work on the system.
7. The District does not have written evidence that a District employee is reviewing the log of vendor activity on the system, although the membership director states that the computer security official does such a review.
8. Requests for changing/updating the software are usually made verbally, not in writing (i.e. a program change request form).

Recommendations

The *School District of the City of Erie* should:

1. Complete and have the vendor sign a non-disclosure agreement regarding the District's proprietary information.
2. Revise the District's IT security policy to address the password and syntax requirements and what violations are to be reported and to whom.
3. Prepare IT policies and procedures for controlling the activities of vendors/consultants, or require vendor employees to sign the District's Computer Security Policy.
4. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords every 30 days; to use passwords that have a minimum length of eight characters and include alpha, numeric and special characters; lock out users after three unsuccessful password attempts; and maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
5. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the district system.
6. Remove the vendor's access to the system data after the vendor has completed work on the system.
7. Implement a procedure to have written evidence that a District employee reviews the log of vendor activity on the system.
8. Ensure that all requests for changing/updating the software are made in writing and kept on file.

Management Response

Management did not provide a response to our observation.

Observation No. 2 →

Memorandum of Understanding Not Updated Timely

Criteria relevant to the finding:

The Public School Code, 24 P.S. § 13-1303-A(c), provides:

All school entities shall develop a memorandum of understanding with local law enforcement which sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

Additionally, the Basic Education Circular issued by PDE entitled Safe Schools and Possession of Weapons contains a sample MOU to be used by school entities. Section VI, General Provisions item B of this sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.

Our audit of the School District of the City of Erie's records found that its Memorandum of Understanding (MOU) with the local law enforcement agency having jurisdiction, had not been updated since February 2, 1999.

District personnel stated they understood that the MOU that had not been updated was still currently active.

The failure to execute an MOU in a timely manner with the local law enforcement agency could result in a lack of cooperation, direction, and guidance between school employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

As a result of our bringing this matter to the attention of the District, an updated and signed MOU was received and approved by the board on October 13, 2010.

Recommendations

The *School District of the City of Erie* should:

1. Continue to review, update and re-execute the MOU between the District and the local law enforcement agency.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Management Response

Management did not provide a response to our observation.

Status of Prior Audit Findings and Observations

Our prior audit of the School District of the City of Erie (SDCE) for the school years 2005-06 and 2004-05 resulted in seven 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 performed audit procedures and questioned District personnel regarding the prior findings and observation. As shown below, we found that the SDCE did implement recommendations related to two findings and the observation but did not implement recommendations for the other five findings.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding No. 1: Improper Tuition Agreement and Waivers Cost the District Taxpayers \$1,138,080

Finding Summary: Our prior audit of the tuition billings and procedures at the Northwest Pennsylvania Collegiate Academy found violations of the Public School Code (PSC) and board policies, as well as uncollected tuition. The violations stem from the District's participation in the Regional Choice Initiative (RCI) agreement with other districts in Erie County. This agreement allows them to charge a tuition rate other than the state mandated rate.

This finding was a continuation of a finding written in the previous two audits.

Recommendations: Our audit finding recommended that the SDCE:

1. Require District personnel to bill nonresident students' districts of residence for educational services provided by the District at the approved tuition rate provided under the Public School Code (PSC), 24 P.S. § 25-2561.
2. Enforce Section 202 of the District board policy that states that "tuition rates shall be determined in accordance with statute."
3. Ensure that board policies and actions of the administration in regard to tuition are in compliance with the PSC.
4. Ensure that the administration is clear as to the intent of the board's policies and resolutions regarding tuition, and insist that these policies and resolutions be carried out accordingly.
5. Ensure that all tuition waivers are board approved.

Current Status: Our current audit again found problems with the RCI agreement and the tuition situation at the Northwest Pennsylvania Collegiate Academy. These problems are discussed in Finding No. 2 (see page 12).

Based on the results of our current audit, we concluded that the District did not take appropriate corrective action to address this finding.

Finding No. 2: Errors in Reporting Data, Lack of Documentation and Internal Control Weaknesses Regarding Pupil Transportation

Finding Summary: Our prior audit of pupil transportation records and reports submitted to the Pennsylvania Department of Education (PDE) for the 2005-06 and 2004-05 school years found a net overpayment of \$20,734 for regular pupil transportation, and a net overpayment of \$109,725 for nonpublic and charter school pupil transportation. In addition, internal control weaknesses and a lack of documentation were noted to support transportation reimbursements of \$1,457,757 and \$1,276,306 for the 2005-06 and 2004-05 school years, respectively.

This finding was a continuation of a finding written in the previous two audits.

Recommendations: Our audit finding recommended that SDCE:

1. Conduct an internal review to ensure the daily mileage, pupil counts, the number of nonpublic pupils, and the number of charter school pupils are accurately recorded and reported to PDE.
2. Prepare and retain complete pupil transportation documentation, to support the greatest number of pupils and daily mileage reported for each bus.
3. Review and re-file the District's annual financial reports with PDE in their entirety for the two audit years, and subsequent years if necessary.
4. Adjust the amount due the Erie Metropolitan Transit Authority for services provided in the 2005-06 school year and notify PDE of the correction.
5. Review reports submitted after the audit period for accuracy and resubmit, if necessary, to PDE.

We also recommended that PDE:

6. Adjust the District's allocations to recover the net reimbursement overpayment of \$130,459.

Current Status: Our current audit of the 2007-08 and 2006-07 school years again found pupil transportation errors as detailed in Finding No. 3 (see page 15).

We found that actions were taken to address recommendations 3 and 4. However, based on the results of our current audit, we concluded that the District did not take appropriate corrective action to address the other recommendations.

As of our fieldwork completion date of January 18, 2011, PDE had not adjusted the District's allocations.

Finding No. 3: Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Overpayments Totaling \$63,273

Finding Summary: Our prior audit of Social Security and Medicare wages for the 2005-06 and 2004-05 school years found that wages were incorrectly reported to PDE, resulting in reimbursement overpayments totaling \$63,273.

Social Security and Medicare wages were overstated in reports submitted to PDE when District personnel failed to report all wages paid with federal funds in the proper column.

Recommendations: Our audit finding recommended that SDCE:

1. Comply with PDE instructions when reporting wages paid by federal funds.
2. Review reports submitted after the audit period for inclusion of federal wages and resubmit to PDE, if necessary.

We also recommended that PDE:

3. Adjust the District's allocations to recover the reimbursement overpayments of \$63,273.

Current Status: Our current audit of the District's Social Security and Medicare wages for the 2007-08 and 2006-07 school years did not find any discrepancies.

Based on the results of our current audit, we concluded that the District did take appropriate corrective action to address this finding.

As of our fieldwork completion date of January 18, 2011, PDE had not adjusted the District's allocations.

Finding No. 4: Certification Deficiencies

Finding Summary: Our prior audit of professional employees' certification for the period January 1, 2006 through January 31, 2008, found the following issues:

One individual's provisional certificate lapsed at the end of the 2006-07 school year; he did not receive permanent certification until March 1, 2008.

One individual was employed as an English/Second Language teacher with an out-of-state transfer; however, as of April 25, 2008, the District had not received a response from PDE regarding the application for an interstate transfer.

The District employed 17 individuals as behavior specialists, 5 individuals as educational specialists, and 8 individuals as mental health specialists for the 2007-08 school year; for the 2006-07 school year, the District employed 11 individuals as behavior specialists, 2 individuals as educational specialists, and 6 individuals as mental health specialists. These individuals were assigned without proper certification.

These deficiencies subjected the District to subsidy forfeitures of \$52,186 for the 2007-08 school year and \$32,889 for the 2006-07 school year.

Recommendations: Our audit finding recommended that SDCE:

1. Put procedures in place to ensure that professional employees with provisional certificates receive their permanent certificates in a timely manner.
2. Require professional employees to obtain proper Pennsylvania certification prior to being hired.

We also recommended that PDE:

3. Adjust the District's allocations to recover the appropriate subsidy forfeitures.

Current Status: Our current audit found continuing certification deficiencies regarding previously cited behavior and mental health specialists, as detailed in Finding No. 4 (see page 19).

Based on the results of our current audit, we concluded that the District did not take appropriate corrective action to address this finding.

As of our fieldwork completion date of January 18, 2011, PDE had not adjusted the District's allocations.

Finding No. 5: Charter School Tuition Calculation Errors Resulted in Overpayments

Finding Summary: Our audit of the tuition paid by the District to three charter schools for the 2005-06 school year found that District personnel miscalculated the tuition rate to be used to pay the charter schools, resulting in overpayments to those schools. The error also resulted in PDE overpaying the District for its charter school tuition reimbursement.

Recommendations: Our audit finding recommended SDCE:

1. Ensure tuition is billed in accordance with the requirements of the PSC.
2. Establish internal review procedures to ensure the accuracy of the tuition rate being used.
3. Contact the three charter schools that were overpaid to recover the overpayments.

We also recommended that PDE:

4. Adjust the District's allocations to recover the reimbursement overpayment of \$31,644.

Current Status: Our current audit of the District's 2007-08 and 2006-07 tuition payments to charter schools did not find any tuition rate calculation errors. Based on the results of our current audit, we concluded that the District did implement the audit recommendations to address this finding.

However, other reporting errors were noted, as detailed in Finding No. 5 (see page 20).

As of our fieldwork completion date of January 18, 2011, PDE had not adjusted the District's allocations.

Finding No. 6: Driver Education Reimbursement Disallowance

Finding Summary: Our prior audit of the District's annual high school driver education reports for the 2004-05 school year found that students were not provided behind-the-wheel instruction in accordance with the District's PDE-approved program, resulting in a reimbursement disallowance of \$3,640.

The disallowance for the 2004-05 school year was a result of District personnel not following our recommendation from the previous audit to review subsequent years' reports and submit revised reports to PDE.

Recommendations: Our audit finding recommended that SDCE:

1. Implement oversight procedures to ensure that the District's driver education program adheres to PDE guidelines and program approvals.
2. Review driver education records for years subsequent to the years of audit and submit revised reports to PDE if similar errors are found.

We also recommended that PDE:

3. Adjust the District's allocations to recover the disallowance of \$3,640.

Current Status: Our current audit of the District's annual high school driver education reports for the 2006-07 school year did not find any discrepancies.

Based on the results of our current audit, we concluded that the District did take appropriate corrective action to address this finding.

As of our fieldwork completion date of January 18, 2011, PDE had not adjusted the District's allocations.

Finding No. 7: Improper Student Activity Fund Practices

Finding Summary: Our prior audit of the District's 2006-07 school year student activity funds at the District's four high schools and three middle schools found various improper activities and deficiencies in internal control over these funds. The 2006-07 school year audit focus was limited to the areas of concern from the prior audit, noted as follows:

- Commingling of the student activity funds and athletic fund at one school, leading to improper disbursements;

- Graduated class monies remaining in the class accounts with no commitment for distribution;
- Disbursements made without receipts to verify the purchases;
- Excessive account balances; and
- Improper accounts.

Recommendations: Our audit finding recommended that SDCE:

1. Adhere to and enforce the Student Activity Funds Guide (SAFG) on student activities (adopted as the official board policy of the District), and the PSC, 24 P.S. § 5-511.
2. Resolve the issue of graduated class accounts with unexpended balances in accordance with the requirements of the SAFG.
3. Require receipts for all disbursements.
4. Abolish all inactive and improper accounts.
5. Cease the commingling of the student activity fund and athletic fund monies.
6. Ensure a formal student organization controls each account operating within the student activity fund.
7. Ensure proper student authorization is obtained on all payment authorization forms, including attached invoices or receipts.
8. Assign someone to the post of student activity coordinator; the post had been vacant since July 2006. Considering the problems found in the last few audits, we strongly recommend that this person be knowledgeable of the PSC and the SAFG and that this position be assigned as soon as possible.

Current Status: Our current audit found continued operational weaknesses in the 2009-10 student activity funds, as detailed in Finding No. 6 (see page 22).

The District did appoint a student activity fund coordinator beginning with the 2009-10 school year. However, based on our current audit, we concluded that the District did not take the necessary corrective actions to address our other recommendations.

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

Observation

Summary:

Our prior audit regarding policies affecting bus drivers' qualifications found that neither the District nor the transportation contractors had written policies or procedures in place to ensure that they were notified if current employees were charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.

Recommendations: Our audit observation recommended that SDCE:

1. Develop a process to determine whether prospective and current employees of the District or the District's transportation contractors 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.
2. Implement written policies and procedures to ensure the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.

Current Status:

Our current audit found that the District has developed a process to determine whether current employees of the District or the District's transportation contractors 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.

Based on the results of our current audit, we concluded that the District did take appropriate corrective action to address this observation.

Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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