

SAUCON VALLEY SCHOOL DISTRICT
NORTHAMPTON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Mr. Michael Karabin, Board President
Saucon Valley School District
2097 Polk Valley Road
Hellertown, Pennsylvania 18055

Dear Governor Corbett and Mr. Karabin:

We conducted a performance audit of the Saucon Valley School District (SVSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period September 18, 2009 through September 30, 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, 2010 and June 30, 2009. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the SVSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

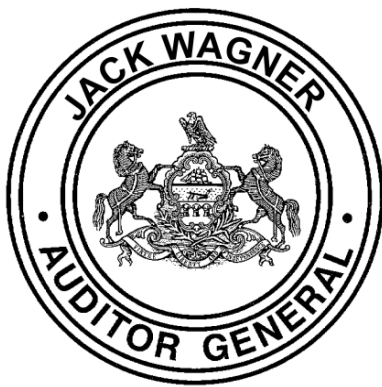
January 31, 2012

cc: SAUCON VALLEY SCHOOL DISTRICT Board Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Saucon Valley School District (SVSD). 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 SVSD in response to our prior audit recommendations.

Our audit scope covered the period September 18, 2009 through September 30, 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 2009-10 and 2008-09.

District Background

The SVSD encompasses approximately 33 square miles. According to 2010 federal census data, it serves a resident population of 16,670. According to District officials, in school year 2009-10 the SVSD provided basic educational services to 2,416 pupils through the employment of 190 teachers, 170 full-time and part-time support personnel, and 15 administrators. Lastly, the SVSD received more than \$6.3 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the SVSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified two compliance-related matters reported as findings.

Finding No. 1: Errors in Reporting Membership for Children Placed in Private Homes and a Lack of Internal Control Resulted in a Net Underpayment of \$16,666. Our audit of SVSD's pupil membership reports submitted to the Department of Education for the 2009-10 school year found reporting errors for children placed in private homes resulting in an underpayment of \$16,666 (see page 6).

Finding No. 2: Lack of Documentation Needed to Verify Bus Driver Qualifications. Our audit found that the SVSD failed to obtain and retain the required documentation/clearances for two local education agency bus drivers (see page 9).

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



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other 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 September 18, 2009 through September 30, 2011, except for the verification of professional employee certification which was performed for the period July 1, 2010 to June 30, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with 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 SVSD's compliance with applicable state laws, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Does the LEA have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System (PIMS) is complete, accurate, valid and reliable?
- ✓ Did the District, and any contracted vendors, ensure that its current bus drivers are properly qualified, and does it have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances which may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buyout 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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with Local Law Enforcement?
- ✓ Were votes made by the District's Board members free from apparent conflicts of interest?
- ✓ 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 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.

SVSD 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

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.

administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

Any significant deficiencies found during the audit are included in this report.

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

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes and pupil membership records.

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

Findings and Observations

Finding No. 1 →

Errors in Reporting Membership for Children Placed in Private Homes and a Lack of Internal Control Resulted in a Net Underpayment of \$16,666

Criteria and Public School Code section relevant to the finding:

According to PDE's 2009-10 PIMS User Manual, all Pennsylvania LEAs must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; LEP Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

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

Beginning with the 2009-10 school year, the Department of Education (DE) now bases all local education agencies' state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse", designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems. PIMS replaces DE's previous reporting system, the Child Accounting Database (CAD), which DE ran concurrently until it brought PIMS completely online. DE no longer accepts child accounting data through the CAD system.

Our audit of Saucon Valley School District's (SVSD) pupil membership reports submitted to DE for the 2009-10 school year found reporting errors for children placed in private homes resulting in a net underpayment of \$16,666.

Membership days for children placed in private homes during the 2009-10 school year were correctly reported in the District's child accounting system; however, these days were not uploaded for PIMS reports processed by DE. A lack of internal control exists due to District personnel failing to reconcile membership reports submitted to DE with preliminary PIMS reports processed by DE which resulted in the underpayment of subsidy. The omission of days on the PIMS reports resulted in an understatement of 27 days for elementary students and 227 days for secondary students. Also, membership days for children placed in private homes were incorrectly reported as resident days, resulting in an additional understatement of 16.46 days.

Membership data for nonresident children placed in private homes must be maintained and reported accurately and in accordance with DE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

Section 2503(c) provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court when such resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

The overstatement of 16.46 resident membership days did not have an effect on basic education funding.

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

Furthermore, the SVSD did not receive nonresident subsidy for 49 membership days for children placed in private homes educated by Colonial Intermediate Unit #20 (CIU). Membership for students educated by CIU are reported by CIU, therefore, this correction can only be made by CIU in conjunction with DE.

Recommendations

The *Saucon Valley School District* should:

1. Establish internal controls that include reconciliations of the data that is uploaded into PIMS.
2. Determine the cause of the omission of days from PIMS reports and make necessary adjustments.
3. Review subsequent year reports and if errors are found, submit revised reports to DE.
4. Contact DE to determine what action can be taken to revise CIU membership reports necessary to generate subsidy for nonresident days membership for SVSD.

The *Department of Education* should:

5. Adjust the SVSD's allocation to resolve the net underpayment of \$16,666.
6. Review CIU membership reports submitted on behalf of SVSD and make necessary revisions.

Management Response

Management stated the following:

For future years, when the school district receives the Preliminary Summary of Child Accounting Membership Report in addition to reviewing total membership reported, it will be verified that the report compiled by PDE correctly matches the information submitted to them by the District regarding the way students are classified.

Finding No. 2

Lack of Documentation Needed to Verify Bus Driver Qualifications

Public School Code sections and criteria relevant to the finding:

Section 111 of the Public School Code, 24 P.S. § 1-111 (Act 34 of 1985, as amended) requires prospective school employees who have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Similarly, Section 6355 of the Child Protective and Services Law (CPSL), 23 Pa C.S. § 6355, known as Act 151, requires prospective school employees to submit an official child abuse clearance statement obtained from the Department of Public Welfare. The CPSL prohibits the hiring of an individual named as the perpetrator of a founded report of child abuse or is named as the individual named as the perpetrator of a founded report of child abuse or is named as the individual responsible for injury or abuse in a founded report for school employee.

Our audit found that the SVSD failed to obtain and retain the required documentation/clearances for two District bus drivers.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. We reviewed the following six requirements:

1. Possession of a valid driver's license;
2. Completion of school bus driver skills and safety training;
3. Passing a physical examination;
4. Lack of convictions for certain criminal offenses;
5. Federal Criminal History Record; and
6. Official child abuse clearance statement.

The first three requirements were set by the regulations issued by the Pennsylvania Department of Transportation (PennDOT). As explained further under criteria, the fourth and fifth requirements were set by the Public School Code Law of 1949, as amended (Public School Code). The sixth requirement was set by the CPSL.

We reviewed the personnel records of 15 District drivers. Our audit found one driver did not have a current Act 34 criminal clearance and one driver did not have a current Act 34 criminal clearance, Act 151 child abuse clearance or the Act 114 Federal Criminal History Record clearance, as required by the Public School Code. The District's failure to verify the required clearances could result in the employment of individuals who may pose a risk if allowed to have direct contact with the District's students.

Additionally, as of April 1, 2007, under Act 114 of 2006 as amended, (see 24 P.S. § 1-111(c.1), requires that all prospective employees of public and private schools, intermediate units and area vocational-technical schools, including independent contractors and their employees and bus drivers who have direct contact with children provide to their employer a copy of their Federal Criminal History Record that cannot be more than one (1) year old this applies to employees hired on or after April 1, 2007.

Lack of policy and procedures to monitor driver qualifications resulted in the absence of this documentation. By not having required bus drivers' qualification documents on file at the District, District personnel were not able to review the documents to determine whether all drivers were qualified to transport students.

During our audit, we informed SVSD management of the outdated documentation. On August 29, 2011, September 12, 2011 and September 15, 2011, District personnel provided us with the clearances of Acts 34 and 151 which showed no convictions that would bar the drivers from having direct contact with children.

As of our fieldwork completion date of September 30, 2011, SVSD management did not provide us with the Act 114 Federal Criminal History Record clearance, for one driver. Therefore, we were unable to verify that the driver is suitable to have direct contact with children.

Recommendations

The *Saucon Valley School District* should:

1. Immediately obtain the missing documentation to ensure that drivers transporting students for the District possess proper qualifications.
2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.

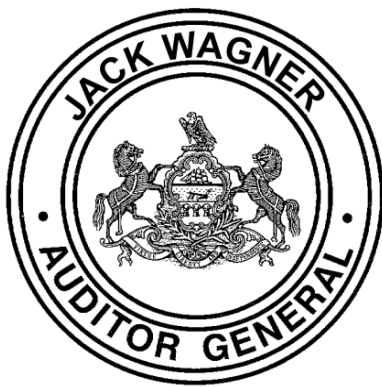
Management Response

Management stated the following:

Before a job candidate is placed on the school board agenda for approval, we will be obtaining and verifying proper documentation to insure the candidate is qualified to fill the position.

Status of Prior Audit Findings and Observations

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



Distribution List

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

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