

SHADE-CENTRAL CITY SCHOOL DISTRICT
SOMERSET 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

Mr. Stephen Sesack, Board President
Shade-Central City School District
203-235 McGregor Avenue
Cairnbrook, Pennsylvania 15924

Dear Governor Corbett and Mr. Sesack:

We conducted a performance audit of the Shade-Central City School District (SCCSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period September 17, 2008 through July 11, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010, 2009, 2008 and 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 SCCSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

**JACK WAGNER
Auditor General**

January 14, 2013

cc: **SHADE-CENTRAL CITY 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 Shade-Central City School District (SCCSD). 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 SCCSD in response to our prior audit recommendations.

Our audit scope covered the period September 17, 2008 through July 11, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10, 2008-09, 2007-08 and 2006-07.

District Background

The SCCSD encompasses approximately 68 square miles. According to 2000 federal census data, it serves a resident population of 4,144. According to District officials, in school year 2009-10 the SCCSD provided basic educational services to 565 pupils through the employment of 44 teachers, 24 full-time and part-time support personnel, and 2 administrators. Lastly, the SCCSD received more than \$4.9 million in state funding in school year 2009-10.

Audit Conclusion and Results

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

Finding: Pupil Transportation Reporting Errors Resulted in a Net Subsidy Underpayment to the District of \$13,974.

Our audit of the SCCSD's pupil transportation reports submitted to the Pennsylvania Department of Education (PDE) found errors resulting in a net underpayment of \$13,974 in transportation subsidy (see page 6).

Observation: Internal Control Weaknesses Noted With Regard to Membership Data Being Reported Through the LEA's Student Information System Software and Uploaded to PIMS.

Because PDE now uses the data in the Pennsylvania Information Management System to determine all local education agencies' state subsidy, it is vitally important that the student information entered into this system is accurate, complete, and valid. Our review of the SCCSD's controls over data integrity found that internal controls need to be improved (see page 9).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the SCCSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the SCCSD had taken appropriate corrective action in implementing our recommendations pertaining to an error in reporting charter school tuition (see page 12), a certification deficiency (see page 14), and van drivers' qualifications (see page 14).

The SCCSD had not taken appropriate corrective action in implementing our recommendations pertaining to pupil transportation reporting errors (see page 13).

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 17, 2008 through July 11, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011 through March 31, 2012.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10, 2008-09, 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 (PDE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the SCCSD'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?
- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?

- ✓ In areas where the District receives transportation subsidies, are the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ 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, observations and conclusions based on our audit objectives.

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, contracts, grant requirements and administrative procedures.

SCCSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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

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

Our audit examined the following:

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 24, 2009, we reviewed the SCCSD's response to PDE dated June 29, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding →

Criteria relevant to the finding:

The Public School Code, 24 P.S § 2541, provides for payments for pupil transportation.

The instructions provided by PDE for completing end-of-year transportation reports provides guidance for reporting the daily miles vehicles traveled with and without pupils, the number of pupils assigned to ride vehicles, and contracted costs.

Pupil Transportation Reporting Errors Resulted in a Net Subsidy Underpayment to the District of \$13,974

Our audit of the District's pupil transportation reports for the 2009-10, 2008-09, 2007-08 and 2006-07 school years submitted to the Pennsylvania Department of Education (PDE) found reporting errors, resulting in a net subsidy underpayment to the District of \$13,974, as follows:

- an overpayment of \$5,494 in transportation subsidy for the 2009-10 school year.
- an overpayment of \$870 in transportation subsidy for the 2008-09 school year.
- an overpayment of \$860 in transportation subsidy for the 2007-08 school year.
- an underpayment of \$21,198 in transportation subsidy for the 2006-07 school year.

The errors were caused by District personnel incorrectly reporting the daily miles vehicles traveled with and without pupils, the number of pupils assigned to ride vehicles and the amounts paid to one contractor.

Daily Miles Vehicles Traveled With and Without Pupils

In the 2009-10 school year, the daily mileage for 10 vehicles was incorrectly reported, resulting in a net understatement of 8.4 miles with pupils and a net overstatement of 19.4 miles without pupils.

Number of Pupils Assigned to Ride Vehicles

The number of pupils assigned to ride vehicles was incorrectly reported for all four school years, as follows:

- Five buses had errors in pupil counts, for a net overstatement of 29.0 pupils for the 2009-10 school year;

- Four buses had errors in pupil counts that resulted in a zero effect for the 2008-09 school year;
- Four buses had errors in pupil counts for a net overstatement of 4.0 pupils for the 2007-08 school year; and
- Eight buses had errors in pupils counts for a net understatement of 194.5 for the 2006-07 school year.

The errors were due to District personnel reporting the number of pupils who actually rode vehicles at the time the drivers completed the pupil count information sheets, rather than the average number of pupils who were assigned to ride throughout the school year, as PDE instructions require.

Amounts Paid to Contractor

The amount paid to one of the District's contractors was inaccurately reported during the 2009-10, 2008-09 and 2007-08 school years. The error occurred because District personnel reported payments for transporting pupils to an extended school year summer program, costs which were not eligible for reimbursement.

Failure to Comply With PDE's Reporting Instructions

PDE's reporting instructions provide for two different methods of computing the average miles vehicles travel with pupils and without pupils.

The first method, known as the weighted average method, consists of recording the number of miles vehicles travel with pupils and without pupils once a year and again whenever changes occur. The weighted average of all measurements for each variable is reported to PDE.

The second method, known as the sample average method, consists of recording the number of miles vehicles travel with pupils and without pupils once during each month from October through May. At the end of the school year, the average of the eight measurements for each variable is reported to PDE.

During each year of audit, odometer readings for vehicles used by the District's major contractors were recorded only once, and these readings were reported to PDE.

Obtaining only one odometer reading does not comply with either of PDE's approved methods of computing miles vehicles travel with pupils and without pupils.

Pupil transportation data must be maintained and reported in accordance with PDE guidelines and instructions to ensure the District receives the correct subsidy.

We have provided PDE with reports detailing the errors for use in recalculating the District's transportation subsidy.

Recommendations

The *Shade-Central City School District* should:

1. Conduct an internal review to ensure daily mileage, pupil counts, and amounts paid to contractors are reported accurately.
2. Attend PDE-sponsored workshops on compiling and completing transportation reports.
3. Calculate the number of miles vehicles travel in accordance with either the weighted average or sample average methods approved by PDE.
4. Review reports submitted to PDE subsequent to the years audited and submit revised reports if errors are found.
5. Discontinue reporting the extended school year payments in the amount paid to contractors reported to PDE.

The *Pennsylvania Department of Education* should:

6. Adjust the District's future allocations to correct the net underpayment of \$13,974.

Management Response

Management provided a response agreeing with the finding and making no further comment.

Observation

Criteria relevant to the observation:

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

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

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.

Internal Control Weaknesses Noted With Regard to Membership Data Being Reported Through the LEA's Student Information System Software and Uploaded to PIMS

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

Because PDE now uses the data in PIMS to determine each LEA's state subsidy, it is vitally important that the student information entered into this system is accurate, complete, and valid. Moreover, anytime an entity implements a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. LEA's must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our review of the LEA's controls over data integrity found that internal controls need to be improved. Specifically, our review found that:

1. District personnel in charge of child accounting and PIMS reporting did not receive sufficient training in their Student Information System (SIS) software program or in PIMS.
2. Our testing found that the District did not correctly code the "Home AVTS" membership (for part-time area vocational-technical school (AVTS) students' time at the District) in their SIS software. This resulted in 3,935 membership days not being reported to PDE for

these students, as PDE was unable to generate a school calendar for these students in PIMS.

3. The District incorrectly reported nonresident tuition waiver students as residents.
4. The District does not have adequate documented procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.

While we determined these errors did not have a significant effect on the District's subsidies or reimbursements, continuing errors such as these could do so in future years.

Recommendations

The *Shade Central City School District* should:

1. Contact their SIS software vendor to determine whether the vendor can offer training to District personnel in charge of child accounting and PIMS. Participate in the PIMS webinars that are offered to District personnel by PDE.
2. Reference the SIS manual of reporting for instructions in the proper coding for the home portion of AVTS student's membership.
3. Report tuition waiver students as nonresident tuition waiver students.
4. Review membership reports submitted to PDE for years subsequent to the audit, and if similar errors are found, submit revised reports to PDE.
5. Develop documented procedures (e.g. procedure manuals, policies or other written instructions) to ensure continuity over PIMS data submission if those involved persons were to leave the LEA suddenly or otherwise be unable to upload PIMS data to PDE.

Management Response

Management stated the following:

“Management does agree with the observation and is planning on having a team of SIS and PIMD personnel attend training webinars to ensure proper procedures are in place to accurately submit and report the data.”

Status of Prior Audit Findings and Observations

Our prior audit of the Shade-Central City School District (SCCSD) for the school years 2005-06 and 2004-05 resulted in four reported findings as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the SCCSD Board's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the SCCSD did implement recommendations related to the error in reporting charter school tuition, a certification deficiency, and van drivers' qualifications. The SCCSD did not implement recommendations related to the pupil transportation reporting errors.

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

Finding No. 1: Error in Reporting Charter School Tuition Resulted in a Reimbursement Overpayment of \$2,321

Finding Summary: Our prior audit of the District's request for reimbursement of charter school expenditures submitted to PDE for the 2005-06 school year found that tuition paid to a charter school was overstated, resulting in a reimbursement overpayment of \$2,321.

Recommendations: Our audit finding recommended that the SCCSD:

Strengthen its internal controls to ensure tuition paid to charter schools is accurately reported for reimbursement.

Our audit finding also recommended that PDE:

Adjust the District's future allocations to recover the reimbursement overpayment of \$2,321.

Current Status: During our current audit procedures we found that the SCCSD accurately reported the charter school tuition to PDE.

As of July 11, 2012, PDE had not yet adjusted the District's allocations. We again recommend that PDE adjust the District's allocations to recover the \$2,321 overpayment.

Finding No. 2: Pupil Transportation Reporting Errors Resulted in a Net Subsidy Underpayment to the District of \$844 and Overpayments to Two Contractors of \$1,312

Finding Summary: Our prior audit of the District's pupil transportation reports submitted to PDE found a significant number of errors, resulting in a transportation subsidy overpayment of \$3,172 for the 2005-06 school year and an underpayment of \$4,016 for the 2004-05 school year. In addition, two contractors were overpaid a total of \$1,312 during the 2005-06 school year.

Recommendations: Our audit finding recommended that the SCCSD:

1. Attend PDE-sponsored workshops on compiling and completing transportation reports.
2. Conduct an internal review to ensure days of service, daily mileage, pupil counts, amounts paid to contractors, and other data elements which make up the transportation formula are reported accurately.
3. Calculate the number of miles vehicles travel in accordance with either the weighted average or sample average methods approved by PDE.
4. Prepare detailed route descriptions indicating when students are picked up and dropped off to determine the number of miles vehicles travel with pupils and without pupils.
5. Ensure that sufficient documentation is available to determine the number of days all pupils are assigned to ride vehicles, including the names of pupils.
6. Review reports submitted to PDE subsequent to the years audited and submit revised reports if errors are found.
7. Consult with its solicitor, if necessary, to recover the \$1,312 overpayments from the contractors, and strengthen internal controls to ensure contractors are not overpaid in the future.

Our audit finding also recommended that PDE:

8. Adjust the District's future allocations to correct the net underpayment of \$844.

Current Status: During our current audit procedures we found that the SCCSD implemented all recommendations except No. 2 and No. 3. Continuing errors in these areas are detailed in the finding in the current report (see

page 6). As of July 11, 2012, PDE had not yet adjusted the District's allocations. We again recommend that PDE adjust the District's allocations to correct the \$844 net underpayment.

Finding No. 3: Certification Deficiency

Finding Summary: Our prior audit of professional employees' certificates and assignments for the period April 1, 2006 through February 29, 2008, found that a teacher was assigned as a long-term special education substitute without a valid certificate for the assignment. The questionable assignment resulted in a subsidy forfeiture of \$771 for the 2006-07 school year.

The teacher was subsequently reassigned to a position for which she was properly certified.

Recommendations: Our audit finding recommended that the SCCSD:

Ensure the District is in compliance with certification regulations in the future.

Our audit finding also recommended that PDE:

Adjust the District's allocations to assess the subsidy forfeiture of \$771.

Current Status: During our current audit procedures we found that the SCCSD did implement the recommendations, and all professional employees were properly certified and assigned. In December 2009, PDE adjusted the District's allocations and assessed the subsidy forfeiture of \$771.

Finding No. 4: Van Drivers' Qualifications Irregularities

Finding Summary: Our prior review of personnel records of all 22 drivers employed by the District's transportation contractors found that two van drivers did not apply for a report of criminal history record from the Pennsylvania State Police, and one of these drivers also did not apply for a report of criminal history from the Federal Bureau of Investigation or a child abuse clearance statement from the Pennsylvania Department of Welfare. The drivers subsequently obtained the required reports and statements, as a result of our audit. No criminal violations or records of child abuse were indicated.

Recommendations: Our audit finding recommended that the SCCSD:

1. Verify each driver's qualifications prior to that person transporting students.
2. Work with contractors to ensure the District's files are up-to-date and complete.

Current Status: During our current audit procedures we found that the SCCSD did implement the recommendations. The District's files are up-to-date and complete.



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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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

