



**STATE COLLEGE AREA SCHOOL DISTRICT
CENTRE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JUNE 2013

COMMONWEALTH OF PENNSYLVANIA
EUGENE A. DEPASQUALE - AUDITOR GENERAL
DEPARTMENT OF THE AUDITOR GENERAL



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen**

**EUGENE A. DePASQUALE
AUDITOR GENERAL**

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

Ms. Penni Fishbaine, Board President
State College Area School District
131 West Nittany Avenue
State College, Pennsylvania 16801

Dear Governor Corbett and Ms. Fishbaine:

We conducted a performance audit of the State College Area School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period June 30, 2010 through September 18, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two findings 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 findings, observation, and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements.

Sincerely,

June 25, 2013

EUGENE A. DEPASQUALE
Auditor General

cc: **STATE COLLEGE AREA SCHOOL DISTRICT** Board of School Directors

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding No. 1 – Errors in Reporting Nonresident Pupil Membership Resulted in a Net Reimbursement Overpayment of \$9,277	6
Finding No. 2 – Certification Deficiency	8
Observation – The State College Area School District Lacks Sufficient Internal Controls Over Its Student Record Data	10
Status of Prior Audit Findings and Observations	12
Distribution List	16

Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the State College Area School District (District). 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 District in response to our prior audit recommendations.

Our audit scope covered the period June 30, 2010 through September 18, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 150 square miles. According to 2010 federal census data, it serves a resident population of 92,270. According to District officials, the District provided basic educational services to 7,075 pupils through the employment of 632 teachers, 720 full-time and part-time support personnel, and 39 administrators during the 2009-10 school year. Lastly, the District received \$16.8 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

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

Finding No. 1: Errors in Reporting Nonresident Pupil Membership Resulted in a Net Reimbursement Overpayment of \$9,277. Errors were noted in the reporting of nonresident pupils for the 2009-10 and 2008-09 school years, resulting in a net overpayment of \$9,277 (see page 6).

Finding No. 2: Certification Deficiency. One professional employee was teaching on a lapsed certificate for the period August 31, 2010 through February 29, 2012, resulting in a subsidy forfeiture of \$8,322 (see page 8).

Observation: The State College Area School District Lacks Sufficient Internal Controls Over Its Student Record Data. Our review of the District's data integrity for the 2009-10 school year found weak internal controls that could increase the likelihood of significant errors (see page 10).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the District from an audit released on November 29, 2010, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to nonresident pupil membership (see page 12) and a certification deficiency (see page 13). The District partially implemented our recommendations pertaining to continued unmonitored vendor system access and logical access control weaknesses (see page 13).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each local education agency (LEA). The results of these audits are shared with LEA management, the Governor, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of 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 June 30, 2010 through September 18, 2012, except for the verification of professional employee certification which was performed for the period May 29, 2010 through June 12, 2012.

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

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education (PDE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

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

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with 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 received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ In areas where the District received transportation subsidies, were the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

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

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.

The District's 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. In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

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

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes, and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 29, 2010, we reviewed the District's response to PDE dated January 9, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Errors in Reporting Nonresident Pupil Membership Resulted in a Net Reimbursement Overpayment of \$9,277

Criteria relevant to the finding:

Section 2503 of the Public School Code, 24 P.S. § 25-2503, provides that the Commonwealth will pay tuition to districts providing education to nonresident students placed in private homes. The payments are made based on membership days reported for such children.

Our audit of State College Area School District (District) nonresident pupil membership for the 2009-10 and 2008-09 school years found errors in reports submitted to the Pennsylvania Department of Education (PDE). These errors resulted in a net reimbursement overpayment in Commonwealth-paid tuition of \$9,277.

Our audit found that in the 2009-10 school year, District personnel failed to report membership days for one secondary student who was placed in a private home (foster child) within the District. Therefore, the District's membership days were underreported by 17.

In the 2008-09 school year, nonresident membership days were overreported by 179 days. The overstatement was the result of District personnel failing to appropriately review a student's residency classification. One resident student was reported as a nonresident foster child.

The errors resulted in an underpayment of \$1,040 to the District for the 2009-10 school year, and an overpayment of \$10,317 to the District for the 2008-09 school year. These combined errors comprised a net overpayment of \$9,277.

We have provided PDE with a report detailing these errors for use in recalculating the District's nonresident foster for children tuition.

Recommendations

The *State College Area School District* should:

1. Require child accounting personnel to review the registrars' classification of all nonresident students as the students enter the District.
2. Review membership reports submitted to PDE for years subsequent to the audit and, if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to correct the net overpayment of \$9,277.

Management Response

Management agreed with the finding and provided no further comment.

Finding No. 2

Certification Deficiency

Criteria relevant to the finding:

Section 1202 of the Public School Code, 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.”

Section 2518 of the Public School Code, 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 State College Area School District (District) professional employees’ certificates and assignments for the period of May 29, 2010 through June 12, 2012, found one individual’s Vocational Intern certificate lapsed after the 2009-10 school year. The individual continued to teach from August 31, 2010 through February 29, 2012, without proper certification. The individual obtained a Vocational Instructional I certificate on March 1, 2012.

The deficiency occurred because the District misunderstood the certification regulations.

Information pertaining to the assignment in question was submitted to the Pennsylvania Department of Education’s Bureau of School Leadership and Teacher Quality (BSLTQ), for its review. On August 11, 2012, BSTLQ determined that the teacher in question was not appropriately certified.

The error will result in subsidy forfeitures of \$4,988 and \$3,335 for the 2010-11 and 2011-12 school years, respectively.

In addition, when proper certificates are not maintained, the District jeopardizes its ability to ensure teachers are certified to teach assigned courses, and students may receive instruction from unqualified teachers.

Recommendations

The *State College Area School District* should:

1. Review all certificates on file to verify that the certification of all certified personnel is being accurately tracked in the computer system.

The *Pennsylvania Department of Education* should:

2. Contact the District’s solicitor or representatives from PDE to ensure that District personnel understand the certification regulations.
3. Adjust the District’s allocations to recover the subsidy forfeitures.

Management Response

Management agreed with the finding and provided no further comment.

Observation

The State College Area School District Lacks Sufficient Internal Controls Over Its Student Record Data

Criteria relevant to the finding:

According to the Pennsylvania Department of Education's (PDE) *2009-10 PIMS User Manual*, all Pennsylvania local education agencies must submit data templates as part of the 2009-10 child accounting data collection.

Pennsylvania Information Management System data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the *Federal Information Systems Control Manual*, 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.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

PDE began calculating the LEA's state subsidy using data that the LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEA's must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Moreover, with a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our review of the State College Area School District's (District) controls over its data integrity found that internal controls need to be improved. Specifically, our review found that the District did not reconcile data electronically uploaded into the PIMS system with their in-house generated membership computer printouts. As a result, membership days for 16 alternative education students were not uploaded into PIMS in the 2009-10 school year.

The District's failure to upload these students' membership days could have prevented it from receiving the correct amount of state subsidies. In addition, PDE uses PIMS to track individual students, which cannot be done with incomplete data.

District personnel were unable to determine why the students' membership days were omitted from the upload into PIMS.

Additionally, District personnel entered the incorrect residency codes into their child accounting database for several students. This data entry error resulted in personnel incorrectly recording the district of residence for 4 students, and the funding district for 5 students. The data entry errors did not have a significant monetary impact. However, they could result in the districts of residence being asked to pay the tuition of students for which they are not responsible.

Recommendations

The *State College Area School District* should:

1. Reconcile data electronically uploaded into the PIMS system with their in-house generated membership computer printouts.
2. Reference the PIMS manual of reporting for instructions on how to correctly code district of residence and funding district for all student classifications.
3. Review membership reports submitted to PDE for years subsequent to the audit and, if errors are found, submit revised reports to PDE.

Management Response

Management stated the following:

“The State College Area School District has implemented a change of structure in the Student Services/Registration area after the end of this audit period, beginning with the 2010-11 school year. This reorganization improves the internal controls related to student record data.”

Status of Prior Audit Findings and Observations

Our prior audit of the State College Area School District (District) released on November 29, 2010, resulted in two reported findings and one observation. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings and observation. As shown below, we found that the District did not implement recommendations related to the findings and observation.

Auditor General Performance Audit Report Released on November 29, 2010

Finding No. 1: **Errors in Reporting Nonresident Pupil Membership Resulted in Tuition for Children Placed in Private Homes Overpayments of \$21,036**

Finding Summary: Our prior audit of nonresident pupil membership for the 2007-08 and 2006-07 school years found discrepancies in reports submitted to PDE. These errors resulted in reimbursement overpayments in Commonwealth-paid tuition of \$21,036.

Recommendations: Our prior audit finding recommended that the District:

1. Require child accounting personnel to review the registrars' classification of all nonresident students as the students enter the District.
2. Review membership reports submitted to PDE for years subsequent to the audit and, if errors are found, submit revised reports to PDE.

Our audit finding also recommended that PDE:

3. Adjust the District's allocations to correct the overpayments of \$21,036.

Current Status: During our current audit, we found that the District did not implement the recommendations, noted in Finding No. 1 of our current audit report (see page 6). As of September 18, 2012, PDE had not yet adjusted the District's allocations to correct the overpayments of \$21,036.

Finding No. 2: Certification Deficiency

Finding Summary: Our prior audit of professional employees' certificates and assignments for the period of October 1, 2008 through May 28, 2010, found one individual's provisional certificate lapsed for the second semester of the 2009-10 school year.

Recommendations: Our prior audit finding recommended that the District:

Review all certificates on file to determine whether all provisionally certified personnel are being accurately tracked in the District's professional personnel computer program.

Our audit finding also recommended that PDE:

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

Current Status: During our current audit, we found that the District did not implement the recommendations, as noted in Finding No. 2 in the current report (see page 8). However, PDE deducted \$2,468 from the District's June 1, 2011, basic education funding payment to recover the subsidy forfeiture.

Observation: Continued Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary:

Our prior audit found weaknesses in the District's controls over the vendor's access to the District's child accounting computer system.

Recommendations: Our prior audit finding recommended that the District:

1. Update the District's Acceptable Use Policy to include provisions for authentication (password security and syntax requirements).
2. Update the District's Acceptable Use Policy to include specific provisions for violations/incidents (what is to be reported and to whom).
3. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.

4. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (i.e., 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric and special characters. Also, the District should maintain a password history that will prevent the use of repetitive passwords (i.e. last ten passwords); lock out users after three unsuccessful attempts; and log users off the system after a period of inactivity (i.e. 60 minutes maximum).
5. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor employees.
6. Allow access to the system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
7. Generate monitoring reports (firewall logs) of vendor and employee access and activity on the system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should ensure it is maintaining evidence to support this monitoring and review.
8. Establish a process for defining, raising, testing, documenting, assessing and authorizing emergency changes to systems or programs that do not follow the established change process.
9. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire suppression equipment in the room.

Current Status:

During our current audit, we found that the District did implement recommendations 5 and 9. However, the District has not yet made revisions to the District's Acceptable Use Policy (recommendations Numbers 1, 2, 3), and still has not implemented recommendations 6 and 8.

The District partially implemented recommendations 4 and 7 as follows: the District now requires a password minimum of eight characters, the system now locks users off the system after a period of inactivity (60 minutes maximum), and the District now generates monitoring reports of user remote access and activity on the system for vendors, but not for District employees.

Distribution List

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

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

The Honorable William E. Harner
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Nichole Duffy
Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Tom Templeton
Assistant Executive Director
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.

