

TRI-VALLEY SCHOOL DISTRICT
SCHUYLKILL 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. Daniel W. Wagner, Board President
Tri-Valley School District
110 West Main Street
Valley View, Pennsylvania 17983

Dear Governor Corbett and Mr. Wagner:

We conducted a performance audit of the Tri-Valley School District (TVSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period March 13, 2009 through April 20, 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 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 TVSD 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. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 14, 2013

cc: **TRI-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 Tri-Valley School District (TVSD). 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 TVSD in response to our prior audit recommendations.

Our audit scope covered the period March 13, 2009 through April 20, 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 and 2008-09.

District Background

The TVSD encompasses approximately 103 square miles. According to a 2011 local census data, it serves a resident population of 6,490. According to District officials, in school year 2009-10 the TVSD provided basic educational services to 895 pupils through the employment of 84 teachers, 49 full-time and part-time support personnel, and 7 administrators. Lastly, the TVSD received more than \$6.4 million in state funding in school year 2009-10.

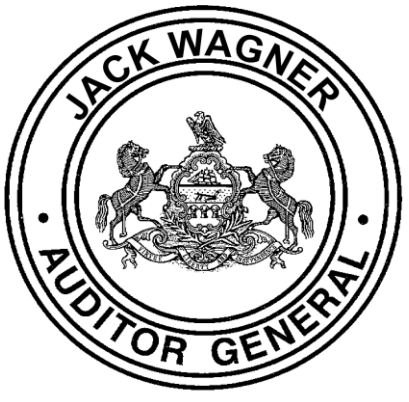
Audit Conclusion and Results

Our audit found that the TVSD 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.

Finding: Continued Membership Reporting Errors and a Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Reimbursement.

Our current audit of the TVSD's pupil membership reports submitted to the Pennsylvania Department of Education for the 2009-10 school year found that the TVSD did not follow our recommendations from our prior audit regarding incorrect reporting of nonresident students. We also determined there is a lack of internal controls (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the TVSD from an audit we conducted of the 2007-08, 2006-07, 2005-06 and 2004-05 school years, we found the TVSD had taken appropriate corrective action in implementing our recommendations pertaining to the TVSD's MOUs (see page 10). However, the TVSD did not take appropriate corrective action in implementing our recommendations pertaining nonresident students (see page 9).



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 March 13, 2009 through April 20, 2012.

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 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 TVSD'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:

- ✓ 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 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?

- ✓ 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 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

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.

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

TVSD 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 bus driver qualifications and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 15, 2010, we reviewed the TVSD's response to PDE dated March 11, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding →

Continued Membership Reporting Errors and a Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Reimbursement

Criteria 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; 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* (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 Pennsylvania Department of Education (PDE) 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 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.

Our current audit of the Tri-Valley School District's (TVSD) pupil membership reports submitted to PDE for the 2009-10 school year found that the District did not follow our recommendations from our prior audit finding regarding incorrect reporting of nonresident students. We also determined there is a lack of internal controls.

District personnel inaccurately reported the membership for children placed in private homes. The lack of internal controls resulted in the District failing to reconcile preliminary data reports from PDE which resulted in incorrect data being reported on the Final Summary of Child Accounting Membership Report.

Membership days for children placed in private homes were underreported by 79 days for elementary and 520 days for secondary. We also determined resident membership days were over reported by 79 days.

The incorrect reporting of children placed in private homes resulted in the District being underpaid \$32,998.

The children placed in private homes errors were due to District personnel reporting the incorrect administrative unit number (AUN) number into the district of residence field in the child accounting software. The AUN number should have reflected the school district of their biological parents. Four of five students were reported as resident students. One other student was incorrectly reported as a 1306, institutionalized non-resident and his district of residence and funding district being incorrectly reported. These errors resulted in the District not receiving their entitled reimbursement.

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

Recommendations

The *Tri-Valley School District* should:

1. Establish a procedure to ensure that the correct code for the district of residence is entered into the District's membership data software at the time of enrollment.
2. Establish internal controls that include reconciliations of the data that is uploaded into PIMS.
3. Verify that the Preliminary Reports from PDE are correct and if not correct, revise and resubmit child accounting data so that the Final Reports from PDE are correct.

The *Pennsylvania Department of Education* should:

4. Revise all reports that have been incorrectly completed and adjust the District's reimbursement affected by the errors.

Management Response

Management stated the following:

Management concurs. This was an oversight on the part of the employee assigned to this report. The employee was informed of the error, and the issue has been resolved. The employee will continue to attend the Annual Spring Conference of the Attendance/Child Accounting Professional Association (A/CAPA) for training purposes. Additionally, building principals will be tasked with reviewing membership reports and summaries prior to

submission of final reports to the Pennsylvania Department of Education (PDE).

Management would note that implementation issues relative to the Pennsylvania Information Management System (PIMS) and contradictory guidance received from the PDE on this subject may also have contributed to the reporting error in question.

Status of Prior Audit Findings and Observations

Our prior audit of the Tri-Valley School District (TVSD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in one reported finding and one observation. The finding pertained to incorrect reporting of nonresident students, and the observation pertained to the District's Memorandum of Understanding (MOU) not being updated in a timely manner. 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 TVSD Superintendent's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the TVSD did not implement recommendations related to our nonresident membership. However, the TVSD did take appropriate corrective action regarding their MOU.

School Years 2007-08, 2006-07, 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding: Nonresident Membership Reporting Errors

Finding Summary: Our prior audit found that the District's pupil membership reports, submitted to the PDE for the 2005-06 school year were inaccurate. Errors in reporting nonresident membership days resulted in a nonresident children placed in private homes reimbursement overpayment of \$4,044. Nonresident children placed in private homes membership was overstated by 82 days for the 2005-06 school year. Furthermore, the District underreported membership for district-paid students by 356 days. The two students were from the Pine Grove Area School District.

Recommendations: Our audit finding recommended that the TVSD should:

1. Provide regular in-service training to staff responsible for recording and reporting membership.
2. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to resolve the reimbursement overpayment of \$4,044.

Current Status: During our current audit procedures we found that the TVSD did not implement our recommendations. A continuation finding will result. We again recommend that PDE adjust the District's allocations to resolve the reimbursement overpayment of \$4,044 as this has yet to be adjusted.

Observation: Memorandum of Understanding Not Updated Timely

Observation Summary: Our prior audit of the District's records found that its current MOU with two local law enforcement agencies were signed March 13, 2002 and May 9, 2002, and have not been updated.

Recommendations: Our audit observation recommended that the TVSD should:

1. In consultation with the solicitor, continue to review, update and re-execute the current MOU between the District and the two local law enforcement agencies.
2. Adopt a policy requiring the administration to review and re-execute the MOUs every two years.

Current Status: During our current audit procedures we found that the TVSD did implement the recommendations. The District's MOUs with both local law enforcement agencies were signed June 8, 2011.

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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