



**HARBOR CREEK SCHOOL DISTRICT
ERIE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

APRIL 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mrs. Carol Bucklin, Board President
Harbor Creek School District
6375 Buffalo Road
Harborcreek, Pennsylvania 16421

Dear Governor Corbett and Mrs. Bucklin:

We conducted a performance audit of the Harbor Creek School District (HCSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period June 2, 2010, through July 26, 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 HCSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in the 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 HCSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve HCSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the HCSD's cooperation during the conduct of the audit.

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

April 3, 2013

cc: **HARBOR CREEK SCHOOL DISTRICT** Board Members



Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding – Internal Control Weakness and Reporting Errors in Pupil Transportation	6
Observation – Harbor Creek School District Lacks Sufficient Internal Controls Over Its Student Record Data	9
Status of Prior Audit Findings and Observations	12
Distribution List	17



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Harbor Creek School District (HCSD). 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 HCSD in response to our prior audit recommendations.

Our audit scope covered the period June 2, 2010, through July 26, 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 HCSD encompasses approximately 34 square miles. According to 2010 federal census data, it serves a resident population of 17,234. According to District officials, in school year 2009-10 the HCSD provided basic educational services to 2,158 pupils through the employment of 165 teachers, 103 full-time and part-time support personnel, and 13 administrators. Lastly, the HCSD received more than \$12.2 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the HCSD 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: Internal Control Weakness and Reporting Errors in Pupil

Transportation. Our audit of the HCSD's pupil transportation records found an internal control weakness and errors in data submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years (see page 6).

Observation: Harbor Creek School District Lacks Sufficient Internal Controls Over Its Student Record Data.

PDE now uses the data in the Pennsylvania Information Management System (PIMS) to determine each local education agency's (LEA) state subsidy. It is vitally important that the student information entered into this system is accurate, complete, and valid. Our review of the LEA's controls over data integrity found that internal controls need to be improved. Specifically, our review found that the HCSD does not have adequate procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors (see page 9).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the HCSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the HCSD had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 13) and the amount paid to pupil transportation contractors (see page 14). However, we found the HCSD had not taken appropriate corrective action in implementing our recommendations pertaining to transportation reporting errors (see page 12).

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 June 2, 2010, through July 26, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2010, through June 30, 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 HCSD'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 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 contain adequate termination provisions?
- ✓ 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.

HCS D 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 IT controls, as they relate to the District’s compliance with applicable state laws, regulations, contracts, grant agreements 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/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, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 13, 2011, we reviewed the HCS D’s response to PDE dated August 18, 2011. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Internal Control Weakness and Reporting Errors in Pupil Transportation

Criteria relevant to the finding:

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

Section 2509.3 of the Public School Code provides, in part:

"For the school year 2001-02 and each school year thereafter, each school district shall be paid the sum of three hundred eighty-five dollars (\$385) for each nonpublic school pupil transported."

Section 1726-A(a) of the Public School Code provides, in part:

"Districts providing transportation to a charter school . . . shall be eligible for payments under Section 2509.3 for each public school student transported."

Our audit of the Harbor Creek School District's pupil transportation records and reports submitted to the Pennsylvania Department of Education (PDE) found that for the 2008-09 school year the District had an internal control weakness that resulted in the District being underpaid \$110,068 in transportation subsidy. We also found reporting errors that resulted in additional subsidy overpayments of \$6,317 for the 2009-10 and 2008-09 school years.

Internal Control Weaknesses

We found that the District did not report miles without pupils for any vehicles during the 2008-09 school year, resulting in the District being underpaid \$110,068 in transportation subsidy. The error was found in January 2011, when the District's business manager was preparing the District's annual budget and noticed that transportation subsidy received in the 2009-10 school year, based on the 2008-09 school year's data, was substantially less than previous years. On January 25, 2011, the District's transportation coordinator contacted PDE and submitted corrected reports.

Our conversation with PDE on June 29, 2012, confirmed that had the District reviewed its preliminary report in April 2010, the error could have been caught by the District and corrected at that time. The District would not consequently have lost the use of these funds, including the potential investment of funds in an interest-bearing account.

This error went undetected because the District's year-end transportation reports are not reviewed by the District's business manager; nor are the preliminary transportation reports that PDE provides to the District for review and confirmation prior to PDE's finalization of the District's transportation subsidy reviewed by the transportation coordinator.

As of July 26, 2012, PDE had not yet corrected the \$110,068 underpayment of the District's transportation subsidy.

Reporting Errors Found During Our Current Audit

In the 2009-10 school year the District overreported nonpublic pupils by five pupils. The District also incorrectly reported four pupils attending an alternative education program as charter school students. The errors resulted in the District being overpaid by \$3,465. The District also had other minor reporting errors in 2009-10 transportation that resulted in the District being overpaid \$927.

During the 2008-09 school year the District overreported nonpublic pupils by five pupils, resulting in an overpayment of \$1,925.

It should be noted that pupil transportation operations were the subject of a finding in the prior four audit reports.

We have provided PDE with reports detailing the errors found during our audit for use in recalculating the District's subsidy.

Recommendations

The *Harbor Creek School District* should:

1. Review the preliminary transportation report in a timely fashion to ensure the correct subsidy is received.
2. Conduct an annual internal review to ensure all transportation dating, including the daily mileage and the number of nonpublic and charter school pupils, are accurately recorded and reported to PDE.
3. Ensure nonpublic and charter school pupil summaries are prepared by knowledgeable personnel to ensure eligible pupils actually transported are reported for reimbursement.
4. Provide training for District pupil transportation personnel.
5. Perform a review of subsequent years' data for accuracy and resubmit data to PDE, if necessary.

The *Pennsylvania Department of Education* should:

6. Correct the overpayments of \$6,317.

Management Response

Management stated the following:

“Corrective action was already taken prior to the beginning of the audit to address many of the situations. Changes were made to improve the accuracy of reporting and strengthen internal controls during the 2010/11 school year. The District also discovered errors on its own and resubmitted data to PDE for 2008/09 and 2009/10 so the District’s subsidy could be adjusted.”

Observation

Harbor Creek School District Lacks Sufficient Internal Controls over Its Student Record Data

Criteria relevant to the observation:

According to the Pennsylvania Department of Education's 2009-10 PIMS User Manual, all Pennsylvania local education agencies 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*, 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 agency's (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 the District does not have adequate procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.

Additionally, our audit of pupil membership for the 2009-10 school year found that the District failed to correctly report pupil membership for children placed in private homes. The error resulted in one resident kindergarten student being misclassified as a nonresident child placed in a private home for 180 days. The error was caused by District personnel not entering the correct code of residency. In addition, the District reported two secondary students who were also nonresident children

placed in private homes as 12th graders, instead of half-time area vocational-technical school (AVTS) students. Half of these AVTS students' membership days should have been reported by the District as "home time" for AVTS students, while the AVTS should have reported the other half of the days.

The nonresident pupil membership errors for children placed in private homes were corrected by District personnel and reported to PDE. Per a conversation with PDE personnel on July 24, 2012, these revisions were received from the District and will be used to recalculate the District's Commonwealth-paid tuition for children placed in private homes.

Pupil membership data must be maintained and reported in accordance with PDE guidelines and instructions, since this is a major factor in determining the Commonwealth's payments of tuition for children placed in private homes.

Recommendations

The *Harbor Creek School District* should:

1. Prepare documented procedures (e.g. procedure manuals, policies, written instructions, etc.) to ensure continuity over PIMS data submission.
2. Carefully perform an internal audit prior to submission of pupil membership reports to PDE to ensure all students are classified correctly.
3. Contact the AVTS to ensure it also correctly reported membership days for the two students identified by our audit.

4. Review reports for school years subsequent to our audit years for pupil classification accuracy, and revise them if necessary.

Management Response

Management stated the following:

“Internal controls that were already in place identified errors and corrective action was made by District personnel in a timely manner, which had already taken place prior to the beginning of the audit.”

Auditor Conclusion

We recognize that District personnel eventually identified the errors. However, nonresident children placed in private home membership days had to be revised twice before they were accurately reported, and the District’s payments for the 2009-10 school year had still not been revised as of our fieldwork completion date of July 26, 2012.

Status of Prior Audit Findings and Observations

Our prior audit of the Harbor Creek School District (HCSD) for the school years 2007-08 and 2006-07 resulted in one finding and two observations. The finding pertained to pupil transportation errors and lack of documentation, the first observation pertained to unmonitored vendor system access and logical access control weaknesses, and the second observation pertained to the amount paid pupil transportation contractors exceeding the Pennsylvania Department of Education (PDE) final formula allowance. 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 HCSD Board's written response provided to PDE, performed audit procedures, and questioned District personnel regarding the prior finding and observations. As shown below, we found that the HCSD did not implement recommendations related to pupil transportation, but did implement recommendations for unmonitored vendor system access and logical access control weaknesses and the amount paid pupil transportation contractors.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Finding: **Pupil Transportation Reporting Errors and Lack of Documentation**

Finding Summary: Our prior audit of the District's pupil transportation records and reports submitted to PDE for the 2007-08 and 2006-07 school years found reporting errors that resulted in subsidy overpayments of \$35,388. In addition, we noted some weaknesses in documentation supporting the total transportation subsidy of \$897,860 for the 2007-08 school year.

Recommendations: Our audit finding recommended that the HCSD:

1. Conduct an annual internal review to ensure that the number of days transportation was provided, daily mileage, pupil counts, the number of trips per day, the number of nonpublic and charter school pupils, and the amount paid each contractor are accurately recorded and reported to PDE.
2. Ensure nonpublic and charter school pupil summaries are prepared by knowledgeable personnel to ensure eligible pupils actually transported are reported for subsidy.
3. Prepare and retain on file the source data used to report pupil transportation data to PDE.

4. Provide training for District pupil transportation personnel.
5. Perform a review of subsequent years' data for accuracy and resubmit data to PDE, if necessary.

We also recommended that PDE:

6. Recover the subsidy overpayments of \$35,388.

Current Status:

During our current audit procedures we found that the HCSD did not implement the recommendations. Pupil transportation is consequently again the subject of a finding in our current report (see page 6).

As of July 26, 2012, PDE had not yet adjusted the subsidy overpayment of \$35,388. We therefore again recommend PDE adjust the District's subsidy to recover \$35,388 overpayment.

Observation No. 1: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary:

Our prior audit found the HCSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District's network servers. We found certain weaknesses in controls over vendor access to the District's system.

Recommendations:

Our audit observation recommended that the HCSD:

1. Maintain evidence that it performs reconciliations between system generated membership and attendance reports and manually kept membership and attendance records, to ensure that any unauthorized changes within the system would be detected in a timely manner.
2. 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 representatives.
3. Allow remote 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.

5. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
6. Allow upgrades and updates to the District's system only after receipt of written authorization from appropriate District officials.
7. Establish separate information technology policies and procedures for controlling the activities of vendor/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
8. Ensure the Acceptable Use Policy includes provisions for authentication (e.g., password security and syntax requirements).
9. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
10. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (i.e., every 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 a repetitive password (i.e. last ten passwords), and lock out users after three unsuccessful attempts.

Current Status: During our current audit procedures we found that the HCSD did implement the recommendations.

Observation No. 2: Amount Paid Pupil Transportation Contractors Greatly Exceeds Pennsylvania Department of Education Final Formula Allowance

Observation

Summary:

Our prior audit of the District's contracted pupil transportation costs for the school years ending June 30, 2004, through June 30, 2008, found that the contracted costs of the District's pupil transportation operations had increased substantially more than the rate of inflation over the five year period, based on data submitted to PDE by the District for reimbursement purposes. The amount paid the District's transportation contractors increased more than PDE's inflation-adjusted final formula allowance, which is used to determine reimbursement of pupil transportation services.

Recommendations: Our audit observation recommended that the HCSD:

1. Prior to negotiating a new contract, be cognizant of the state's final formula allowance cost formula.
2. Routinely seek competitive bids for all the District's pupil transportation services to ensure the most efficient cost to the District and its taxpayers.
3. Prepare pupil transportation contracts to ensure the local effort share is as minimal as possible by establishing the base rate and increases in line with PDE's final formula allowance for all pupil transportation costs.
4. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.

Current Status: During our current audit procedures we found that the HCSD did implement the recommendations.



Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditor.gen.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, 231 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.

