

PENNCREST SCHOOL DISTRICT  
CRAWFORD COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

SEPTEMBER 2010



The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Mr. Chad Templin, Board President  
Penncrest School District  
18741 State Highway 198  
Saegertown, Pennsylvania 16433

Dear Governor Rendell and Mr. Templin:

We conducted a performance audit of the Penncrest School District (PSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period December 5, 2008 through March 19, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 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 PSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the 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 PSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the PSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

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**JACK WAGNER**  
Auditor General

September 8, 2010

cc: **PENNCREST SCHOOL DISTRICT** Board Members

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Penncrest School District (PSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the PSD in response to our prior audit recommendations.

Our audit scope covered the period December 5, 2008 through March 19, 2010, 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 2007-08 and 2006-07.

### **District Background**

The PSD encompasses approximately 400 square miles. According to 2000 federal census data it serves a resident population of 24,780. According to District officials, in school year 2007-08 the PSD provided basic educational services to 3,761 pupils through the employment of 300 teachers, 198 full-time and part-time support personnel, and 21 administrators. Lastly, the PSD received more than \$27.2 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the PSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

#### **Finding: Continued Internal Control Weaknesses and Lack of Supporting Data in Pupil Transportation.**

Our audit of the PSD's pupil transportation records and the reports submitted to the Department of Education for the 2007-08 and 2006-07 school years found continuing internal control weaknesses (see page 6).

#### **Status of Prior Audit Findings and Observations.**

With regard to the status of our prior audit recommendations to the PSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the PSD had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting Social Security and Medicare wages (see page 12) errors in reporting nonresident membership (see page 13) and unmonitored vendor system access and logical access control weaknesses (see page 14).

However, the PSD did not take appropriate corrective action in implementing our recommendations pertaining to errors in reporting pupil transportation data (see page 13).





## Audit Scope, Objectives, and Methodology

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### 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 December 5, 2008 through March 19, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education (DE) 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

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the PSD's compliance with applicable state laws, regulations, 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?

*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 law, regulation, 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.

- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ 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 and conclusions based on our audit objectives.

PSD management is responsible for establishing and maintaining effective internal controls to provide

*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, regulations, contracts, grant requirements and administrative procedures.

reasonable assurance that the District is in compliance with applicable laws, regulations, 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.

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

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

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, state ethics compliance, 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 PSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 29, 2009, we reviewed the PSD's response to DE dated January 14, 2010. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Continued Internal Control Weaknesses and Lack of Supporting Data in Pupil Transportation

*Criteria relevant to the finding:*

Chapter 23 of the State Board of Education Regulations, Section 23.4, states in part:

The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following: . . .

(6) The maintenance of a record of pupils transported to and from school, including determination of pupils' distances from home to pertinent school bus loading zones.

In addition, Section 518 of the Public School Code required retention of these records for a period of not less than six years.

Department of Education Guidelines and Instructions require the District's bus/van drivers, on a monthly basis for eight months of the school year, to record the odometer readings of their approved bus/van runs on a tenth of mile, stop-by-stop basis to determine total miles with and without pupils.

Instructions for completing DE's End-of-Year Pupil Transportation reports provides that the local education agency must maintain records of miles with pupils, miles without pupils, and the largest number of pupils assigned to each vehicle.

Our audit of the District's pupil transportation records and the reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found continuing internal control weaknesses. In addition, a lack of appropriate supporting documentation resulted in unexplained variances between the information reported to DE and the documentation available for audit.

As a result of the internal control weaknesses and lack of supporting data, we were unable to verify that transportation subsidies of \$2,532,053 and \$2,549,112 the District received for the 2007-08 and 2006-07 school years, respectively, were correct.

Similar weaknesses were also the partial subject of a finding in our prior audit report (see page 13).

The internal control weaknesses, the lack of appropriate and accurate supporting reports, and the inaccurate supporting documentation were caused by errors made when entering information into the transportation software, failure to verify the system input, failure to maintain copies of the system-generated compilation reports, and failure to verify the end-of-year data after the computer system was converted.

#### Supporting Documentation

On an annual basis districts can use either the sample average method or the weighted average method to report the miles with and without pupils and the greatest number of pupils assigned to a vehicle at any one time.

The sample average method is based on the drivers recording odometer readings on a stop-by-stop basis, to a tenth of mile. This reading is to be done once a month for eight months. In addition to mileage, the drivers record the number of pupils assigned to the vehicle.

Additionally, the instructions provide that an explanation of the procedures followed and the data used by the LEA should be retained for audit purposes.

The weighted average method is based on the drivers recording daily odometer readings, again on a stop-by-stop, tenth of a mile basis. Mileage is then multiplied by the number of days in the period and divided by the total number of days in the school year.

The Penncrest School District uses the weighted average method. The District utilizes a software program that calculates the weighted averages using the District's daily mileage, based on the District's actual school calendar.

At the beginning of the school year, the board approves the miles with and without pupils based on the appropriate stop-by-stop, tenth of a mile odometer reading, this data being the initial entry in the system. Contractors are then required to provide odometer readings every time a route changes. If no route change occurs during the month, then the contractors provide a monthly odometer sheet confirming the initial mileage.

The program requires additional entries for the starting and ending date each vehicle is used, the starting and ending dates of students' assignments to the vehicles, and the necessary coding to identify hazardous pupils, non-public pupils, and non-reimbursable pupils.

At the end of the school year, based on the components entered into the program, the software program produces a record of the weighted averages, greatest number of pupils transported, and the pupil counts for non-public pupils, hazardous pupils and non-reimbursable pupils.

#### Result of Mileage Verification Audit

Our audit of the final DE transportation reports for the 2007-08 school year indicated that all information was computed and submitted to DE as required. However, District personnel did not maintain on file the actual printouts supporting the reported information, nor did they verify or review the information prior to submission to DE.

The auditors reviewed data for 25 of the 105 vehicles that supplied transportation services during the 2007-08 school year. The files for the selected vehicles did not contain the documentation necessary to perform our audit. District

personnel re-ran the required reports at our request; however, none of the regenerated reports agreed with the information reported to DE.

Discussion with District personnel revealed that in August 2009 computers for the District's transportation department were upgraded; however, after the conversion the District did not perform any testing of 2007-08 school year information.

District personnel could not explain the reason the data did not agree, stating that the data had either been corrupted during the conversion or District personnel had backed up the wrong database, thereby rendering the regenerated reports useless.

The correct database was obtained from the software vendor, and the reports were again run. Audit of the new reports revealed that documentation for one vehicle still could not be reconciled to data reported to DE, resulting in the expansion of our audit sample by another 20 vehicles. The second sample identified another vehicle for which data could not be reconciled to that reported to DE.

Overall, the audit of the District's vehicle files revealed the following:

- the initial board approved mileage was not entered into the system's database for reference;
- initial odometer readings provided by the contractors were backdated to the start of the school year;
- no reconciliation of mileage differences was performed between the board approved mileage and the initial contractor report;
- route changes did not always include the prescribed stop-by-stop, tenth of mile reports as required by DE; and
- contractor monthly odometer reports were not based on the required stop-by-stop, tenth of mile readings; instead the District allowed the contractors to report odometer readings from the start of the run to the first student pick-up to the last student discharged, and then

back to the end of the route, in most cases the contractor's bus terminal.

### Clerical and Computer Input Errors Noted

#### Non-Reimbursable Pupils

Non-reimbursable pupils are elementary pupils living within one and a half miles of their school or secondary pupils living within two miles of their school who are transported by the District. Such pupils are not to be included in the calculation of the District's transportation reimbursement unless they are classified as exceptional children, are being transported to the area vocational-technical schools, or are transported over Pennsylvania Department of Transportation certified hazardous walking routes.

District personnel were able to provide documentation to support totals reported to DE; however, District personnel informed the auditors that at the end of the 2007-08 school year a manual count had to be performed because not all of the non-reimbursable pupils were properly identified in the system, resulting in an understatement of nonreimbursable pupils on the system-generated report.

#### Non-Public Pupils

The District transports resident students to nonpublic educational facilities that are within the District's boundaries or within 10 miles of their boundaries. DE then provides the District with a subsidy of \$385 per student.

At the time of the audit, District personnel re-verified the information reported to DE and discovered that the 2007-08 school year totals were understated by two nonpublic students. The error was attributed to clerical errors when entering data into the system.

#### 2006-07 School Year

At the start of the audit, District personnel provided the auditor with correspondence from DE questioning the 2006-07 school year pupil count information. District personnel manually re-computed their information and provided DE with corrected information.

District personnel attributed the problems to system input errors and the lack of data review after data was entered in the system.

## **Recommendations**

The *Penncrest School District* should:

1. Establish appropriate procedures to ensure that all students are correctly entered in the transportation software system.
2. Establish appropriate internal control procedures to ensure that all information entered into the computer is verified.
3. Conduct an internal review to ensure the daily mileage, pupil count, hazardous pupils, and nonpublic pupils are accurately recorded and reported to DE.
4. Prepare and retain on file at the District not only the contractors' source documentation used to report pupil transportation data but also the system-generated compilation reports that generate the information reported to DE. Retained information should include: the number of nonpublic, hazardous and non-reimbursable pupils transported, the weighted averaging for pupils that enter, withdraw or relocate within the District, the weighted average of miles with/without students, and the total annual miles driven.
5. Prepare and maintain records on file, of odometer readings between all bus stops and school, as required by Chapter 23 regulations and DE instructions.
6. Review transportation reports submitted to DE for subsequent years of audit and ensure the reported information is accurate and supporting documentation is on file to support all data reported for each bus.
7. Enable the newly hired transportation supervisor to attend any seminars regarding the collection, maintenance, and submission of transportation data.



**Management Response**

Management stated the following:

Assistance in the transportation office will be utilized in the future to ensure that an internal review is performed of all submitted data to ensure accuracy and completeness.

A back-up computer file will be created to ensure that accurate records are available for future audit.

Review of subsequent year's transportation records has been performed and corrections made in accordance with recommendations from the current audit.

The newly hired Transportation Supervisor will attend seminars in the future dealing with transportation issues.

## Status of Prior Audit Findings and Observations

Our prior audit of the Penncrest School District (PSD) for the school years 2005-06 and 2004-05 resulted in three findings and one observation, as shown in the table 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 PSD Board’s written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the PSD did implement our recommendations for two of the findings; did not implement our recommendations for one finding; and implemented our recommendations for the observation.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Underpayments of \$139,739</i></u></p> <ol style="list-style-type: none"> <li>1. Comply with DE instructions for the completion of the PDE-2105 form when reporting wages paid by federal funds.</li> <li>2. Perform an internal review of reports submitted subsequent to the years of the audit making necessary revisions are required.</li> <li>3. DE should adjust the District’s allocations to correct the underpayments of \$139,739.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of Social Security and Medicare wages reported for the 2005-06 and 2004-05 school years found administrative internal control weaknesses, which resulted in inaccurate reports being submitted to DE.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the District did take corrective action by reviewing all payroll records to properly identify employees who were paid through federal grants and adjusting their state subsidy reports accordingly.</p> <p>As of March 19, 2010, the underpayments of \$139,739 were still pending final adjustment by DE.</p>

<p><u>II. Finding No. 2: Errors in Reporting Pupil Transportation Data Resulted in a Net Overpayment of \$2,902</u></p> <ol style="list-style-type: none"> <li>1. Implement procedures to ensure that all computer generated transportation records are maintained and compared to end-of-year reports submitted to DE.</li> <li>2. Review contractors' Certificate of Insurance to ensure that requirements of the contracts are followed and the District is named as additional insured.</li> <li>3. Review subsequent years' applications and revise, as necessary.</li> <li>4. DE should adjust the District's allocations to correct the net overpayment of \$2,902.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found errors in the reporting of pupil transportation data to DE. The errors were caused by District personnel's failure to perform an internal review of the data generated by a new software program.</p> <p>Supporting documentation needed to perform the audit had to be rerun because District personnel responsible for transportation reporting did not maintain the needed support data.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the District did take corrective action relating to certificates of insurance.</p> <p>However, the District did not take corrective action relating to documentation and verification of information.</p> <p>In 2006-07, the District's reports were questioned by DE, and the District submitted corrected information for subsidy reimbursement purposes.</p> <p>Our audit of 2007-08 information again found deficiencies in documentation and reporting errors (see the finding beginning on page 6).</p> <p>As of March 19, 2010, the net overpayment of \$2,902 was still pending final adjustment by DE.</p>
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<p><u>III. Finding No. 3: Errors in Reporting Nonresident Membership Resulted in an Overpayment of \$2,070 in Tuition for Children Placed in Private Homes</u></p> <ol style="list-style-type: none"> <li>1. Require District personnel to review membership data thoroughly to ensure students are properly classified prior to submitting reports to DE.</li> <li>2. Require District personnel to review reports submitted subsequent to the years audited and submit revised reports to DE, if necessary.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of pupil membership reports submitted to DE for the 2005-06 school year found that the District overstated membership days for children placed in private homes.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the District did take corrective action by strengthening controls to ensure that accurate membership data was submitted to DE.</p> <p>As of March 19, 2010, the overpayment of \$2,070 was still pending final adjustment by DE.</p>
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<p>5. DE should adjust the District's allocations to correct the overpayment of \$2,070.</p>		
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<p><u>IV. Observation:</u> <u>Unmonitored Vendor System Access and Logical Access Control Weaknesses</u></p> <ol style="list-style-type: none"> <li>1. Open communication between the accounting manager and the information technology (IT) department relating to the membership and attendance software.</li> <li>2. Coordinate vendor changes to the software to ensure that all necessary precautions are implemented to avoid loss of student data.</li> <li>3. Allow access to the system only for pre-approved changes/updates or requested assistance. This access should be removed when the vendor completes their work.</li> <li>4. Review and sign-off on the vendor log confirming access was for pre-approved changes/updates or requested assistance.</li> <li>5. Prepare and maintain necessary reports to ensure that student data is not changed or lost.</li> <li>6. Take responsibility allowing access to the system and monitor usage.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that the District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). We determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was unable to provide supporting evidence that it was adequately monitoring all vendor activity in its system.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the District did take corrective action in response to our recommendations. The District hired a new Informational Technology Director in August 2009 and took the following corrective actions:</p> <ol style="list-style-type: none"> <li>1. Opening of communication with not only the accounting manager but with all District departments utilizing vendor software in the performance of their responsibilities.</li> <li>2. Acceptance of responsibility to coordinate all software changes between the vendors and the District.</li> <li>4. Reviewing the membership vendor log to confirm that access was pre-approved.</li> <li>5. Appropriate back-up procedures to ensure that student data is not changed or lost.</li> <li>6. IT administrator receives directly from administration all employee IT additions, deletions or changes.</li> </ol>
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<p>7. Negotiate with the union to allow employees to sign-off on the District's Acceptable Use Policy.</p> <p>8. Implement a security policy and system parameter settings to require all users to change their 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.</p>		<p>Additionally, the District is in the process of taking the necessary corrective action on the following recommendations:</p> <p>3. Although the 24/7 access is granted through a restricted address portal, the District is in process of closing the restricted portal to the vendor and allowing access only when it is preapproved.</p> <p>7. Implementation of employee sign-off procedures for the District's Acceptable Use Policy.</p> <p>8. Implementation of a security policy relating to system sign-on and passwords on the District's computers.</p>
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## **Distribution List**

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

The Honorable Edward G. Rendell  
Governor  
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Harrisburg, PA 17120

The Honorable Thomas E. Gluck  
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The Honorable Robert M. McCord  
State Treasurer  
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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](http://www.auditorgen.state.pa.us).

