



**HAZLETON AREA SCHOOL DISTRICT
LUZERNE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

MAY 2014

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

Mr. Robert Wallace, Board President
Hazleton Area School District
1515 West 23rd Street
Hazleton, Pennsylvania 18202

Dear Governor Corbett and Mr. Wallace:

We conducted a performance audit of the Hazleton Area School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period January 14, 2010 through March 26, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2009 and June 30, 2010. Our audit was conducted pursuant to Section 403 of the Fiscal Code, 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 relevant requirements, except as detailed in one (1) finding noted in this report. In addition, we identified one (1) matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding, 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. We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

A handwritten signature in cursive script, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

May 8, 2014

cc: **HAZLETON AREA SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Hazleton Area School District (District) in Luzerne County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, 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 January 14, 2010 through March 26, 2013, 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 2008-09 and 2009-10 school years.

District Background

The District encompasses approximately 250 square miles. According to 2010 federal census data, it serves a resident population of 72,891. According to District officials, the District provided basic educational services to 10,400 pupils through the employment of 717 teachers, 484 full-time and part-time support personnel, and 46 administrators during the 2009-10 school year. The District received \$51,405,908 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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one (1) compliance related matter reported as a finding. In addition, we identified one (1) matter unrelated to compliance that is reported as an observation.

Finding: Errors in Student Data Reporting Resulted in a Net Underpayment to the District of \$38,717.

Our audit of pupil membership reports submitted to the Pennsylvania Department of Education by the Hazleton Area School District (District) for the 2008-09 and 2009-10 school years found a lack of internal controls and reporting errors that resulted in a net underpayment of \$38,717 to the District (see page 6).

Observation: Payments for Unused Vacation Days Were Unnecessarily Inflated. Our audit of Hazleton Area School District (District) payroll and leave records from July 1, 2008 through June 30, 2011, found that District personnel inaccurately calculated the daily rates used to determine payments for unused vacation days (see page 9).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Hazleton Area School District (District) from an audit released on August 4, 2010, we found the District had taken appropriate corrective action in implementing our recommendations pertaining to vendor system access and logical access control weaknesses (see page 11).

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 Section 403 of The Fiscal Code, 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 January 14, 2010 through March 26, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2008-09 and 2009-10 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 certain relevant 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:

- ✓ 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 state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District received transportation subsidies, was the District, and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a 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?
- ✓ 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?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?

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 certain relevant state laws, regulations, 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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). 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 relevant requirements 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 controls 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.

To determine the status of our audit recommendations made in a prior audit report released on August 4, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Errors in Student Data Reporting Resulted in a Net Underpayment to the District of \$38,717

Criteria relevant to the finding:

According to the Pennsylvania Department of Education's (PDE) *2009-10 Pennsylvania Information System (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.

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 individual student data for each student served by Pennsylvania's Pre-K through Grade Twelve (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. LEAs 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 audit of pupil membership reports submitted to PDE by the Hazleton Area School District (District) for the 2008-09 and 2009-10 school years found a lack of internal controls reporting errors for children placed in private homes (foster children) and state wards, resulting in underpayments in Commonwealth-paid tuition for foster children and wards of the state of \$31,803 for the 2008-09 school year and \$6,914 for the 2009-10 school year.

Membership days reported for foster children and wards of the state during the 2008-09 school year were understated by 900 days for elementary students and 42 days for secondary students. These errors were caused by a change in personnel, a misunderstanding of PDE guidelines, and by District personnel's failure to adequately review documentation from the child placing agencies.

*Criteria relevant to the finding
(continued):*

Section 2503(c) of the Public School Code, 24 P.S. § 25-2503(c), provides for Commonwealth payment of tuition for wards of the state and any nonresident child who is placed in the home of a resident of the school district by order of court when such resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides for reimbursement to be received.

Membership data for nonresident children placed in private homes must be maintained and reported accurately and in accordance with PDE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

Membership days for foster children during the 2009-10 school year were shown in the PIMS reports as non-resident days, but the funding district and educating district were incorrectly reported as the same, causing the days to be credited for reimbursement incorrectly. District personnel misunderstood the PIMS guidelines, which caused the reporting errors. These errors resulted in an understatement of 178 days for a full-time kindergarten student during the 2009-10 school year.

District personnel also failed to reconcile final reports submitted to PDE with District records for the 2008-09 and 2009-10 school years.

It is the responsibility of District management to have in place the proper internal policies and procedures to ensure that student data is accurate and reported correctly to PDE. Without such internal controls, the District cannot be assured that its student data is accurate or that it is receiving the appropriate state subsidy reimbursement.

We have provided PDE a report detailing the errors for use in recalculating the District's reimbursement.

Recommendations

The *Hazleton Area School District* should:

1. Establish internal controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions, including reconciliations of the data that is uploaded into PDE's PIMS system to District records.
2. Compare placement agency letters for children placed in private homes (foster children) with District reports to ensure that student membership is properly classified.
3. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
4. Review subsequent years' reports and, if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

5. Adjust the District's allocations to resolve the underpayments of \$38,717.

Management Response

Management stated the following:

“There was a turnover of district personnel at the end of the 08-09 school year, and the person responsible for the child accounting data was not replaced. This may have led to a breakdown in the tracking of information. Also at that time a new Student information System was implemented at the district. It appears that the information entered into . . . the district's new Student Information System software was either entered incorrectly or missed altogether. Thirdly, the Department of Education's PIMS system was just being introduced.

Tighter controls on the data collection and data entry process need to be implemented. In a school district the size of Hazleton, there needs to be someone responsible for the child accounting functions. The child accounting position needs to be filled with a responsible person who can manage all this data.”

Auditor Conclusion

We are encouraged that the District agrees with our finding. We will follow up on the status of our recommendations during our next cyclical audit of the District.

Observation

Payments for Unused Vacation Days Were Unnecessarily Inflated

Our audit of payroll and leave records from July 1, 2008 through June 30, 2011, found Hazleton Area School District (District) personnel inaccurately calculated the daily rates used to determine payments for unused vacation days at the time staff retired.

Each administrator of the District is a twelve-month employee and has a board-approved salary that is divided into biweekly payments. Payroll is based on 365 days less approximately 104 weekend days, or 261 work days. Nevertheless, according to District personnel, when District administrators retire, payments for unused vacation leave are calculated using a daily rate of 220 work days. This lower figure is based on 365 days less 104 days for weekends, fourteen (14) holidays, 25 days for vacation, and two (2) personal days, resulting in a total of 220 days of days worked.

Deducting weekends from the calendar year is accurate, given that the District should count only paid workdays. However, because the District pays its administrative employees for the 25 vacation days and two (2) personal days at a daily rate based on approximately 261 days, the District should not reduce the number of workdays when calculating a daily rate for the payment for unused vacation days. Using a daily rate based on approximately 220 days increases the payments to staff for unused days.

For example, we reviewed leave records for two (2) administrators who retired on June 30, 2011 and January 17, 2012. In both instances, using 220 days instead of the more accurate 261 days increased their unused vacation payouts by \$5,578 and \$4,434, respectively.

Recommendations

The *Hazleton Area School District* should:

1. Divide yearly salary by 260 or 261 calendar workdays to determine the daily rate used to pay unused vacation days.

2. Consult with the District's solicitor to determine if reconciliations for prior payments should be pursued.

Management Response

Management stated the following:

“The District has been using 220 days per year to calculate per diem rates for administrators prior to the current Business Manager's tenure in the position. Attached is a copy of the Administrators Act 93 Compensation Plan for the period July 1, 1997 through June 30, 1999. On the last page of this agreement under Article IV Fringe Benefits (letter C) it states that 12 month administrators will work 40 days beyond the school year. Since this point in time (maybe earlier), the per diem calculation for 12 month administrators used 220 in the unused vacation day calculation. This calculation was used for all 12 month administrators, not only [the administrators that are included in this finding].”

Auditor Conclusion

The fact that the District's Act 93 Administrators Compensation Plan states that administrators will work 40 days beyond the school year should not impact the daily rate calculation because the District pays administrators based on 261 days for salary, holidays, and vacation days. Using 220 days when calculating daily rates for unused leave, rather than the actual daily rate used for payroll calculations, unnecessarily increases payments for the unused days. Furthermore, we were not concerned that the 220 day figure was being used consistently for all administrators. Instead, we were merely using the two (2) administrators' situations to illustrate our point that using the lower number of days increases staff payouts for unused leave.

Status of Prior Audit Findings and Observations

Our prior audit of the Hazleton Area School District (District) released on August 4, 2010, resulted in one (1) reported observation. The observation pertained to vendor system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and interviewed District personnel regarding the prior observation. As shown below, we found that the District did implement recommendations related to their student accounting applications.

Auditor General Performance Audit Report Released on August 4, 2010

Observation

Continued Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary:

The District 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. During our prior audit, we determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was not able to provide evidence that it was adequately monitoring vendor activity in its system.

Recommendations:

Our audit observation recommended that the District:

1. 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).
2. Implement a security policy and system parameter settings to require all users, including the vendor, to log off the system after a period of inactivity (i.e., 60 minutes maximum).

Current Status:

During our current audit, we found that the District did implement our recommendations. The District implemented a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis. In addition, the District implemented a security policy and system parameter settings to require all users, including the vendor, to log off the system after a period of inactivity of 60 minutes maximum.

Distribution List

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

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

The Honorable Carolyn Dumaesq
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1010 Harristown Building #2
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Harrisburg, PA 17126

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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.