

# PERFORMANCE AUDIT

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## Tri-Valley School District Schuylkill County, Pennsylvania

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November 2014



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE**  
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 (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period April 20, 2012 through June 16, 2014, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. 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. It should be noted that this is the third consecutive audit of the District that includes a finding related to student data reporting. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding 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 black ink, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale  
Auditor General

November 6, 2014

cc: **TRI-VALLEY SCHOOL DISTRICT** Board of School Directors

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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 Tri-Valley School District (District) in Schuylkill 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 April 20, 2012 through June 16, 2014, 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 2010-11 and 2011-12 school years.

### **District Background**

The District encompasses approximately 103 square miles. According to 2010 federal census data, it serves a resident population of 6,715. According to District officials, the District provided basic educational services to 853 pupils through the employment of 72 teachers, 43 full-time and part-time support personnel, and eight (8) administrators during the 2011-12 school year. The District received \$6,349,168 in state funding in the 2011-12 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.

**Finding: Continued Membership Reporting Errors and a Lack of Internal Controls Resulted in an Underpayment to the District of \$17,022.** Our current audit of the Tri-Valley School District's (District) pupil membership reports submitted to the Pennsylvania Department of Education found that the District incorrectly reported membership for non-resident students for the 2010-11 school year (see page 5).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the Tri-Valley School District (District) from an audit released on January 14, 2013, we found that the District did not take corrective action to implement our recommendations pertaining to incorrect reporting of non-resident membership for the 2010-11 school year. Reports for that year were submitted to the Pennsylvania Department of Education prior to our previous audit and no subsequent revisions were made. Corrections were implemented for the 2011-12 school year (see page 8).

## Audit Scope, Objectives, and Methodology

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### 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 April 20, 2012 through June 16, 2014, except for the verification of professional employee certification, which was performed for the period August 26, 2013 through May 9, 2014.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 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:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g., basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Did the District, 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?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ 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?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ 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 there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

## **Methodology**

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

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

*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.

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 January 14, 2013, we reviewed the District's response to PDE dated March 13, 2013. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Continued Membership Reporting Errors and a Lack of Internal Controls Resulted in an Underpayment to the District of \$17,022

*Criteria relevant to the finding:*

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. 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.

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 the data that 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 have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our prior audit of the Tri-Valley School District's (District) pupil membership reports submitted to PDE for the 2009-10 school year found reporting errors, as well as a lack of internal controls, that resulted in an underpayment in Commonwealth-paid tuition for foster students (see page 8). Because of a lack of internal controls, the District failed to correctly enter student data and reconcile preliminary data reports from PDE to its internal student membership reports, which resulted in incorrect data being reported on the PIMS Final Summary of Child Accounting Membership Report.

Our current audit found that this was also the case for the 2010-11 school year. Membership days for secondary foster children were understated by 319 days for the 2010-11 school year. The District was therefore underpaid \$17,022 in Commonwealth-paid tuition for foster children.



Additionally, according to the *Federal Information System Controls Audit 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 errors were due to District personnel again failing to correctly enter student data into its student information system and correctly report membership for the foster children to PDE. This is the third consecutive audit of the District that includes a finding related to student data reporting. The District did correctly report membership for foster children in the 2011-12 school year.

It is the responsibility of the District's management to have proper internal controls to ensure that student data is accurately collected and timely reported. Without good internal controls, the District cannot be assured that its student data reports are correct or that it is receiving the appropriate state subsidy.

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

### **Recommendations**

The *Tri-Valley School District* should:

1. Establish internal controls that include reconciliations of the data that is uploaded into PIMS.
2. Verify that the preliminary reports from PDE are correct and, if they are not correct, revise and resubmit child accounting data so that the final reports from PDE are correct.

The *Pennsylvania Department of Education* should:

3. Revise all membership data that was incorrectly reported and adjust the District's payments affected by the error.

### **Management Response**

Management stated the following:

“This finding was communicated to the District following our last state audit in 2012, which covered the 2008-09 and 2009-10 school years. After becoming aware of the issue, the District immediately implemented corrective measures and the membership reporting errors were eradicated.

However, due to the time lag between when the errors were discovered and when corrective measures were taken, the District had already incurred additional membership reporting errors applicable to the 2010-11 school year. Management wishes to reiterate that the membership accounting errors in question were resolved during the 2011-12 school year upon being brought to our attention, and have not reappeared since that time.”

**Auditor Conclusion**

We are encouraged that the District has taken action to address this deficiency. We will follow-up on the status of our recommendations during our next cyclical audit of the District.

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

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Our prior audit of the Tri-Valley School District (District) released on January 14, 2013, resulted in one (1) finding. The finding pertained to incorrect reporting of non-resident children placed in private homes (foster students). As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior finding. As shown below, we found that the District did not implement corrective actions for the 2010-11 school year but did for 2011-12 school year.

### **Auditor General Performance Audit Report Released on January 14, 2013**

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

Finding Summary: Our prior audit of the District's pupil membership reports submitted to PDE for the 2009-10 school year found reporting errors as well as a lack of internal controls. Membership days for foster students were understated by 79 days for elementary students and 520 days for secondary students. The non-resident errors resulted in the District being underpaid \$32,998 in Commonwealth-paid tuition for foster students.

Recommendations: Our audit finding recommended that the 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 the Pennsylvania Information Management System.
3. Verify that the Preliminary Reports from PDE are correct and, if they are not correct, revise and resubmit child accounting data so that the Final Reports from PDE are correct.

We also recommended that PDE should:

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

Current Status:

During our current audit, we found that the District did implement our recommendations for reporting child accounting data for the 2011-12 school year. However, the final child accounting reports for the 2010-11 school year had already been submitted to PDE prior to our previous audit, and the District failed to report revisions to PDE subsequently. Please refer to the follow-up finding in the current report (see page 5).

As of completion of our fieldwork, the District had not yet received the underpayment of \$32,998. We again recommend that PDE resolve this underpayment.

## **Distribution List**

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

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

The Honorable Carolyn Dumaresq  
Acting Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

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

Ms. Lori Graham  
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4th Floor, 333 Market Street  
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This report is a matter of public record and is available online at [www.auditor.gen.state.pa.us](http://www.auditor.gen.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@auditor.gen.state.pa.us](mailto:news@auditor.gen.state.pa.us).