



**DUQUESNE CITY SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

SEPTEMBER 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

Dr. Paul B. Long, Receiver
Duquesne City School District
300 Kennedy Avenue
Duquesne, Pennsylvania 15110

Dear Governor Corbett and Dr. Long:

We conducted a performance audit of the Duquesne City School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period December 8, 2010 through May 30, 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, 2010 and June 30, 2009. 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 applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. In addition, we identified two matters unrelated to compliance that are reported as observations. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding, observations, 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

September 13, 2013

cc: **DUQUESNE CITY 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 Duquesne City School District (District). 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 District in response to our prior audit recommendations.

Our audit scope covered the period December 8, 2010 through May 30, 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 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 2 square miles. According to 2010 federal census data, it serves a resident population of 5,566. According to District officials, the District provided basic educational services to 446 pupils through the employment of 51 teachers, 42 full-time and part-time support personnel, and 5 administrators during the 2009-10 school year. Lastly, the District received \$11 million in state funding in the 2009-10 school year.

The District provides basic educational services to about 350 elementary students in kindergarten through sixth grades. Beginning with the 2007-08 school year, the District's high school students have been

provided with educational services through contracts with two local school districts. Additionally, beginning with the 2012-13 school year, the District's middle school students are receiving their educational services through contracts with the same two school districts.

During the period of the audit, the District was governed by an elected nine-member Board of School Directors, as well as a three-member state-appointed board of control. The District's governance structure is the result of it being declared a financially distressed school district by the Secretary of Education in October 2000, in accordance with the requirements of the Pennsylvania Public School Code.

In July 2012, the General Assembly passed Act 141 of 2012, which permits the Pennsylvania Department of Education (PDE) to declare a school district to be in financial recovery status. This designation occurs when a school district's financial condition deteriorates to the point that it has to request an advance on its annual state basic education subsidy. PDE can find school districts to be in moderate or severe financial recovery status. Such designations result in PDE appointing a chief recovery officer whose responsibilities include oversight of the district and the development of a district-wide financial recovery plan.

On November 16, 2012, the state Secretary of Education declared the District to be in severe financial recovery status and appointed a recovery officer to prepare a recovery plan. The recovery plan was

presented to the Board of School Directors who declined to approve the plan. Commensurate with the terms of the Public School Code, the Secretary of Education filed a petition in the Court of Common Pleas of Allegheny County. In April 2013, the court ordered the District into receivership and appointed a state receiver. At this time the recovery plan was officially implemented.

Audit Conclusion and Results

Our audit found that the District 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, we identified two matters unrelated to compliance that are reported as observations.

Finding: Inadequate Documentation to Support Commonwealth-paid Tuition for Orphans and Children Placed in Private Homes.

Our audit of pupil membership records for the 2009-10 school year found that the Duquesne City School District did not maintain adequate documentation to support the students reported to the Pennsylvania Department of Education as nonresident students placed in private homes (see page 6).

Observation No. 1: District Continues to be in a Financially Declining Position.

Our analysis of 22 financial benchmarks found that the Duquesne City School District (District) is in a financially declining position. These benchmarks indicate that if the District does not address these issues, the District may need to continue to reduce educational services and programs (see page 8).

Observation No. 2: The District Lacks Sufficient Internal Controls Over Its

Student Data. Our review of the Duquesne City School District's controls over data integrity found that internal controls need to be improved (see page 14).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the Duquesne City School District (District) from an audit released on June 15, 2011, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses in reporting membership data (see page 16). However, the District did not implement the recommendations pertaining to the prior audit finding of inadequate documentation to support Commonwealth-paid tuition for orphans and children placed in private homes (see page 17).

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 December 8, 2010 through May 30, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 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 applicable state laws, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ In areas where the District 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?

- ✓ 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 local auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations.
- Relevance and reliability of operational and financial information.
- Compliance with applicable laws, contracts, grant requirements, and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our 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 applicable laws, contracts, grant requirements, and administrative procedures. 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 applicable state laws, contracts, grant requirements, 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 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.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 15, 2011, we reviewed the District's response to PDE dated August 14, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding



Inadequate Documentation to Support Commonwealth-paid Tuition for Orphans and Children Placed in Private Homes

Criteria relevant to the finding:

Section 1305 of the Public School Code provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court, or by an arrangement with an association, agency or institution having the care of neglected and dependent children 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.

Our audit of the Duquesne City School District's (District) pupil membership records for the 2008-09 and 2009-10 school years found that the District did not maintain adequate documentation to support the students reported to the Pennsylvania Department of Education (PDE) as nonresident students placed in private homes (foster children). As a result, we were unable to verify the accuracy of Commonwealth-paid tuition of \$191,942 and \$54,485, respectively, for our audit years. This has been a reoccurring finding in the previous three audits.

The deficiencies occurred because the District failed to obtain confirmation letters from child placement agencies to verify the residences of the natural parents and/or legal guardians of the students and to verify that these foster parents were being compensated.

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

Recommendations

The *Duquesne City School District* should:

1. Provide regular in-service training to administrative and clerical personnel responsible for recording and reporting membership data. This training should stress the importance of maintaining accurate and complete records, and the relationship of membership data to state subsidies and reimbursements.
2. Develop procedures to ensure proper classification of students enrolling in the District as resident or nonresident students, and document the district of residence of the natural parent or guardian.

Management Response

Management stated the following:

“We agree with the finding and will implement the corrective action recommended.”

Auditor Conclusion

While we are pleased that the District again agrees with our finding and pledges to implement our recommendations, this is the third consecutive audit that we have reported on this deficiency and made these recommendations. In our audit released in October 2009, the District pledged to establish new enrollment procedures, but our next audit, released in June 2011 found the same problems, as does our current audit.

Observation No. 1

District Continues to be in a Financially Declining Position

Criteria relevant to the observation:

The Pennsylvania School Boards Association in its Annual Overview of Fiscal Health for the 2009-10 school year provided the following information relevant to the following fiscal benchmark:

“Operating position is the difference between actual revenues and actual expenditures. Financial industry guidelines recommend that the district operating position always be positive (greater than zero).”

Best Business Practices and/or general financial statement analysis tools require the following:

- The trend of current ratios should be at least 2 to 1 or increasing. Anything less calls into question the school district’s ability to meet its current obligations with existing resources.
- A quick asset ratio or trend of ratios approaching 1 or less indicates a declining ability to cover obligations with the most liquid assets.

During our current audit of the Duquesne City School District (District), we reviewed several financial indicators in an effort to assess the District’s financial stability. Our review found that the District continues to be in a financially declining position. In addition, these indicators demonstrated that if the District does not address its ongoing serious financial problems, further reductions in educational services and programs may be necessary and the District will most likely be unable to be discharged from Act 141 recovery status.¹

As discussed in the Background section of this report, the District has had severe financial problems for more than a decade. The Secretary of Education first labeled the District financially distressed in October 2000, in November 2012, the Secretary declared it to be in Financial Recovery Status under the terms of Act 141 of 2012 (Pennsylvania Public School Code, 24 P.S. § 6-621-A).

We reviewed 22 financial benchmarks based on best business practices established by several agencies, including the Pennsylvania Association of School Business Officials, the Colorado State Auditor, and the National Forum on Education Statistics. The following were among the general areas we evaluated: (1) the level of the general fund balance (assigned and unassigned), (2) the amount of total debt service, (3) the current ratio (current assets ÷ current liabilities) of all governmental funds, and (4) the trend of annual changes in financial position for all governmental funds.

¹ Please see the audit report background section for more information on the financial recovery status provision of Act 141.

Criteria relevant to the observation (continued):

- The cost for a school district student attending a charter school is paid out of the sending district's operating funds. This results in a reduction of the funds available for use in providing educational services to the district's students that remained in the traditional public school. This scenario continues until the number of students attending charter schools is so large that the district can reduce costs by closing a school building and reduces the number of staff employed by the district.
- The trend of effective tax rates as compared to levied tax rates should be stable or increasing to ensure the school district has sufficient tax revenues to maintain its educational services at an appropriate level.

While the District's financial position was briefly aided by the decision to close the high school prior to the 2007-08 school year, our testing found that the District continues to have serious financial challenges, as demonstrated by the following negative benchmarks:

- **Negative Operating Position:** For the school year 2010-11, the District over expended its revenues, thereby weakening its operating position. This reduction in operating position could increase the vulnerability of the District's financial position and prevent or delay its ability to terminate its financial recovery status. Each year that the District's expenditures exceed its revenues, a deficit is incurred. This deficit results in a decrease to its fund balance and can lead to a negative fund balance status, which could potentially affect the District's ability to continue providing educational services.

For the 2010-11 school year, the District's expenditures exceeded its revenues by \$429,918, calculated as follows:

Expenditure Growth			
Year End	Total	Total	Excess
<u>June 30</u>	<u>Revenues</u>	- <u>Expenditures</u>	= <u>(Deficit)</u>
2006	\$13,401,944	\$14,320,357	\$ (918,413)
2007	16,792,606	13,936,333	2,856,273
2008	16,332,005	13,574,450	2,757,555
2009	15,471,192	15,140,887	330,304
2010	15,935,934	15,772,628	163,306
2011	16,006,455	16,436,374	(429,919)

This revenue deficit led to a reduction of the General Fund balance for the year from \$1,583,312 at the end of the 2009-10 school year to \$1,398,488 at the end of the 2010-11 school year.

TREND: General Fund Balance	
Year End	General Fund
<u>June 30</u>	<u>Balance</u>
2006	\$ (4,279,031)
2007	(1,584,181)
2008	1,334,796
2009	1,665,100
2010	1,583,312
2011	1,392,488

- Inadequate General Fund Current Ratio:*** For the trend period 2006 to 2011, the District’s general fund current ratio (current assets ÷ current liabilities) was inadequate. A trend lower than 2-to-1 or decreasing indicates that the District’s financial solvency is inadequate and may indicate it is not able to pay its current debts as they become due, without an infusion of cash from the disposal of assets or the receipt of revenues. In addition, potential creditors use this ratio to measure an entity’s ability to pay its short-term debts. Thus, an inadequate or declining trend may prevent the District from obtaining any new debt or, if obtainable, the debt may bear an inflated interest rate, which would increase the District’s borrowing costs.

The following chart documents the District’s inadequate current ratio over the trend period:

Inadequate Current Ratio				
<i>(Assets ÷ Liabilities)</i>				
Year End <u>June 30</u>	Current <u>Assets</u>	÷	Current <u>Liabilities</u>	= <u>Current Ratio</u>
2006	\$ 2,015,271		\$ 6,294,302	<i>0.32</i>
2007	3,181,434		4,604,192	<i>0.69</i>
2008	4,996,810		3,662,014	<i>1.36</i>
2009	5,150,904		3,485,804	<i>1.48</i>
2010	5,077,616		3,249,210	<i>1.56</i>
2011	6,332,143		4,933,655	<i>1.28</i>

- Inadequate General Fund Quick Ratio:*** For the trend period 2006 to 2011, the District’s general fund quick ratio ((cash + investments) ÷ current liabilities) was inadequate. An inadequate or decreasing trend of this rigorous test of short-term solvency is an indicator that the District may not have the ability to pay its current debts without the disposal of other current assets. As with the current ratio, potential creditors use this ratio to measure a District’s ability to pay its short-term debts. Consequently, it may not be able to borrow more money, and if it does so, it may have increased borrowing costs because it will have to pay a higher interest rate.

The following chart documents the Districts inadequate quick ratio over the trend period:

Inadequate Quick Ratio									
<i>((Cash + Investments) ÷ Current Liabilities)</i>									
<u>Year End</u> <u>June 30</u>	<u>Cash</u>	+	<u>Investments</u>	=	<u>“Quick”</u> <u>Assets</u>	÷	<u>Current</u> <u>Liabilities</u>	=	<u>Quick</u> <u>Ratio</u>
2006	\$ 341,694		\$ 0		\$ 341,694		\$ 6,294,302		0.05
2007	1,118,734		0		1,118,734		4,604,192		0.24
2008	2,605,739		0		2,605,739		3,662,014		0.71
2009	2,042,032		0		2,042,032		3,485,804		0.59
2010	1,762,143		0		1,762,143		3,249,210		0.54
2011	2,963,869		0		2,963,869		4,933,655		0.60

- Increase in Charter School Students:** For the trend period 2007 to 2012, the number of District students attending charter schools increased, and the cost of students attending charter schools increased. As a result, the amount of District funds available for in-house educational services has been reduced. This could cause the District to reduce services to the students that remained in the District’s schools, because unless the number of students attending charter schools is significant enough to reduce the number of staff or the number of school buildings, there is no ability to reduce operating costs for the District.

The following chart documents the percentage of District students attending charter schools over the trend period:

TREND: Charter School Membership Growth					
<i>(As a Percentage of Total District Membership)</i>					
<u>Year End</u> <u>June 30</u>	<u>Charter</u> <u>School ADM²</u>	÷	<u>Total District</u> <u>ADM</u>	=	<u>Charter School/</u> <u>District ADM</u>
2007	140.0		922.0		15.18%
2008	113.0		428.0		26.40%
2009	127.0		443.0		28.67%
2010	121.0		432.0		28.01%
2011	126.0		389.0		32.39%
2012	139.0		365.0		38.08%

² ADM, “Average Daily Membership,” is defined as the average number of students in membership during the reporting period (aggregate days membership divided by days in session). *Glossary of Child Accounting Terms*, Pennsylvania Department of Education, pg. 1-8, September 2004.

The following chart documents the cost of District students to attend a charter school as a percent of total expenditures:

TREND: Charter School Costs to District <i>(As percentage of total expenditures)</i>					
<u>Year End June 30</u>	<u>Tuition Paid to Charters</u>	÷	<u>Total District Expenditures</u>	=	<i>Charter Schools' Costs/ Total Costs</i>
2007	\$1,379,007		\$13,936,333		9.90%
2008	1,476,574		13,574,451		10.88%
2009	2,785,111		15,140,887		18.39%
2010	1,863,289		15,772,628		11.81%
2011	1,950,093		16,436,377		11.86%
2012	2,139,954		14,843,385		14.42%

- Reduction in Total Assessed Property Value:** For the trend period 2007 to 2011, the District's total assessed property value had decreased by \$15 million. This is an indicator of the relative local tax revenue available to the District. As a result of the decreasing trend, the District cannot expect an increase in property taxes to provide increased revenues to the District. Therefore, the District's ability to generate additional resources is very slight and dependent on additional funding from the state.

The following chart documents the decreasing effective tax rates over the trend period:

TREND: Total Assessed Property Value³	
<u>Year End June 30</u>	<u>Total Assessed Property Value</u>
2006	Unavailable
2007	\$94,053,575
2008	93,000,000
2009	93,000,000
2010	93,527,290
2011	79,561,840

³ It should be noted that an assessed value of a property is different than a fair market value of a property. The assessed value is a determination made by the county for tax purposes. The fair market value is an estimation of the property's value on the open market and is subject to varying factors such as the condition of the property and the supply and demand in the area.

According to District administrative staff, the negative benchmarks enumerated above are the result of the distressed nature of the community from which the District draws its students.

Based on the results of our analysis, if the District cannot reverse its negative financial trends, it may be forced to further reduce its educational services and programs. Without a healthy local tax base, the District's options for improving its financial situation are limited.

Recommendations

The *Duquesne City School District* should:

Continue to monitor the operating position of the District, and the other benchmarks with negative outcomes listed above.

Management Response

Management stated the following:

“This deficit was recovered in the following year with an excess slightly greater. This was achieved through cost cutting measures. We are aware that the number of charter school students leaving the district has increased. We are hopeful that a charter school reform law would help us arrive at a more reasonable tuition cost. The decreasing trend in real estate tax collections is primarily due to the distressed nature of the community.”

Auditor Conclusion

We understand the extremely difficult financial position to which the District is subject and acknowledge that many of the factors are out of the District's control. Nevertheless, the District's future is inextricably tied to the financial condition of the community. Therefore, it is imperative that the District is constantly monitoring the impact of those conditions in order to respond accordingly.

Observation No. 2

The District Lacks Sufficient Internal Control Over Its Student Data

Criteria relevant to the observation:

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.

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 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 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 review of the LEA'S controls over data integrity found that internal controls need to be improved. Specifically, our review found that:

- Six out of twelve students tested did not have permanent record folders on file at the District.
- Two students tested did not have registration forms on file, and two students did not have withdrawal forms on file at the District.
- District personnel did not update the child accounting vendor database according to the PIMS Revision reports.

It is the responsibility of District management to ensure that student data is properly collected and reported. Without the appropriate internal policies and procedures, the District is not assured that it is reporting the correct information to PDE or if it has received the correct state subsidy.

Recommendations

The *Duquesne City School District* should:

1. Retain a permanent record folder for each student.
2. Retain registration forms and withdrawal forms for each student.
3. Revise the Child Accounting Vendor software when the District makes revisions.
4. Review membership reports submitted to PDE for years subsequent to the audit, and if similar errors are found, submit reviewed reports to PDE.

Management Response

Management stated the following:

“Measures are being taken to ensure proper preparation, filing, and retention of permanent record folders, registration forms, entry forms and withdrawal forms. Procedural documents are being reviewed and will be revised as necessary. Also, staff members who handle these student records will be instructed in proper procedure and supervised in its diligent execution. It should be noted that the Duquesne City School District currently operates only kindergarten through grade six. Secondary grades attend elsewhere on tuition basis.”

Auditor Conclusion

We are encouraged that the District has taken measures to address its deficiencies in student data, and we will examine the new internal controls during our next audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Duquesne City School District (District) released on June 15, 2011, resulted in two findings. The first finding pertained to internal control weaknesses in reporting membership data, and the second finding pertained to inadequate documentation to support Commonwealth-paid tuition for orphans and children placed in private homes. 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 findings. As shown below, we found that the District did implement our recommendations related to internal control weaknesses in reporting membership data. The District did not implement our recommendations related to inadequate documentation to support Commonwealth-paid tuition for orphans and children placed in private homes.

Auditor General Performance Audit Report Released on June 15, 2011

Finding No. 1: Internal Control Weaknesses Noted in Reporting Membership Data

Finding Summary: Our prior audit of pupil membership reports submitted to the PDE found membership data was calculated based on 181 days, but the District reported 178, 179, and 180 days to PDE on various school calendars.

Recommendations: Our audit finding recommended that the District:

1. Ensure membership days for child accounting purposes are in agreement with the school calendar.
2. Review membership reports before submission to PDE.
3. Centralize the child accounting function to ensure adequate recording and reporting of membership data.

Current Status: During our current audit, we found that the District did implement our recommendations. No problems were noted during our audit of the school calendars.

Finding No. 2: Inadequate Documentation to Support Commonwealth-Paid Tuition for Orphans and Children Placed in Private Homes

Finding Summary: Our prior audit of pupil membership records for the 2007-08 and 2006-07 school years found the District did not maintain adequate documentation to support the students reported to PDE as nonresident students placed in private homes. As a result, we were unable to verify the correctness of Commonwealth-paid tuition of \$79,652 and \$183,475 for the respective school years.

Recommendations: Our audit finding recommended that the District:

1. Provide regular in-service training to administrative and clerical personnel responsible for recording and reporting membership data. This training should stress the importance of maintaining accurate and complete records and the relationship of membership data to state subsidies and reimbursements.
2. Develop procedures to ensure proper classification of students enrolling in the District as resident or nonresident students, and document the district of residence of the natural parent or guardian.

Current Status: During our current audit, we found that the District did not implement our recommendations (see Finding, page 6).

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

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