



PLUM BOROUGH SCHOOL DISTRICT

**ALLEGHENY COUNTY,
PENNSYLVANIA**

PERFORMANCE AUDIT REPORT

APRIL 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Andrew Drake, Board President
Plum Borough School District
900 Elicker Road
Plum, Pennsylvania 15239

Dear Governor Corbett and Mr. Drake:

We conducted a performance audit of the Plum Borough School District (PBSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period February 20, 2009, through April 27, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010, 2009, 2008, and 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 PBSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, one matter unrelated to compliance is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit observation and recommendations have been discussed with the PBSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve the PBSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the PBSD's cooperation during the conduct of the audit.

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

April 9, 2013

cc: **PLUM BOROUGH SCHOOL DISTRICT** Board Members



Table of Contents

| | Page |
|---|------|
| Executive Summary | 1 |
| Audit Scope, Objectives, and Methodology | 3 |
| Findings and Observations | 6 |
| Observation – The District Lacks Sufficient Internal Controls Over Its Student Record Data | 6 |
| Status of Prior Audit Findings and Observations | 9 |
| Distribution List | 11 |



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Plum Borough School District (PBSD). 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 PBSD in response to our prior audit recommendations.

Our audit scope covered the period February 20, 2009, through April 27, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10, 2008-09, 2007-08, and 2006-07.

District Background

The PBSD encompasses approximately 28 square miles. According to 2010 federal census data, it serves a resident population of 27,126. According to District officials, in school year 2009-10 the PBSD provided basic educational services to 4,069 pupils through the employment of 282 teachers, 317 full-time and part-time support personnel, and 20 administrators. Lastly, the PBSD received more than \$20 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the PBSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

Observation: The District Lacks Sufficient Internal Controls Over Its Student Record Data. Beginning with the 2009-10 school year, the Pennsylvania Department of Education now bases all local education agencies' state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System. Our review of the PBSD's controls over data integrity found that internal controls need to be improved (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the PBSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the PBSD did not take appropriate corrective action in implementing our recommendation pertaining to contracts with prospective superintendents that provide for a three-year term limit (see page 9).

We also found that the PBSD did not take appropriate corrective action regarding maintenance of child accounting entry and withdrawal documentation (see page 10).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period February 20, 2009, through April 27, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011, through October 27, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10, 2008-09, 2007-08, and 2006-07.

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 PBSB's compliance with applicable state laws, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

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

- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ 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?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

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

What are internal controls?

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

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

PBSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the District's internal controls, including any IT controls, as they relate to the District's compliance with applicable state laws, regulations, contracts, grant agreements and administrative procedures that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

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

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, 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 PBSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on August 29, 2011, we reviewed the PBSD's response to PDE dated April 25, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

The District Lacks Sufficient Internal Controls Over Its Student Record Data

Criteria relevant to the observation:

According to the Pennsylvania Department of Education's (PDE) *2009-10 PIMS User Manual*, all Pennsylvania local education agencies must submit data templates as part of the 2009-10 child accounting data collection. The Pennsylvania Information Management System data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the *Federal Information Systems Control Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

Beginning with the 2009-10 school year, the Pennsylvania Department of Education (PDE) now bases all local education 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 and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems. PIMS replaces PDE's previous reporting system, the Child Accounting Database (CAD), which PDE ran concurrently until it brought PIMS completely online. PDE no longer accepts child accounting data through the CAD system.

Because PDE now uses the data in PIMS to determine each LEA's state subsidy, it is vitally important that the student information entered into this system is accurate, complete, and valid. Moreover, anytime an entity implements a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. LEAs must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

We reviewed the 2010-11 school year, since this is the first year for the LEA's new software vendor.

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

1. The District did not reconcile the membership days between its child accounting software system and the PIMS system after the membership days were uploaded to PIMS for the 2010-11 school year. We found 5,070 resident membership days from 56 pupils who were not uploaded to PIMS. In addition, one nonresident pupil record was not uploaded to PIMS

resulting in the District not getting credit for 40 nonresident membership days. The District subsequently made corrections to PIMS for the missing membership days. After the corrections, the District was still missing 31 membership days which the District could not explain.

2. There was no documentation in the files for four students that would support entry/withdrawal changes made to the District child accounting software system. One pupil did not have an entry/withdrawal transaction into the child accounting software system that would have changed the status from nonresident to resident. This was corrected by the District in the child accounting software system, but still needs corrected in PIMS. Lack of documentation was also the subject of a finding in our prior audit report (see page 10).

Recommendations

The *Plum Borough School District* should:

1. Determine why the 31 resident days did not successfully transfer into the PIMS system through discussions with the software vendor and PDE.
2. Perform a reconciliation of membership days between the LEA's child accounting software system and PIMS for each school calendar.
3. Ensure that documentation supporting entry/withdrawal changes is included in the students' files. Further, ensure that all entry/withdrawal forms are completely and accurately entered into the District's child accounting software system.

Management Response

Management provided the following responses to our recommendations:

“Administration will contact the student information system vendor . . . to rectify the communication issue between the PIMS system and the . . . software. . . .

Administration will reconcile the PIMS system upload and the student information system data following every PIMS upload. . . .

Administration will utilize a ‘change of status form’ to track withdrawal/reentry curriculum changes. The Child Accounting Department will compare monthly the change of status forms to the student information system data to ensure withdrawal/reentry changes are accurate.”

Status of Prior Audit Findings and Observations

Our prior audit of the Plum Borough School District (PBSD) for the school years 2005-06 and 2004-05 resulted in two reported findings. The first finding pertained to an agreement that prematurely terminated its Superintendent's employment; the second finding pertained to inadequate documentation to support pupil membership data. 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 PBSD Board's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the PBSD did not implement all of the recommendations related to the two findings.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding No. 1: The District Spent \$220,406 on an Agreement that Prematurely Terminated Its Superintendent's Employment

Finding Summary: Our prior audit found that on April 29, 2008, the board approved a Memorandum of Understanding between the PBSD and the Superintendent in which the PBSD accepted the Superintendent's "irrevocable retirement" effective June 30, 2008. The retirement occurred one year prior to the end of the Superintendent's employment contract and resulted in costs to the PBSD of \$220,406.

Recommendations: Our audit finding recommended that the PBSD:

1. Enter into employment contracts with prospective superintendents at the three year minimum term permitted by state law, in order to limit potential financial liability by the PBSD and its taxpayers.
2. Ensure that future employment contracts are followed, to protect the interests of the PBSD and its taxpayers when employment ends prematurely for any reason.

Current Status: During our current audit procedures, we found that the PBSD did not implement the recommendation pertaining to the three-year minimum term for employment of prospective superintendents. The current superintendent received a contract on September 27, 2011, that exceeded the recommended three-year minimum term. We again recommend that the District adopt the three-year policy previously recommended.

The second recommendation has been implemented. There were no board resolutions for ending any individuals' employment prior to the end of their contracts.

Finding No. 2: Inadequate Documentation to Support Pupil Membership Data

Finding Summary: Our prior audit of child accounting records for the 2005-06 and 2004-05 school years found that the PBSB did not retain entry and withdrawal forms that verify the membership days reported to PDE. We were consequently unable to verify if membership days were correctly reported.

Recommendations: Our audit finding recommended that the PBSB:

1. Develop and implement procedures to ensure supporting documentation for child accounting data reported to PDE is available for audit.
2. Establish written procedures for the child accounting function.
3. Maintain entry and withdrawal forms to document the accuracy of membership reports.

Current Status: During our current audit procedures, we found that the PBSB implemented recommendations one and two. Supporting documentation is now retained and child accounting written procedures have been established. However, recommendation number three has not been implemented. Entry and withdrawal documentation is not being maintained in all cases. (See the observation in our current audit report, page 6.)

Distribution List

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

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