

SHENANDOAH VALLEY SCHOOL DISTRICT  
SCHUYLKILL COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

FEBRUARY 2012



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

Mr. William Grutza, Board President  
Shenandoah Valley School District  
805 West Centre Street  
Shenandoah, Pennsylvania 17976

Dear Governor Corbett and Mr. Grutza:

We conducted a performance audit of the Shenandoah Valley School District (SVSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period February 18, 2009 through October 21, 2011, 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 and June 30, 2009. 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 SVSD 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. A summary of these results is presented in the Executive Summary section of the audit report.

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

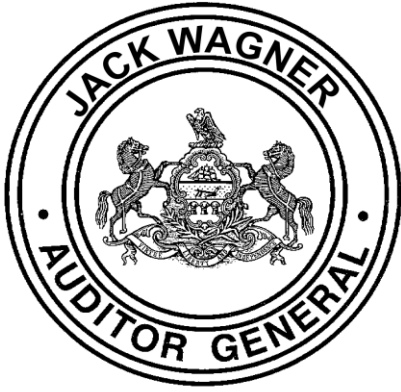
Sincerely,

/s/

JACK WAGNER  
Auditor General

February 22, 2012

cc: **SHENANDOAH VALLEY SCHOOL DISTRICT** Board Members



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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Shenandoah Valley School District (SVSD). 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 SVSD in response to our prior audit recommendations.

Our audit scope covered the period February 18, 2009 through October 21, 2011, 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 and 2008-09.

### **District Background**

The SVSD encompasses approximately 11 square miles. According to 2000 federal census data, it serves a resident population of 11,790. According to District officials, in school year 2009-10 the SVSD provided basic educational services to 1,190 pupils through the employment of 95 teachers, 59 full-time and part-time support personnel, and 5 administrators. Lastly, the SVSD received more than \$8.3 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the SVSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

**Finding: Errors in Membership Reported for Children Placed in Private Homes Resulted in a Reimbursement Underpayment of \$27,518.** Our audit of SVSD's pupil membership reports submitted to the Department of Education for the 2009-10 school year found reporting errors. SVSD personnel inaccurately reported membership for children placed in private homes (see page 6).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the SVSD from an audit we conducted of the 2007-08, 2006-07, 2005-06 and 2004-05 school years, we found the SVSD had taken appropriate corrective action in implementing our recommendations pertaining to inadequate controls of student activity funds (see page 8) and regarding weaknesses in administrative policies for bus driver's qualifications (see page 9).





## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

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

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

Our audit covered the period February 18, 2009 through October 21, 2011.

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

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education (DE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

### Objectives

*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 SVSD'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 LEA have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?

- ✓ In areas where the District receives transportation subsidies, is the District and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that its current bus drivers are properly qualified, and does it have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances which may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and 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?
- ✓ Is the District taking 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 members free from apparent conflicts of interest?
- ✓ 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

SVSD 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. Within the context of our audit objectives, we

*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.

obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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

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

Our audit examined the following:

- Records pertaining to 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 SVSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 8, 2009, we reviewed the SVSD's response to DE dated June 9, 2010. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Errors in Membership Reported for Children Placed in Private Homes Resulted in a Reimbursement Underpayment of \$27,518

*Criteria and Public School Code section relevant to the finding:*

According to PDE's 2009-10 *PIMS User Manual*, all Pennsylvania LEAs 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; LEP 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 (FISCAM)*, 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 Department of Education (DE) now bases all local education agencies' 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 DE's previous reporting system, the Child Accounting Database (CAD), which DE ran concurrently until it brought PIMS completely online. DE no longer accepts child accounting data through the CAD system.

Our audit of Shenandoah Valley School District's (SVSD) pupil membership reports submitted to DE for the 2009-10 school year found reporting errors. SVSD personnel inaccurately reported membership for children placed in private homes. These errors resulted in an underpayment of \$27,518.

Membership days for children placed in private homes were understated by 609 for secondary students.

These errors occurred because SVSD personnel failed to input data into the home district and educating district fields required by PIMS. Therefore, these students were classified as resident students.

These errors had an insignificant effect on basic education funding.

DE has been provided a report detailing the errors for use in recalculating the SVSD's reimbursement.

Criteria relevant to the finding:

Section 2503(c) 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 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.

**Recommendations**

The *Shenandoah Valley School District* should:

1. Review DE instructions and compile the nonresident listing accordingly.
2. Establish internal controls that include reconciliations of the data that is uploaded into PIMS.
3. Review membership data thoroughly for residency classifications prior to submitting reports to DE.
4. Review reports submitted subsequent to the years audited and, submit revised reports to DE, if errors are found.

The *Department of Education* should:

5. Adjust the SVSD's membership reports and reimburse the SVSD \$27,518.

**Management Response**

Management stated the following:

Membership errors were the result of changing child accounting software from SASI to CSIU. The new software had additional areas that needed to be filled out to recognize foster students, which the District was unaware of. CSIU has been contacted & training has been provided to fill out the additional areas correctly. 2010-2011 membership will be resubmitted through PIMS with the correct information; while 2011-2012 has been corrected.

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

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Our prior audit of the Shenandoah Valley School District (SVSD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in one reported finding and one observation. The finding pertained to continued inadequate control of the student activity fund, and the observation pertained to internal control weaknesses regarding bus drivers' qualifications. 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 SVSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the SVSD did implement four out of five recommendations related to the finding and all recommendations related to the observation.

### **School Years 2007-08, 2006-07, 2005-06 and 2004-05 Auditor General Performance Audit Report**

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**Finding:** **Continued Inadequate Controls of Student Activity Fund**

Finding Summary: Our prior audit of District records for the 2007-08 school year found that District personnel failed to adhere to the student activity fund (SAF) policy established by the board. Also, District personnel failed to provide adequate guidelines for ensuring proper internal controls over the SAF.

Recommendations: Our audit finding recommended that the SVSD:

1. Adopt detailed written policies and procedures for the administration and accountability of student activity accounts in accordance with the provisions of Section 511 of the Public School Code and the Pennsylvania Association of School Business Officials Activity Fund Guidelines.
2. Require the activities' organization advisors and students to maintain detailed records for fund-raising activities, i.e., total amounts raised, total amounts spent, sales per student, dates of any deposits made identifying which fund-raiser the deposit represents, and how the revenue raised as a result of the fundraiser is spent to benefit a particular organization.
3. Require the SAF organizations to adopt by-laws to maintain accountability and require students and advisors to maintain meeting minutes that document student participation in fundraiser and disbursement decisions.

4. Ensure inactive accounts are transferred to the Junior-Senior High School Trust account according to board policy.
5. Ensure only student related accounts are included in the SAF and that non-student related accounts follow board policy. General fund transactions, such as the hospitality account should not be run through the SAF.

Current Status: During our current audit procedures, we found that the SVSD did implement recommendations for items 1, 2, 4 and 5 above. We again recommend that SVSD implement the remaining recommendation.

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**Observation: Continued Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications**

Observation Summary:

Our prior audit found that the SVSD continued to not have written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses, which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.

Recommendations: Our audit observation recommended that the SVSD:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District have been charged with or convicted of crimes that, even though not barred by state law, affect their inability to have direct contact with children.
2. Implement written policies and procedures to ensure that the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.

Current Status: During our current audit procedures, we found that the SVSD did implement our recommendations.

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## **Distribution List**

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

The Honorable Tom Corbett  
Governor  
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Harrisburg, PA 17120

The Honorable Ronald J. Tomalis  
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The Honorable Robert M. McCord  
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