



**SMETHPORT AREA SCHOOL DISTRICT  
MCKEAN COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**DECEMBER 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. Larry Dennis, Board President  
Smethport Area School District  
414 South Mechanic Street  
Smethport, Pennsylvania 16740

Dear Governor Corbett and Mr. Dennis:

We conducted a performance audit of the Smethport Area School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period September 21, 2010 through February 14, 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, 2012, 2011, 2010, and 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 relevant requirements, except as detailed in one (1) finding noted in this report. In addition, we identified one (1) matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE  
Auditor General

December 17, 2013

cc: **SMETHPORT AREA 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 Smethport Area School District (District) in McKean 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 September 21, 2010 through February 14, 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 2011-12, 2010-11, 2009-10, and 2008-09 school years.

### **District Background**

The District encompasses approximately 344 square miles. According to 2010 federal census data, it serves a resident population of 6,134. According to District officials, the District provided basic educational services to 937 pupils through the employment of 75 teachers, 45 full-time and part-time support personnel, and seven (7) administrators during the 2011-12 school year. Lastly, the District received \$9,116,861 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. In addition, we identified one (1) matter unrelated to compliance that is reported as an observation.

**Finding: A Lack of Proper Internal Controls Resulted in the District Making Reporting Errors that Cost It \$96,275 in State Subsidy.** Our audit of Smethport Area School District (District) found errors in the pupil membership reports it submitted to the Pennsylvania Department of Education for the 2009-10 school year. These errors resulted in an underpayment of \$96,275 in the District's state reimbursement for educating non-resident children placed in private homes (foster children) (see page 6).

**Observation: District's Transportation Costs Continued To Exceed the State Formula.** Our audit of the Smethport Area School District's (District) contracted pupil transportation costs for the school years ending June 30, 2009 through 2012 found that the District's operational expenses for transportation were substantially higher than the Pennsylvania Department of Education's inflation-adjusted final formula allowance. This observation was also in the District's prior audit report (see page 10).

**Status of Prior Audit Findings and**

**Observations.** With regard to the status of our prior audit recommendations to the Smethport Area School District (District) from an audit released on March 4, 2011, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to transportation contractor costs (see page 13). However, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to logical access control weaknesses (see page 14).

## 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 September 21, 2010 through February 14, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2011-12, 2010-11, 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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District received transportation subsidies, was the District, and any contracted vendors, in compliance with applicable state laws and procedures?

- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ 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

### *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.

*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 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.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 4, 2011, we performed additional audit procedures targeting the previously reported matters.



## Findings and Observations

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### Finding

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#### **A Lack of Proper Internal Controls Resulted in the District Making Reporting Errors that Cost It \$96,275 in State Subsidy**

*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 through 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 audit of the Smethport Area School District (District) found reporting errors in the pupil membership reports it submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 school year. These errors resulted in an underpayment of \$96,275 in the District's state reimbursement for educating non-resident children placed in private homes (foster children). In addition, we found that the District's internal controls were too weak to ensure that the membership data it reported to PDE was accurate, valid, and complete.

We found that District personnel mistakenly reported these non-resident foster students' funding districts as the natural parent's districts instead of using the District's code as the funding district. Consequently, they understated membership days for non-resident foster children by 61 days for two (2) full-time kindergarten students, 191 days for two (2) elementary students, and 1,500 days for fourteen (14) secondary students.

*Criteria relevant to the finding  
(continued):*

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.

In addition, we found that District personnel did not have basic internal controls in place to identify reporting errors before PDE finalized the District's membership data and paid it for the appropriate state reimbursements. Specifically, every April PDE supplies each District with a preliminary summary of child accounting report (preliminary PDE report), which shows the student enrollment data it reported for the prior school year. District personnel are meant to reconcile this preliminary PDE report with the information in the District's student information system, as a basic internal control aimed at verifying that the membership data the District uploaded in PIMS is accurate, valid, and complete. Our audit found that the District's personnel did not perform this reconciliation. If they had, the District's reporting errors could have been identified and corrected before PDE finalized the District's reimbursements and sent in the final report.

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

PDE has been provided a report detailing the errors for use in recalculating the District's subsidy.

### **Recommendations**

The *Smethport Area School District* should:

1. Verify that the preliminary reports from PDE are correct and if not, revise and resubmit child accounting data so that the final reports from PDE are correct.
2. Establish internal controls that include reconciliations of the data that is uploaded into PDE's PIMS system with the information in the District's student information system.
3. Request additional training from PDE to ensure that the personnel tasked with PIMS reporting thoroughly understand PDE's guidelines and instructions.

4. Strengthen controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions.
5. Compare letters for foster children with the District reports to ensure that student membership is properly classified.

The *Pennsylvania Department of Education* should:

6. Revise all reports that have been incorrectly completed and adjust all of the District's reimbursements affected by the error.

### **Management Response**

Management stated the following:

“The membership reporting errors occurred in the first year that child accounting/membership reports were submitted through PIMS as the sole means of reporting during the 2009-10 school year.

The district is now aware that the foster students were reported incorrectly. They were coded with a “B” Residence Code which stands for a 1305 foster student. The fields for Educating District and Home District reported correctly. However, the Funding District was incorrectly reported as the Home District of the student's natural parents rather than Smethport Area School District. This error led to the District not receiving the correct amount of 1305/1306 tuition subsidy on those foster students. The subsidy for the 2009-10 school year normally would arrive in June of 2011.

When the District determined it had not received the subsidy we began investigating what was reported incorrectly on PIMS to cause this. It was during the 2011-12 school year that the error was caught. The 2011-12 PIMS information was reported correctly. The Guidance Counselor and Business Manager worked with PDE to correct the 2010-11 school year, but were not able to get the 2009-10 school year corrected before the state audit began.

Management feels that the lack of training from PDE on how to access the PIMS reports in order to proof all of the student data sent up to PDE caused much of the confusion experienced in the initial years that the PIMS system was used. Also, summary reports were not changed when school districts did make corrections, so it was difficult to determine if the corrections uploaded correctly or not.

Several staff members are involved in the data entry of PIMS information and the review of verification that the information is correct. Very extensive final reviews are done by the Guidance Counselor and Business Manager when final child accounting information for a school year is submitted. With the experience we have gained over the last couple years through trial and error the reviewers now do make sure that those same errors are avoided in the future.”

#### **Auditor Conclusion**

We are encouraged that the District has taken steps to implement tighter internal controls over its student data reporting process. We will follow up on our recommendations during our next cyclical audit of the District.

## Observation

### District's Transportation Costs Continued To Exceed the State Formula

*Criteria relevant to the observation:*

The Pennsylvania Department of Education's final formula allowance provides for a per vehicle allowance based on the year of manufacture of the vehicle chassis, the approved seating capacity, number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index.

The District receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by the District's aid ratio.

Our audit of the Smethport Area School District's (District) contracted pupil transportation costs for the school years ending June 30, 2009 through 2012 found that the District's operational expenses for transportation were substantially higher than the Pennsylvania Department of Education's (PDE) inflation-adjusted final formula allowance. The final formula allowance is used to determine the District's state reimbursement of pupil transportation services, and while districts' transportation costs can exceed this amount, significantly surpassing it can be an indication that districts need to look for ways to reduce their contractor costs. This observation was also in the District's prior audit report.

PDE's final formula allowance provides for a per vehicle allowance based on the year of manufacture of the vehicle chassis, the approved seating capacity, the number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index. Districts receive the lesser of the final formula allowance for the vehicles or the actual amount paid to the transportation contractor, multiplied by the districts' aid ratios.

The following chart details the fluctuation in contract cost compared to PDE's final formula allowance:

School Year	Contractor Cost	Final Formula Allowance	Contracted Cost Over Formula	Percentage Over Formula
2011-12	\$ 994,466	\$599,102	\$395,364	65.99
2010-11	1,017,683	631,554	386,129	61.14
2009-10	967,938	593,377	374,561	63.12
2008-09	915,699	574,977	340,722	59.26

*\*2011-12 numbers are from the preliminary transportation report.*

Our review of service provided by the pupil transportation contract found that over the last four (4) years the number of vehicles used to transport pupils had decreased, the District's total number of pupils transported had decreased, and the number of approved annual miles vehicles traveled

had increased for three (3) years then decreased thirteen (13) percent the last year.

School <u>Year</u>	<u>Vehicles</u>	<u>Pupils</u>	Total Approved <u>Annual Miles</u>
2011-12	24	876	251,554
2010-11	25	889	284,294
2009-10	25	923	269,576
2008-09	26	902	251,207

The following chart details the total amount paid all contractors each school year, the maximum allowable cost, the total reimbursement received by the District from PDE, and the actual local tax dollars required to operate the District's pupil transportation program.

School <u>Year</u>	Contractor <u>Cost</u>	Maximum Allowable <u>Cost</u>	Reimbursement <u>Received</u>	Local <u>Share</u>
2011-12	\$ 994,466	\$ 599,102	\$ 507,462	\$ 487,004
2010-11	1,017,683	631,554	547,400	470,283
2009-10	967,938	593,377	536,342	431,596
2008-09	<u>915,699</u>	<u>574,977</u>	<u>516,046</u>	<u>399,653</u>
Total	\$3,895,786	\$2,399,010	\$2,107,250	\$1,788,536

As indicated previously, we reviewed this same issue during our last audit of the District. At that time, we made several recommendations, including that the District should attempt to bid its transportation contract, even though it is not a requirement of statute. In the auditors' experience, simply bidding the contract, even when no additional vendors are expected to take an interest, can cause a current vendor to reduce its rates.

During the current audit, we obtained a copy of the new contract the Board of School Directors approved on May 14, 2012, commencing with the 2012-13 through 2013-14 school years. The contract again provides a base rate from the 2011-12 school year with a 2.5 percent increase each year. District administrative personnel stated the District's Board of School Directors did not seek competitive bids for the pupil transportation services for the contract period. Instead, they agreed once again to only negotiate with the same local contractor that had been providing service for prior school years.

## **Recommendations**

The *Smethport Area School District* should:

1. Consider bidding transportation contracts to determine if taxpayers would benefit from a more favorable contract for the District.
2. Be cognizant of the state's final formula allowance prior to negotiating transportation contracts.

## **Management Response**

Management provided no comment.

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

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Our prior audit of the Smethport Area School District (District) released on March 4, 2011, resulted in two (2) observations. The first observation pertained to pupil transportation costs exceeding the Pennsylvania Department of Education (PDE) final formula allowance, and the second observation pertained to logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We performed audit procedures and interviewed District personnel regarding the prior observations. As shown below, we found that the District did not implement recommendations related to transportation costs but did implement the necessary corrective action related to the logical access control weaknesses.

### **Auditor General Performance Audit Report Released on March 4, 2011**

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**Observation No. 1: Amount Paid Pupil Transportation Contractor Greatly Exceeds Pennsylvania Department of Education Final Formula Allowance**

Observation  
Summary:

Our audit of the Smethport Area School District's (District) contracted pupil transportation costs for the school years ending June 30, 2005 through June 30, 2008, found that the contracted cost of the District's pupil transportation operation had increased substantially more than the rate of inflation over the four-year period. The amount paid to the District's transportation contractor increased more than PDE's inflation adjusted final formula allowance used to determine reimbursement of pupil transportation services.

Recommendations:

Our audit observation recommended that the District:

1. Prior to negotiating a new contract, the Board of School Directors and administrative personnel should be cognizant of the state's final formula allowance cost formula.
2. Routinely seek competitive bids for all the pupil transportation services to ensure the most efficient cost.
3. Prepare pupil transportation contracts to ensure the local effort share is as minimal as permitted by establishing that the base rate and increases are in line with PDE's final formula allowance for all pupil transportation costs.
4. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.



Current Status: During our current audit, we found that the District did not implement the recommendations. See the Observation (page 10), for continued concerns.

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**Observation No. 2: Logical Access Control Weaknesses**

Observation Summary:

The District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). When permission is granted by the District, the vendor has remote access into the District's network services.

Our prior audit found that unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the District's membership information and result in the District not receiving the funds to which it was entitled from the state.

Recommendations:

Our audit observation recommended that the District:

1. Develop a formal agreement with the vendor to provide accounting applications and related information technology (IT) services. The agreement should cover legal, financial, organization, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.
2. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or required the vendor to sign the District's Acceptable Use Policy.
3. Develop a form that should require the appropriate signatures prior to allowing any remote access and program changes. The form should be detailed to include a date and time for remote access, description of work to be performed, and the vendor employee performing the work.
4. Develop policies and procedures to require written authorization when deleting a userID.
5. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.

Current Status:

During our current audit, we found that the District did implement the recommendations. On January 30, 2013, District personnel provided appropriate source documentation indicating the corrective actions taken by the District to address the weaknesses.

## **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  
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Harrisburg, PA 17120

The Honorable Carolyn Dumaresq  
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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).