

VALLEY VIEW SCHOOL DISTRICT
LACKAWANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FEBRUARY 2012

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

Mr. Dominick Perini, Board President
Valley View School District
1 Columbus Drive
Archbald, Pennsylvania 18403

Dear Governor Corbett and Mr. Perini:

We conducted a performance audit of the Valley View School District (VVSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period June 19, 2009 through September 15, 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 VVSD 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 the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

February 24, 2012

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

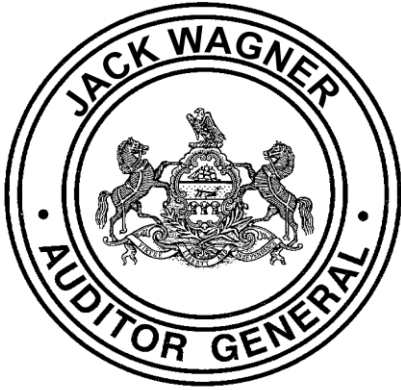
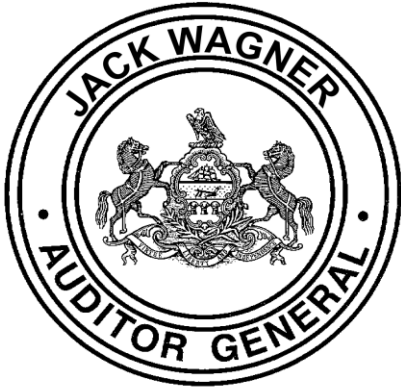


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Executive Summary

Audit Work

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

Our audit scope covered the period June 19, 2009 through September 15, 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 VVSD encompasses approximately 27 square miles. According to 2009 local census data, it serves a resident population of 17,143. According to District officials, in school year 2009-10 the VVSD provided basic educational services to 2,624 pupils through the employment of 189 teachers, 79 full-time and part-time support personnel, and 11 administrators. Lastly, the VVSD received more than \$11.1 million in state funding in school year 2009-10.

Audit Conclusion and Results

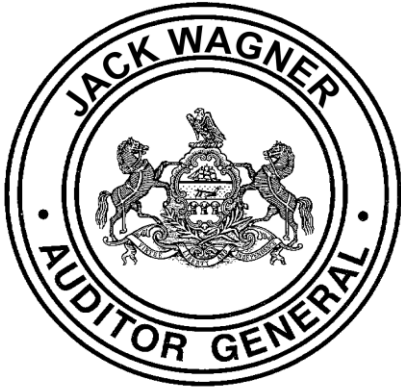
Our audit found that the VVSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

Finding: Errors in Reporting Membership for Children Placed in Private Homes Resulted in a Net Underpayment of \$67,876.

Our audit of pupil membership reports submitted to the Department of Education by the VVSD for the 2009-10 and 2008-09 school years found reporting errors for children placed in private homes resulting in underpayments of \$54,004 for the 2009-10 school year and \$13,872 for the 2008-09 school year (see page 6).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the VVSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the VVSD had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored intermediate unit system access and logical access control weaknesses (see page 9).



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 June 19, 2009 through September 15, 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 VVSD'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 state subsidy and reimbursements based on payroll (e.g. retirement), did it follow applicable laws and procedures?
- ✓ 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 that 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, 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?
- ✓ 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 observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observation 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.

VVSD 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 obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

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 VVSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 19, 2010, we reviewed the VVSD's response to DE dated March 23, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Errors in Reporting Membership for Children Placed in Private Homes Resulted in a Net Underpayment of \$67,876

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 pupil membership reports submitted to DE by the Valley View School District for the 2009-10 and 2008-09 school years found reporting errors for children placed in private homes and a lack of internal controls resulting in underpayments of \$54,004 for the 2009-10 school year and \$13,872 for the 2008-09 school year.

Membership days for children placed in private homes during the 2009-10 school year were incorrectly reported in PIMS as 1302 resident days. District personnel failed to reconcile final reports submitted to DE with District records. Also, District personnel misunderstood the PIMS guidelines which caused reporting errors. These errors resulted in an understatement of 490 days for full time kindergarten, 305 for elementary students and 600 for secondary students during the 2009-10 school year.

The overstatement of resident membership days during the 2009-10 school years did not have an effect on the 2009-10 basic education funding.

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.

Membership data for nonresident children placed in private homes must be maintained and reported accurately and in accordance with DE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

Membership days reported for children placed in private homes during the 2008-09 school year were understated by 95 days for elementary students and 235 days for secondary students. These errors were either clerical in nature or due to District personnel's failure to obtain and review placement documentation.

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

Recommendations

The *Valley View School District* should:

1. Establish internal controls that include reconciliations of the data that is uploaded into DE's PIMS system.
2. Strengthen controls to ensure pupil membership is reported in accordance with DE guidelines and instructions.
3. Implement controls to verify actual membership days to computer generated reports.
4. Compare letters for children placed in private homes with District reports to ensure that student membership is properly classified.
5. Perform an internal review of membership reports and summaries prior to submission of final reports to DE.
6. Review subsequent year reports and if errors are found, submit revised reports to DE.

The *Department of Education* should:

7. Adjust the District's allocations to resolve the net underpayment of \$67,876.

Management Response

Management provided the following:

The Valley View School District is planning immediate corrective action as follows:

- The Superintendent of Schools and the Business Manager will conduct an informational meeting that will focus on appropriate corrective action. The Director of Management Services, Building Administrators, Guidance Counselors and Secretarial Staff will be required to attend the meeting.
- The focus of the meeting will be to collaboratively diagnose current accounting weaknesses.
- Implement a formatted template that allows for the complete and comprehensive collections of reportable data.
- Assign the Director of School Management Services the internal controls.

Status of Prior Audit Findings and Observations

Our prior audit of the Valley View School District (VVSD) for the school years 2007-08 and 2006-07 resulted in one observation. The observation pertained to their unmonitored intermediate unit system access and 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 recommendations. We analyzed the VVSD superintendent's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the VVSD did implement recommendations related to logical access control weaknesses.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Observation: **Unmonitored IU System Access and Logical Access Control Weaknesses**

Observation

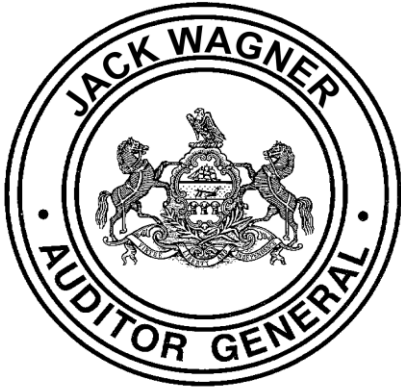
Summary:

Our prior audit found that the VVSD uses software purchased from the Central Susquehanna Intermediate Unit #16 (IU) for its critical accounting applications (membership and attendance). The IU has remote access into the District's network servers.

Recommendations: Our audit observation recommended that the VVSD:

1. Require all employees to sign the District's Acceptable Use Policy.
2. Establish separate information technology policies and procedures for controlling the activities of the IU and have the IU sign this policy, or the District should require the IU to sign the District's Acceptable Use Policy.
3. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.

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



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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The Honorable Ronald J. Tomalis
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Mechanicsburg, PA 17055

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