

# PERFORMANCE AUDIT

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## Sharon City School District Mercer County, Pennsylvania

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October 2014



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

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

Mr. Melvin Bandzak, Board President  
Sharon City School District  
215 Forker Boulevard  
Sharon, Pennsylvania 16416

Dear Governor Corbett and Mr. Bandzak:

We conducted a performance audit of the Sharon City 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 June 12, 2012 through May 16, 2014, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. 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.

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

October 23, 2014

cc: **SHARON CITY 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 Sharon City School District (District) in Mercer 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 June 12, 2012 through May 16, 2014, 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 2010-11 and 2011-12 school years.

### **District Background**

The District encompasses approximately five (5) square miles. According to 2010 federal census data, it serves a resident population of 14,038. According to District officials, the District provided basic educational services to 2,108 pupils through the employment of 166 teachers, 137 full-time and part-time support personnel, and ten (10) administrators during the 2011-12 school year. The District received \$18 million 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. Our audit resulted in no findings or observations.

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

With regard to the status of our prior audit recommendations to the Sharon City School District (District) from an audit released on April 9, 2013, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to school bus driver qualification deficiencies (see page 6) and internal control weaknesses regarding student record data (see page 7). The District is in the process of taking corrective actions in implementing our recommendations pertaining to the amount paid to transportation contractors (see page 8).

## 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 June 12, 2012 through May 16, 2014, except for the verification of professional employee certification, which was performed for the period September 1, 2012 through March 18, 2014.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 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:

- ✓ Were professional employees certified for the positions they held?
- ✓ 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 accurately report its membership numbers to PDE, and were its average daily membership and tuition billings accurate?
- ✓ 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**

*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

*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.

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.

To determine the status of our audit recommendations made in a prior audit report released on June 16, 2012, we reviewed the District's response to PDE dated October 22, 2013. We then performed additional audit procedures targeting the previously reported matters.

## **Findings and Observations**

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**F**or the audited period, our audit of the Sharon City School District resulted in no findings or observations.



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

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Our prior audit of the Sharon City School District (District) released on April 9, 2013, resulted in one (1) finding and two (2) observations. 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 Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior finding and observations. As shown below, we found that the District did implement our recommendations related to the school bus drivers' qualification and the internal controls over its student record data. We also found that the recommendations related to the amount paid to transportation contractors are in the process of being implemented.

### **Auditor General Performance Audit Report Released on April 9, 2013**

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**Finding:** **School Bus Driver Qualification Deficiencies**

Finding Summary: Our prior audit of the District's school bus drivers' qualifications for the 2011-12 school year found the District did not have all the correct records on file at the time of the audit.

Review of the personnel records of five (5) newly hired bus drivers employed by the contracted carriers transporting the District's students found that two (2) of the five (5) drivers did not have the correct federal criminal history record on file.

Recommendations: Our audit finding recommended that the District should:

1. Ensure the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
2. Acquire and maintain, in the District's transportation office, proper employee qualifications prior to bus drivers transporting students.

We also recommended that PDE should:

3. Require the contractor to provide complete records for each driver and retain the information on file at the District.

Current Status: During our current audit of the 2013-14 bus drivers, we reviewed the qualifications for the two (2) drivers cited in the prior audit and three (3) drivers not included in the prior audit. We found that all the drivers tested had the proper qualifications.

**Observation No. 1: Amount Paid to the Pupil Transportation Contractors Greatly Exceeds the Pennsylvania Department of Education’s Final Formula Allowance**

Observation Summary: Our prior audit of the District’s contracted pupil transportation costs for the school years ending June 30, 2007 through June 30, 2010, found that the contracted cost the District’s pupil transportation operations had increased substantially more than the rate of inflation over the four (4) year period, based on data submitted to PDE by the District for reimbursement purposes. The amount paid to the District’s transportation contractors increased more than PDE’s inflation adjustment formula allowance, which is used to determine the District’s reimbursement transportation services.

Recommendations: Our audit observation recommended that the District should:

1. Prior to negotiating new contracts, be cognizant of the State’s final formula allowance cost formula.
2. Prepare pupil transportation contracts to ensure the local effort share is as minimal as possible by establishing the base rate and increase in line with PDE’s final formula allowance for all pupil transportation costs.
3. Have District personnel continuously monitor and justify any increase in the District’s pupil transportation costs.

We also recommended that PDE should:

4. Consider routinely seeking competitive bids for the District’s pupil transportation services to ensure the most efficient cost to the District and its taxpayers.

Current Status: During our current audit, we received a memo, dated April 22, 2014, from the business manager, that stated, in part “. . . the District is currently in negotiations with that provider and is working to reduce the amount paid to more closely resemble the PDE formula.” The current contract is in force until June 30, 2014. As a result, no adjustments could be made during the current time period.

**Observation No. 2: The Sharon City School District Lacks Sufficient Internal Controls Over Its Student Record Data**

Observation Summary: Our prior review of the District’s controls over data integrity found that internal controls needed to be improved. Specifically, our review found the District does not have adequate procedures in place to ensure continuity over its Pennsylvania Information Management System (PIMS) data submission in the event of a sudden change in personnel or child accounting vendors.

Recommendations: Our audit finding recommended that the District should:  
  
Prepare documented procedures (e.g., procedure manuals, policies, written instructions, etc.) to ensure continuity over PIMS data submission.

We also recommended that PDE should:

Cross-train individual(s) to familiarize them with PDE’s child accounting reporting requirements and PIMS reporting procedures in the event of a sudden personnel change.

Current Status: During our current audit, we found that the District implemented a corrective action plan that assigns various tasks associated with PIMS to other individuals within the District’s Central Office so that the responsibility does not exist solely with one (1) individual.

## **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  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Carolyn Dumaesq  
Acting Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

The Honorable Robert M. McCord  
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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).