

PERFORMANCE AUDIT

Ellwood City Area School District Lawrence County, Pennsylvania

December 2014



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Anthony Buzzelli, Board President
Ellwood City Area School District
501 Crescent Avenue
Ellwood City, Pennsylvania 16117

Dear Governor Corbett and Mr. Buzzelli:

We conducted a performance audit of the Ellwood City 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 May 22, 2012 through August 1, 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

December 4, 2014

cc: **ELLWOOD CITY AREA SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Ellwood City Area School District (District) in Lawrence 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 May 22, 2012 through August 1, 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 39 square miles. According to 2010 federal census data, it serves a resident population of 14,362. According to District officials, the District provided basic educational services to 1,893 pupils through the employment of 135 teachers, 76 full-time and part-time support personnel, and nine (9) administrators during the 2011-12 school year. The District received \$15.3 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 Ellwood City Area School District (District) from an audit released on April 3, 2013, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to reporting errors in pupil membership (see page 6), a certification deficiency, and missing bus drivers' qualification documents (see page 7).

Audit Scope, Objectives, and Methodology

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 May 22, 2012 through August 1, 2014, except for the verification of professional employee certification, which was performed for the period July 1, 2013 through June 30, 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?
- ✓ 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?
- ✓ 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, financial stability, reimbursement applications, 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 April 3, 2013, we reviewed the District's response to PDE dated May 10, 2013. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Ellwood City Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Ellwood City Area School District (District) released on April 3, 2013, resulted in three (3) findings. 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 the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings. As shown below, we found that the District did implement our recommendations related to reporting pupil membership, certification, and bus drivers' qualifications.

Auditor General Performance Audit Report Released on April 3, 2013

Finding No. 1: Errors in Reporting Pupil Membership Resulted in Underpayment of \$10,123 for Tuition for Children Placed in Private Homes

Finding Summary: District personnel inaccurately reported membership for four (4) non-resident children placed in private homes (foster children) as resident membership. The errors resulted in an underpayment of Commonwealth-paid tuition of \$10,123.

Recommendations: Our audit finding recommended that the District should:

1. Strengthen internal controls over the child accounting review process to ensure accurate reporting of student membership.
2. Review child accounting reports submitted subsequent to our review for accuracy and submit revised reports, if necessary.

We also recommended that PDE should:

3. Revise the District's future allocations to correct the \$10,123 underpayment.

Current Status: During our current audit, we found that the District complied with our recommendations in regards to having one (1) position in charge of the Pennsylvania Information Management System, central registration, and implemented a review process.

As of August 1, 2014, PDE had not revised the District's allocations to correct the \$10,123 underpayment.

Finding No. 2: Certification Deficiency

Finding Summary: Our prior audit disclosed one (1) professional employee was teaching with a lapsed certificate during the second semester of 2009-10 school year, and the first three (3) months of the 2010-11 school year.

Recommendations: Our audit finding recommended that the District should:

1. Strengthen controls to help ensure that individuals' certificates are kept current.
2. Monitor years of service for all provisionally certified employees.
3. Develop procedures to determine that applications for permanent certification have been received by the Bureau of School Leadership and Teacher Quality.

We also recommended that PDE should:

4. Adjust the District's future allocations to recover any subsidy forfeiture.

Current Status: Our current audit found that the District complied with our recommendations regarding strengthening controls by closely monitoring provisionally certified employees.

PDE deducted a subsidy forfeiture of \$1,575 from basic education payment on December 26, 2013.

Finding No. 3: Failure to Have All School Bus Drivers' Qualifications on File

Finding Summary: Our prior audit found that the District did not have all bus drivers' qualification records on file at the District, as required.

Recommendations: Our audit finding recommended that the District should:

Adhere to PennDOT regulations, the provisions of Section 111 of the Public School Code, and the Child Protective Service Law, ensuring that all bus drivers have all required licenses and background checks prior to employment and that those documents are maintained in the District's files and records.

Current Status: During our current audit, we found that the District complied with our recommendations. All records were on file at the District for the bus drivers reviewed during the current audit.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditorgen.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
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Lori Graham
Acting Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Lin Carpenter
Assistant Executive Director for Member Services
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record and is available online at www.auditorgen.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@auditorgen.state.pa.us.