

PERFORMANCE AUDIT

Souderton Area School District Montgomery County, Pennsylvania

August 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Frank Gallagher, Superintendent
Souderton Area School District
760 Lower Road
Souderton, Pennsylvania 18964

Mr. Scott Jelinski, Board President
Souderton Area School District
760 Lower Road
Souderton, Pennsylvania 18964

Dear Mr. Gallagher and Mr. Jelinski:

Our performance audit of the Souderton Area School District (District) evaluated the application of best practices in the areas of governance, safety, contracts, and bus driver hiring requirements. In addition, this audit determined the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). This audit covered the period June 22, 2012 through April 2, 2015, except as otherwise stated and was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit found that the District effectively applied best practices in the areas listed above. In addition, we determined that the District complied, in all significant respects, with relevant requirements.

We appreciate the District's cooperation during the course of the audit.

Sincerely,

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

Eugene A. DePasquale
Auditor General

August 20, 2015

cc: **SOUDERTON 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 Souderton Area School District. Our audit sought to answer certain questions regarding the District's application of best practices and 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 22, 2012 through April 2, 2015, except as otherwise indicated in the audit scope, objectives, and methodology section of the report.

Audit Conclusion and Results

Our audit found that the District applied best practices and 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 District from an audit released on May 28, 2013, we were unable to determine if the procedures implemented by the District since the last audit were adequate to address our recommendations pertaining to transportation costs. Therefore, the effectiveness will be determined during the next audit (see page 6).

Background Informationⁱ

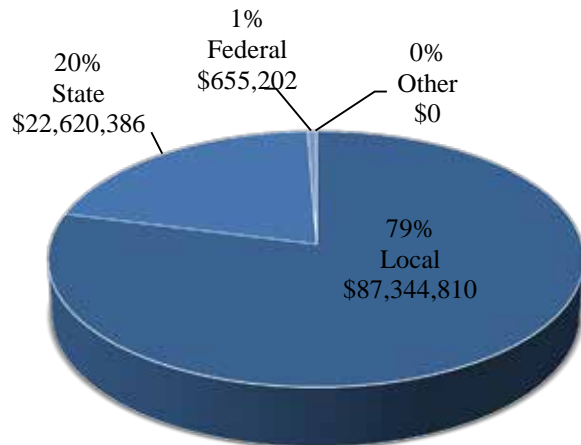
School Characteristics 2014-15 School Year ⁱⁱ	
County	Montgomery
Total Square Miles	49
Resident Population ⁱⁱⁱ	45,316
Number of School Buildings	10
Total Teachers	458
Total Full or Part-Time Support Staff	276
Total Administrators	40
Total Enrollment for Most Recent School Year	6,475
Intermediate Unit Number	23
District Vo-Tech School	North Montco Technical Career Center

Mission Statement

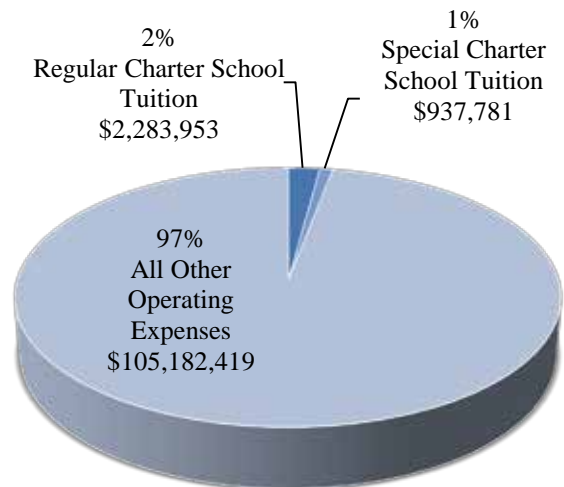
The mission of the District is to prepare students to demonstrate competencies needed to contribute and to succeed in a changing world by building on a commitment to excellence and innovation, by working in partnership with family and community, and by assuring a quality education for all students in a safe and nurturing environment.

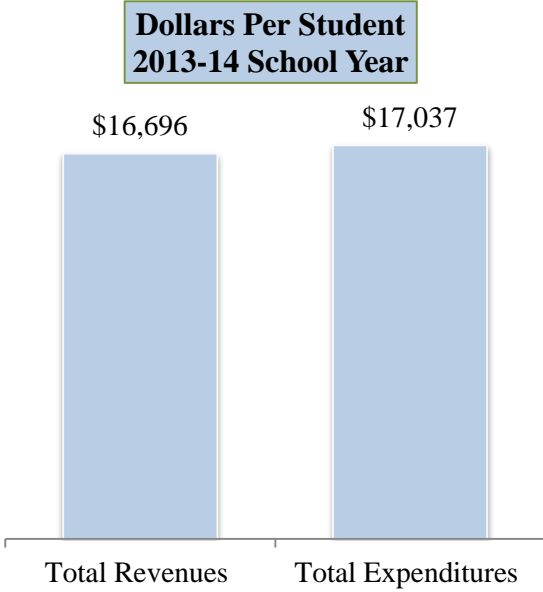
Financial Information

Revenue by Source for 2013-14 School Year



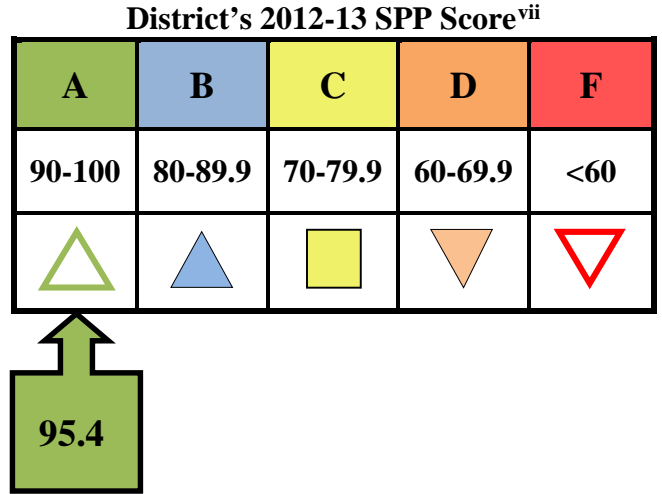
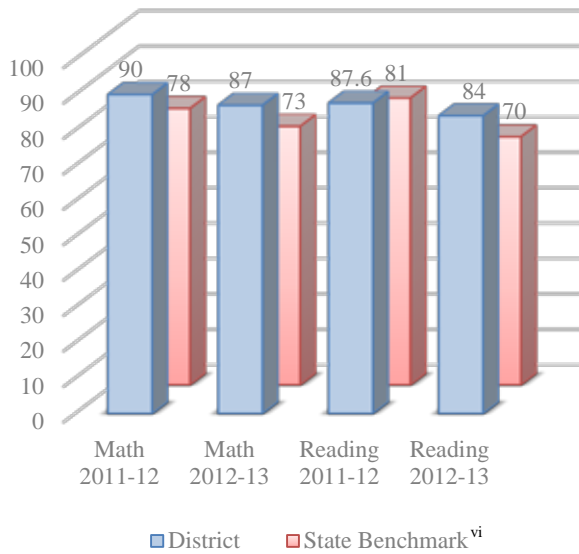
Select Expenditures for 2013-14 School Year





Academic Information

Percentage of District Students Who Scored "Proficient" or "Advanced" on 2011-12 and 2012-13 PSSA^{iv v}



**Individual Building SPP and PSSA Scores^{viii}
2012-13 School Year**

School Building	SPP Score	PSSA % School Proficient and Advanced in Math	PSSA % Statewide Benchmark Proficient and Advanced in Math	PSSA % School Proficient and Advanced in Reading	PSSA % Statewide Benchmark Proficient and Advanced in Reading	Federal Title I Designation (Reward, Priority, Focus, No Designation)^{ix}
E M Crouthamel El	87.6	89	73	78	70	Reward
Franconia El	92	91	73	83	70	Reward
West Broad Street El	89.7	84	73	79	70	Reward
Lower Salford El	93.2	88	73	79	70	Not Applicable
Oak Ridge El	91.4	89	73	79	70	Not Applicable
Salford Hills El	97.9	94	73	85	70	Not Applicable
Vernfield El	97	88	73	86	70	Not Applicable
Indian Crest MS	86.4	84	73	81	70	Not Applicable
Indian Valley MS	90.7	93	73	88	70	Not Applicable
Souderton Area SHS	93.7	82	73	93	70	Not Applicable

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the District released on May 28, 2013, resulted in one observation. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We reviewed the District's written response provided to the Pennsylvania Department of Education (PDE), interviewed District personnel, and performed audit procedures as detailed below.

Auditor General Performance Audit Report Released on May 28, 2013

Observation: **Transportation Contractors Paid Significantly More Than State Formula Allowance**

Observation Summary: Our prior audit of the District's transportation records for the 2008-09 and 2009-10 school years found that the District paid five of its bus contractors significantly more than the state formula allowance calculated by PDE. This action may have resulted in an unnecessary expenditure of taxpayer funds.

PDE prepares a final formula allowance for each school district, which it uses to determine reimbursement for transportation services. This allowance is based on a number of factors, including the approved daily miles driven, the age of the vehicles, and the greatest number of pupils transported. Each district then receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by its aid ratio.

Recommendations: We recommended that the 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.

Current Status: During our current audit, we could not determine the effectiveness of action taken by the District since our last audit.

In the District's August 22, 2013 response to PDE's request for a corrective plan regarding this observation, the District noted it had intended to conduct a thorough process to obtain the most fiscally conservative transportation contract for its taxpayers when its next

transportation contract expired. If appropriate at the time, the District will certainly consider competitive bids for the contract.

The Director of Business Affairs noted in a memo dated February 4, 2015, that contracts for transportation services are negotiated over several months and the process includes evaluating services, safety of the students on a daily basis, the specialized professional nature of the transportation services provided, institutional and geographic knowledge of the District, analysis of invoices for services provided, as well as other factors. Furthermore, he noted that specialized services are required for students with special needs, which makes bidding difficult as some services are requested within hours of the needed service.

Since the District's largest contract did not expire until June 2015, we could not determine whether the District's procedures addressed our concern of paying this contractor significantly more than the state formula allowance. Therefore, on May 4, 2015, a verbal comment was presented at the audit review conference with the Board of School Directors (Board) to remind the Board to consider our prior audit recommendations when this contract is negotiated. The effectiveness of the District's administrative procedures to address transportation costs will be determined during the next audit.

Appendix: Audit Scope, Objectives, and Methodology

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, PDE, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code¹, is not a substitute for the local annual financial 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. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions on the basis of our audit.

Scope

Overall, our audit covered the period June 22, 2012 through April 2, 2015. In addition, the scope of each individual audit objective is detailed on the next page.

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 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.

The District's management is responsible for establishing and maintaining effective internal controls² 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.

¹ 72 P.S. § 403

² 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; and compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, financial reports, annual budgets, and new or amended policies and procedures. We also determined if the District had key personnel or software vendor changes since the prior audit.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies, and best business practices. Our audit focused on the District's efficiency and effectiveness in the following areas:

- ü Governance
- ü Contracting
- ü School Safety
- ü Bus Driver Requirements
- ü Administrator Contract Buy-outs

As we conducted our audit procedures, we sought to determine answers to the following questions, which served as our audit objectives:

- ü Did the LEA's Board and administration maintain best practices in overall organizational governance?
 - o To address this objective, we surveyed the District's current Board, conducted in-depth interviews with the current Superintendent and his or her staff, reviewed board meeting books, policies and procedures, and reports used to inform the Board about student performance, progress in meeting student achievement goals, budgeting and financial position, and school violence data to determine if the Board was provided sufficient information for making informed decisions.
- ü Did the District ensure that its significant contracts were current and were properly obtained, approved, executed, and monitored?
 - o To address this objective, we reviewed the District's procurement and contract monitoring policies and procedures. We obtained a list of contracts for goods and services that were in effect for the 2013-14 school year. We selected 9 out of at least 25 significant contracts for detailed testing. Testing included a review of the procurement documents to determine if the contract was procured in accordance with the Public School Code and District policies. We also reviewed documents to determine if the District properly monitored the selected contracts. Finally, we reviewed board meeting minutes and the Board's Statements of Financial Interest to determine if any board member had a conflict of interest in approving the selected contracts.

- Ü Did the District pursue a contract buy-out with an administrator and, if it did, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
 - To address this objective, we reviewed the one contract and settlement agreement for the only administrator who retired between June 22, 2012 and April 2, 2015. We also reviewed board meeting minutes, board policies, and payroll records for any contract buy-outs to ensure the District abided by employment contract and termination provisions.

- Ü Did the District take appropriate actions to ensure it provided a safe school environment?
 - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, and after action reports.

- Ü Did the District take appropriate corrective action to address findings and implement recommendations made in our prior audit?
 - To address this objective, we interviewed District administrators to determine what corrective action, if any, was taken to address prior audit recommendations. Where appropriate, we obtained documentary evidence and/or performed audit procedures to verify that corrective action was actually taken and those actions were sufficient to address the prior finding.

- Ü Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances as outline in applicable laws^{3 3}? Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?
 - To address this objective, we selected 5 of the 56 bus drivers hired by the District bus contractor, during the school years July 1, 2012 to June 30, 2015, and reviewed documentation to ensure the District complied with bus driver hiring requirements. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures were sufficient to ensure compliance with bus driver hiring requirements.

^{3 3} 24 P.S. § 1-111, 23 Pa.C.S. § 6344(a.1), 24 P.S. § 2070.1a *et seq.*, 75 Pa.C.S. §§ 1508.1 and 1509, and 22 *Pa. Code Chapter 8*.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

The Honorable Tom W. Wolf

Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Pedro A. Rivera

Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Timothy Reese

State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Mrs. Danielle Mariano

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Pennsylvania Department of Education
4th Floor, 333 Market Street
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Dr. David Wazeter

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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.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.

ⁱ Source: School district, PDE, and U.S. Census data.

ⁱⁱ Source: Information provided by the District administration.

ⁱⁱⁱ Source: United States Census <http://www.census.gov/2010census>

^{iv} PSSA stands for the Pennsylvania System of School Assessment (PSSA), which is composed of statewide, standardized tests administered by PDE to all public schools and the reporting associated with the results of those assessments. PSSA scores in the tables in this report reflect Reading and Math results for the “All Students” group for the 2011-12 and 2012-13 school years.

^v PSSA scores, which are Pennsylvania’s mandatory, statewide academic test scores, are issued by PDE. However, the PSSA scores issued by PDE are collected by an outside vendor, Data Recognition Corporation (DRC). The Pennsylvania Department of the Auditor General and KPMG issued a significant weakness in internal controls over PDE’s compilation of this academic data in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014, citing insufficient review procedures at PDE to ensure the accuracy of test score data received from DRC.

^{vi} In the 2011-12 school year, the state benchmarks reflect the Adequate Yearly Progress targets established under No Child Left Behind. In the 2012-13 school year, the state benchmarks reflect the statewide goals based on annual measurable objectives established by PDE.

^{vii} SPP stands for School Performance Profile, which is Pennsylvania’s new method for reporting academic performance scores for all public schools based on a scale from 0% to 100% implemented in the 2012-13 school year by PDE.

^{viii} *Id.* Additionally, federal Title I designations of Priority, Focus, Reward, and No Designation are new federal accountability designations issued by PDE to Title I schools only beginning in the 2012-13 school year. Priority schools are the lowest 5%, focus schools are the lowest 10%, and reward schools are the highest 5% of Title I schools. All Title I schools not falling into one of the aforementioned percentage groups are considered “No Designation” schools. The criteria used to calculate the percentage rates is determined on an annual basis by PDE.

^{ix} Title I Federal accountability designations for Title I schools originate from PDE and are determined based on the number of students at the school who receive free and/or reduced price lunches. School lunch data is accumulated in PDE’s CN-PEARS system, which is customized software developed jointly with an outside vendor, Colyar, Inc. The Pennsylvania Department of the Auditor General and KPMG issued a significant deficiency in internal controls over the CN-PEARS system in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014.