



**ALLEGHENY VALLEY SCHOOL DISTRICT
ALLEGHENY 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 Pollick, Board President
Allegheny Valley School District
300 Pearl Avenue
Cheswick, Pennsylvania 15024

Dear Governor Corbett and Mr. Pollick:

We conducted a performance audit of the Allegheny Valley 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 March 11, 2010 through April 13, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 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. However, 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.

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 20, 2013

cc: **ALLEGHENY VALLEY 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 Allegheny Valley School District (District) in Allegheny 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.

Our audit scope covered the period March 11, 2010 through April 13, 2012, 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 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately ten (10) square miles. According to 2010 federal census data, it serves a resident population of 9,708. According to District officials, the District provided basic educational services to 1,109 pupils through the employment of 94 teachers, 75 full-time and part-time support personnel, and twelve (12) administrators during the 2009-10 school year. Lastly, the District received \$4.3 million in state funding in the 2009-10 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. However, we identified one (1) matter unrelated to compliance that is reported as an observation.

Observation: District's Transportation Costs Exceeded the State Formula. Our audit of the Allegheny Valley School District's transportation records for the 2009-10 and 2008-09 school years found that the District paid its bus contractor more than the state formula allowance calculated by the Pennsylvania Department of Education (see page 5).

Status of Prior Audit Findings and Observations. There were no findings or observations included in our prior audit report.

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 March 11, 2010 through April 13, 2012, except for the verification of professional employee certification which was performed for the period February 1, 2010 through February 29, 2012.

Regarding state subsidies and reimbursements, our audit covered the 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 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?

- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), 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 pursue a contract buy-out with an administrator and if so, 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?
- ✓ 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 votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?

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, policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Findings and Observations

Observation

District's Transportation Costs Exceeded 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 Allegheny Valley School District's (District) transportation records for the 2009-10 and 2008-09 school years found that the District paid two (2) of its bus contractors significantly more than the state formula allowance calculated by the Pennsylvania Department of Education (PDE). This action may have resulted in an unnecessary expenditure of taxpayer funds. Our prior audit report also found that transportation contractors were paid significantly over the state formula.

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.

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

<u>School Year</u>	<u>Contractor Cost</u>	<u>Final Formula Allowance</u>	<u>Cost Over Formula</u>	<u>Percentage Over Formula</u>
2010-11	\$1,092,926	\$454,535	\$638,391	140.4%
2009-10	1,086,687	419,410	667,277	159.1%
2008-09	962,287	460,342	501,945	109.0%
2007-08	936,797	484,672	452,125	93.3%

Our audit of the services provided by the pupil transportation contractors found that over the last four (4) years the number of vehicles used to transport pupils had increased, the District's total number of pupils transported had decreased, and the number of approved annual miles vehicles traveled had decreased as follows:

<u>School Year</u>	<u>Vehicles</u>	<u>Pupils</u>	<u>Total Approved Annual Miles</u>
2010-11	33	830	229,860
2009-10	32	867	214,274
2008-09	29	932	228,321
2007-08	28	963	263,527

A query of PDE's pupil transportation data found that 486 Pennsylvania school districts, intermediate units, and area vocational-technical schools for the 2009-10 school year contracted their pupil transportation service. Approximately 27 percent of local education agencies (LEAs) paid their contractors the final formula or less. An additional 23 percent paid less than ten (10) percent over their final formula allowance. By comparison, the District paid its contractors 140 percent over the state formula for the 2010-11 school year and 159 percent over for the 2009-10 school year.

District personnel provided the auditor with the new pupil transportation contract effective July 2009 through June 2011. The contract provides for a three (3) percent increase each year of the contract. The contract did not indicate that there would be any consideration of PDE's approved final formula allowance. 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. At the time, the District chose to instead negotiate with the same local contractor that had been providing service for several prior school years.

While bidding of pupil transportation services is not required under state law, competitive bidding can result in a lower cost to District taxpayers.

Recommendations

The *Allegheny Valley 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 stated the following:

“The District will take steps to reduce transportation costs by continuing to review contracts and maximizing efficacies whenever possible. But we believe that the Pennsylvania Department of Education transportation formula does not account for smaller districts and therefore plays a part into our above average per pupil cost.”

Auditor Conclusion

We recommend that the District consider bidding transportation contracts while keeping the state's final formula allowance in mind. We also reiterate that each dollar that goes to a transportation contract that is over the state's final formula allowance is a dollar that is not going towards educating the District's students.

Status of Prior Audit Findings and Observations

Our prior audit of the Allegheny Valley School District resulted in no findings or observations.

Distribution List

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, and the following stakeholders:

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

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

The Honorable Robert M. McCord
State Treasurer
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Harrisburg, PA 17120

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Mechanicsburg, PA 17055

This report is a matter of public record and is available online at 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.