

BALDWIN-WHITEHALL SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JULY 2011

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

Mr. George L. Pry, Board President
Baldwin-Whitehall School District
4900 Curry Road
Pittsburgh, Pennsylvania 15236

Dear Governor Corbett and Mr. Pry:

We conducted a performance audit of the Baldwin-Whitehall School District (BWSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period January 11, 2008 through July 9, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. 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 BWSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

July 5, 2011

cc: **BALDWIN-WHITEHALL 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 Baldwin-Whitehall School District (BWSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the BWSD in response to our prior audit recommendations.

Our audit scope covered the period January 11, 2008 through July 9, 2010, 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 2007-08 and 2006-07.

District Background

The BWSD encompasses approximately 10 square miles. According to 2000 federal census data, it serves a resident population of 36,687. According to District officials, in school year 2007-08 the BWSD provided basic educational services to 4,217 pupils through the employment of 346 teachers, 67 full-time and part-time support personnel, and 13 administrators. Lastly, the BWSD received more than \$16.5 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the BWSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

Observation: Former District Employee Made \$298,556 in Unauthorized Disbursements. A forensic audit authorized by the BWSD found that \$298,556 of unauthorized disbursements were made by a former business office employee (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the BWSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the BWSD had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting the number of nonpublic students transported (see page 10), the Memoranda of Understanding not being updated timely (see page 11), and internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 11).



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 January 11, 2008 through July 9, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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 law, regulation, 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, regulations, and defined business practices. Our audit focused on assessing the BWS D's compliance with applicable 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:

- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do 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 which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

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 applicable 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 findings, observations 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.

BWSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, 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 pupil transportation, bus driver qualifications, 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 BWSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 26, 2009, we reviewed the BWSD's response to DE dated December 2, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

Former District Employee Made \$298,556 in Unauthorized Disbursements

In May 2009, the board of directors of Baldwin-Whitehall School District hired a forensic auditing firm to investigate possible unauthorized disbursements of District funds by a former employee.

On June 30, 2009, the firm released its report to the Board. The report found that from 2002 through 2009 the former District employee had made unauthorized disbursements totaling \$298,556 from various District funds, including:

<u>Fund Description</u>	<u>Amount Disbursed</u>
Construction Fund	\$206,825
Athletic Fund	77,857
Payroll Fund*	<u>13,874</u>
Total	<u>\$298,556</u>

*Note: Disbursements from the payroll fund included \$8,858 in unauthorized payroll checks, and \$5,016 in payroll taxes and other benefits associated with the aforementioned payroll checks.

These unauthorized disbursements were in the form of checks issued to the former employee and deposited in the former employee's personal bank account.

The audit report listed numerous internal control weaknesses that allowed these disbursements to go undetected for such a long period of time, including, but not limited to the following:

- Inadequate segregation of duties;
- Frequent turnover in the business manager position over the last several years;
- Lack of review of checks and supporting invoices; and
- Inadequate safeguards over blank check stock;

This Department concurs with the forensic auditor's recommendations for correcting these weaknesses. They are summarized as follows:

- District management should establish a standard accounting and operating procedures manual outlining policies to be followed.
- To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system possible. This segregation should include the following procedures:
 - Different employees should perform the separate duties of signing checks, processing cash disbursements, and maintaining books of original entry;
 - Segregate bank account reconciliation duties from cash disbursement duties; and
 - The employee responsible for preparing checks should be segregated from the individual mailing the same checks.
- If the current accounting software continues to be used, the current multi-user version should be purchased and installed on at least two computers, including an administrator with access to all modules and assigned staff member(s) with limited access to accounting modules per the internal control policies and procedures manual.
- At least one signature on all checks should be an original signature by an authorized signer, and the use of the electronic signature should be terminated or extremely limited;
- Original invoices or other supporting documents should accompany check requests, and checks should be signed only after the signer reviews the appropriate supporting documentation;

- All voided checks should be defaced with the signature portion of the check removed and the check retained and accounted for in numerical sequence;
- Blank check stock should be kept in a locked safe or cabinet accessible only to those with proper authorization; and
- The business manager or a board member should review monthly financial reports for any funds maintained on the current accounting software and perform analytical procedures by comparing them to a prepared budget report for the fund and investigating any large or unexpected variances.

In an effort to determine the status of the implementation of the recommendations made in the forensic audit report, Department of the Auditor General auditors met with the District's newly-hired business manager. The following was learned:

- The District is still in the process of developing a comprehensive policy and procedures manual for the business office. The business manager hopes to have this completed in the next few months. The reason for the delay was the lack of a full-time business manager for nearly a year.
- The District has begun segregating the duties within the business office regarding bank account deposit and reconciliation duties, cash disbursement duties, check preparation and mailing of checks.
- The District is purchasing a new software accounting package that should be fully functional by January 2011.
- The District submitted a claim to its insurance carrier for reimbursement of the unauthorized disbursements. The District was reimbursed for all unauthorized disbursements, less the policy's \$3,500 deductible.

Additionally, we performed audit procedures that found the following:

- Original invoices accompany check requests, and the requests are reviewed and approved by appropriate personnel prior to payment;
- Voided checks are accounted for; and
- Check stock is kept in a safe.

Recommendation

The *Baldwin-Whitehall School District* should:

1. Continue implementation of the changes recommended in the forensic audit report.
2. We will evaluate the District's progress during our next audit.

Management Response

Management stated the following:

We agree with the observation made in the report and the Baldwin-Whitehall School District takes very seriously its responsibilities for adopting sound policies, establishing and maintaining internal controls to safeguard District assets. The District acknowledges its special duty to ensure its resources are properly managed and have taken numerous measures to strengthen controls including the development of a procedures manual, staff training on proper internal controls and appropriate segregation of duties. We will continue to develop and monitor our internal control structure and ensure our assets are safeguarded and utilized in an effective and efficient manner.

Status of Prior Audit Findings and Observations

Our prior audit of the Baldwin-Whitehall School District (BWSD) for the school years 2005-06 and 2004-05 resulted in one reported finding and two reported observations. The finding pertained to errors in reporting nonpublic pupils transported, the first observation pertained to Memoranda of Understanding (MOU) not being updated timely, and the second observation pertained to internal control weaknesses in administrative policies regarding bus driver qualifications. 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 BWSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding and observations. As shown below, we found that the BWSD did implement recommendations related to the finding and observations.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding: **Errors in Reporting the Number of Nonpublic Students Transported Resulted in Reimbursement Overpayments of \$71,610**

Finding Summary: Our prior audit of the District's pupil transportation data submitted to DE for the 2005-06 and 2004-05 school years found errors in reporting nonpublic pupils transported. The errors resulted in reimbursement overpayments of \$40,040 and \$31,570, respectively.

Recommendations: Our audit finding recommended that the BWSD:

1. Require District personnel responsible for transportation to be familiar with DE instructions and guidelines for reporting nonpublic students transported.
2. Require District personnel responsible for pupil transportation reporting to review subsequent years' transportation reports and make revisions, if necessary.

We also recommended that DE:

3. Adjust the District's future allocations to recover the reimbursement overpayments of \$71,610.

Current Status: Our current audit found only insignificant errors in reporting nonpublic pupils transported for the 2007-08 and 2006-07 school years.

Based on the results of our current audit, we determined the District did take appropriate corrective action.

As of July 9, 2010, DE had yet to adjust District allocations to recover the overpayments.

We again recommend that DE recover the overpayments of \$71,610.

Observation No. 1: Memorandum of Understanding Not Updated Timely

Observation Summary: Our prior audit of the District's records found that the MOUs between the District and its three local law enforcement agencies had not been updated since they were signed December 1, 1998.

Recommendations: Our audit observation recommended that the BWSD:

Approve the current MOU and adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status: Our current audit found that the MOU's have been updated within the last two years, and will be updated at least every two years in the future.

Based on the results of our current audit, we determined the District did take appropriate corrective action.

Observation No. 2: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Observation Summary: Our prior audit found that the District did not have written policies or procedures in place to ensure that it was notified if current employees were charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.

Recommendations: Our audit observation recommended that the BWSD:

1. Develop a process to determine, on a case-by case basis, whether prospective employees and current employees of the District have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.

2. Implement written policies and procedures to ensure that the District is notified when current employees of the District are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children and to ensure that the District considers on a case-by-case basis whether any conviction of a current employee should lead to and employment action

Current Status:

Our current audit found that the District selects a 25 percent random sample of current bus drivers and checks their records on the State Police web site. This is done yearly and checks will be done monthly to spread it out over the year. If an employee has an infraction the driver's record is reviewed immediately.

Based on the results of our current audit, we determined the District did take appropriate corrective action.

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:

The Honorable Tom Corbett
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The Honorable Ronald J. Tomalis
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1010 Harristown Building #2
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