

PERFORMANCE AUDIT

New Castle Area School District Lawrence County, Pennsylvania

May 2016



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
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. John Sarandrea, Superintendent
New Castle Area School District
420 Fern Street
New Castle, Pennsylvania 16101

Mr. George Gabriel, Board President
New Castle Area School District
420 Fern Street
New Castle, Pennsylvania 16101

Dear Mr. Sarandrea and Mr. Gabriel:

We have conducted a performance audit of the New Castle Area School District (District) for the period July 1, 2012 through June 30, 2015, except as otherwise stated. We evaluated the District's performance in the following areas:

- Governance
- Financial Stability
- School Safety
- Bus Driver Requirements
- Data Integrity

The audit 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 performed adequately in the areas listed above. 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

May 19, 2016

cc: **NEW CASTLE AREA SCHOOL DISTRICT** Board of School Directors

Table of Contents

	Page
Background Information	1
Findings and Observations	4
Status of Prior Audit Findings and Observations	5
Appendix: Audit Scope, Objectives, and Methodology	9
Distribution List	12

Background Informationⁱ

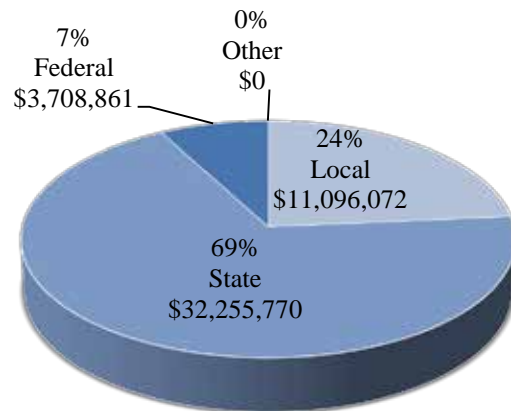
School Characteristics 2014-15 School Year ⁱⁱ	
County	Lawrence
Total Square Miles	13
Resident Population ⁱⁱⁱ	24,325
Number of School Buildings	5
Total Teachers	224
Total Full or Part-Time Support Staff	140
Total Administrators	14
Total Enrollment for Most Recent School Year	3,077
Intermediate Unit Number	IU 4
District Vo-Tech School	Lawrence County

Mission Statement

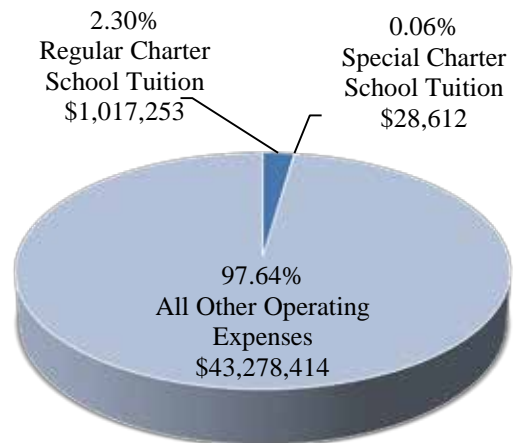
“The New Castle Area School District is a public school focused on student centered learning that fosters respect, responsibility, resiliency and academic achievement for all students in the 21st century. Along with community partnerships, we will continue to provide a safe and caring learning environment that promotes educational excellence.”

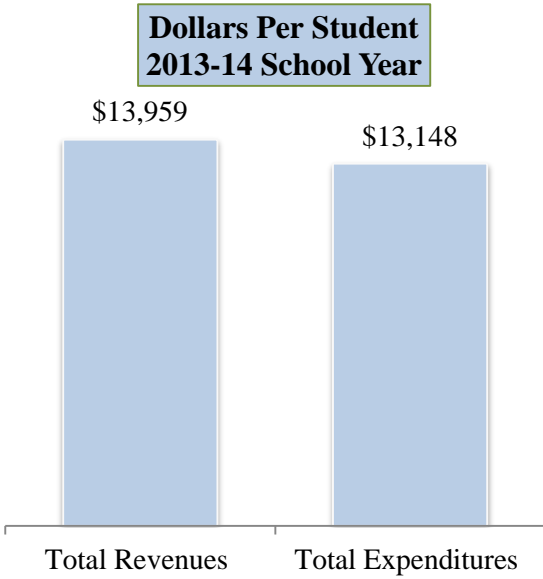
Financial Information

Revenue by Source for 2014-15 School Year



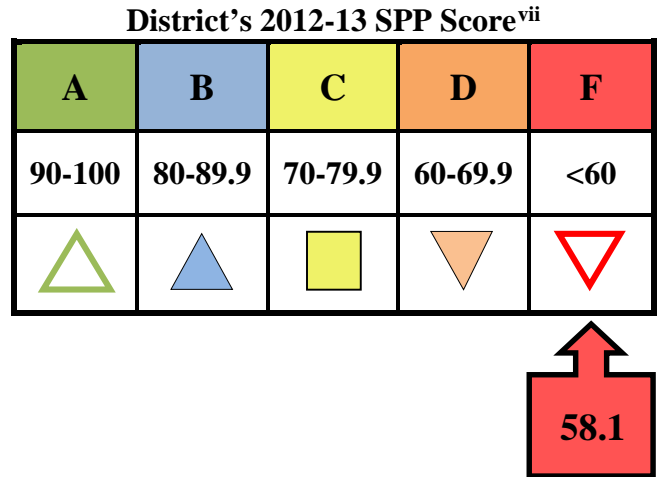
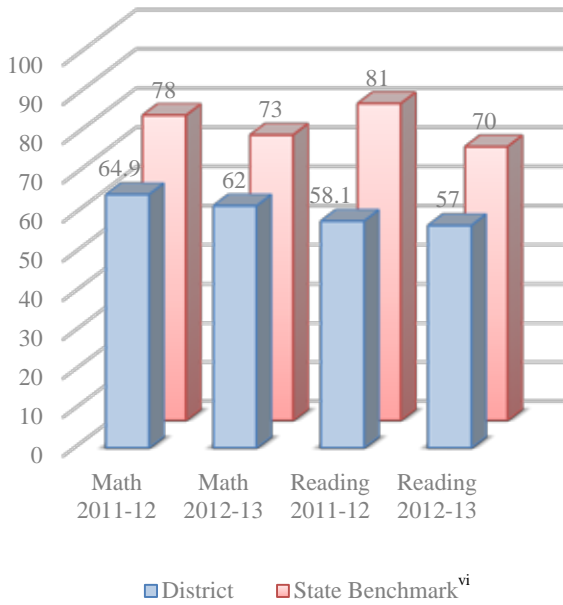
Select Expenditures for 2014-15 School Year





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 of 73% Above or Below	PSSA % School Proficient and Advanced in Reading	PSSA % Statewide Benchmark of 70% Above or Below	Federal Title I Designation (Reward, Priority, Focus, No Designation)^{ix}
John F Kennedy	82.2	80	7	78	8	No Designation
New Castle JSHS	62.5	61	12	57	13	No Designation
Thaddeus Stevens School	70	66	7	65	5	No Designation
Washington Intermediate School	57	58	15	51	19	No Designation
West Side School	88	91	18	85	15	No Designation

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 June 10, 2013, resulted in three 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 reviewed the District's written response provided to the Pennsylvania Department of Education (PDE), interviewed District personnel, and performed audit procedures as detailed in each status section below.

Auditor General Performance Audit Report Released June 10, 2013

Prior Finding No. 1: Internal Control Weaknesses and Violations of Board Policy Resulted in a Loss of \$110,664 in Parent-Paid Tuition (Resolved)

Prior Finding Summary: Our prior audit found that nonresident children of the District employees were enrolled as residents without documentation to demonstrate their eligibility for residency status. This error cost the District \$110,664 of parent-paid tuition.

Prior Recommendations:

We recommended that the District should:

1. Obtain and retain appropriate legal documentation to verify the guardianship and residency of all students enrolled within the District.
2. Establish additional mechanisms for ensuring that District personnel enrolling students follow the provisions of the Public School Code (PSC) and Board Policy No. 202.
3. Establish accountability procedures that allow the administration and the Board of School Directors (Board) to monitor compliance with all internal processes.
4. Bill the parents and pursue collection of tuition owed to the District for the educational services the District provided.

Current Status: The District did implement our prior recommendations. On August 14, 2013, the District approved Board Policy No. 200, *Enrollment of Students*. On February 14, 2014, the District added additional language to the policy. This additional language requires the enrolling principal to verify the address of all children of District employees. The \$110,664 noted in the prior audit was adjusted to \$73,007 due to the District having a board approved tuition rate for

nonresident pre-kindergarten and kindergarten students that was lower than the tuition rate used in the prior audit. As of April 29, 2016, the District has an outstanding balance of \$67,802 and continues to receive tuition reimbursement from the employees through payroll deductions.

Prior Finding No. 2: Lack of Operational Guidelines and Parameters Governing Umbrella Fund (Resolved)

Prior Finding Summary:

Our prior audit of the District's Activity Umbrella Fund found a lack of written operation guidelines governing the fund, as well as noncompliance with the PSC, and with the District's board policy.

Prior Recommendations:

We recommended that the District should:

1. Implement written guidelines and parameters governing the operation of the Activity Umbrella Fund to ensure adequate internal control.
2. Ensure competitive quotes and/or bids are obtained in compliance with Section 807.1 of the PSC and Board Policy No. 610.
3. Ensure prior board approval is received for all expenditures made from the Activity Umbrella Fund.

Current Status:

The District did implement our prior recommendations. Written guidelines and parameters regarding the Umbrella Fund were implemented as part of Board Policy No. 625, which was originally adopted November 2012, after our prior audit fieldwork, and was revised on January 16, 2013. A test of current Umbrella Fund practices showed that competitive quotes were obtained and retained and that board approval was sought and received for expenditures made from the Umbrella Fund.

Prior Finding No. 3: Improper Student Activity Fund Practices and Lack of Documentation (Resolved)

Prior Finding Summary:

Our prior audit of the District's 2011-12 school year student activity funds found deficiencies in the management and controls of the funds.

Prior
Recommendations:

We recommended that the District should:

1. Adhere to the Pennsylvania Association of School Business Officials (PASBO) publication, *An Administrator's Guide to the Development of Effective Student Activities Fund Policies and Procedures (PASBO Guide)* for student activity funds, as doing so is the official board policy of the District. The District should also adhere to Section 511 of the PSC, as well as Board Policy No. 618.
2. Establish a procedure whereby student activity records are available for audit. The PASBO Guide states that records must be available for audit by local auditors and the Pennsylvania Department of the Auditor General.
3. Ensure that each account operating within the student activity funds is controlled by a formal student organization and that each account is documented by by-laws, student officer listings, and meeting minutes.
4. Ensure proper student authorization is obtained on all payment authorization forms.
5. Abolish all inactive accounts.
6. Require administrative personnel to ensure accounts have sufficient fund balance to ensure debt is not encumbered without adequate revenue in the individual accounts by requiring advisors and club treasurers to keep track of their individual account balances.
7. Provide an extensive training program for all District administrative personnel, secretaries, and club advisors in reference to the student activity funds' operations, record keeping, and student involvement.
8. Review and revise board policy to ensure adequate internal control of the accounts and funds.

Current Status:

The District did implement our prior recommendations. Board Policy No. 618, *Student Activity Funds*, was revised on November 14, 2012. This policy incorporates our Recommendation No. 2. In addition, written procedures are now in place. All student activity records were available for audit. A test of the student activity funds showed formal student organization by way of club by-laws, student officer listings,

and meeting minutes. Student authorization was obtained on payment authorization forms. Training was provided to all District administrative personnel, secretaries, and club advisors regarding the operations, record keeping, and student involvement of the District's student activity funds.

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 Code,¹ is not a substitute for the local annual financial audit required by the PSC 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 based on our audit.

Scope

Overall, our audit covered the period July 1, 2012 through June 30, 2015. In addition, the scope of each individual audit objective is detailed on the next page.

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, 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:

- Governance
- Financial Stability
- School Safety
- Bus Driver Requirements
- Data Integrity

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 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 Based on an assessment of fiscal benchmarks, was the District in a declining financial position, and did it comply with all statutes prohibiting deficit fund balances and the over expending of the District's budget?
 - o To address this objective, we reviewed the District's annual financial reports, budget, independent auditor's reports, and general ledger for fiscal years July 1, 2011 through June 30, 2015. The financial and statistical data was used to calculate ratios and trends for 22 benchmarks, which were deemed appropriate for assessing the District's financial stability. The benchmarks are based on best business practices established by several agencies, including PASBO, the Colorado Office of the State Auditor, and the National Forum on Education Statistics.

- 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. In addition, we conducted an on-site review at one of the District’s four school buildings to assess whether the District had implemented basic safety practices.

- 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 outlined in applicable laws?³ Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?
 - To address this objective, we selected five of the nine bus drivers hired by the District and District bus contractor(s), during the period July 1, 2012 through February 28, 2016, and reviewed documentation to ensure the District complied with bus driver’s 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.

- Ü In areas where the District received state subsidies and reimbursements based on nonresident student membership, did it follow applicable laws and procedures?
 - To address this objective, auditors reviewed placement information on all 6 of the District’s nonresident students in the 2013-14 school year and all 19 students in the 2012-13 school year. We reviewed these students’ residency information to ensure that the students met the requirements to be classified as nonresident.

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

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.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 material 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.