



**STEEL VALLEY SCHOOL DISTRICT  
ALLEGHENY COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**SEPTEMBER 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

Ms. Beth Cannon, Board President  
Steel Valley School District  
220 East Oliver Road  
Munhall, Pennsylvania 15120

Dear Governor Corbett and Ms. Cannon:

We conducted a performance audit of the Steel 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 June 8, 2009 through December 23, 2011, 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, except as detailed in one finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative 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

September 23, 2013

cc: **STEEL VALLEY SCHOOL DISTRICT** Board of School Directors

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Steel Valley School District (District). 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 June 8, 2009 through December 23, 2011, 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 4 square miles. According to 2010 federal census data, it serves a resident population of 16,500. According to District officials, the District provided basic educational services to 1,808 pupils through the employment of 161 teachers, 68 full-time and part-time support personnel, and 11 administrators during the 2009-10 school year. Lastly, the District received \$12 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, except for one compliance related matter reported as a finding.

#### **Finding: Memoranda of Understanding with Local Law Enforcement Not Updated Timely**

Our audit found that the Memoranda of Understanding (MOUs) between the Steel Valley School District (District) and one local law enforcement agency had not been updated since August 19, 2009. Furthermore, we found that the District failed to update MOUs with two other local law enforcement agencies that were the subject of a finding in our prior audit report (see page 5).

#### **Status of Prior Audit Findings and Observations**

With regard to the status of prior audit recommendations to the Steel Valley School District (District) released on March 4, 2011, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to costly buy-outs of its former Superintendent and the Director of Operational Services (see page 7) and inadequate documentation supporting pupil transportation (see page 8).

We found the District had not taken appropriate corrective action in updating its Memorandum of Understanding timely (see page 9).

## Audit Scope, Objectives, and Methodology

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### 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 June 8, 2009 through December 23, 2011, except for the verification of professional employee certification which was performed for the period July 1, 2011 through December 23, 2011.

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 (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 transportation subsidies, were the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ 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 accurately report its membership numbers to PDE, and were its average daily membership and tuition billings accurate?
- ✓ 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?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ 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 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 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 control 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 and policies and procedures.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 4, 2011, we performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Memoranda of Understanding with Local Law Enforcement Not Updated Timely

*Criteria relevant to the finding:*

24 P.S. 13-1303-A(c) of the Public School Code, as amended November 17, 2010, provides, in part:

“Each chief school administrator shall enter into a memorandum of understanding with police departments having jurisdiction over school property of the school entity. Each chief school administrator shall submit a copy of the memorandum of understanding to the office by June 30, 2011, and biennially update and re-execute a memorandum of understanding with local law enforcement and file such memorandum with the office on a biennial basis.”

The effective date of this amended provision was **February 15, 2011**. The “office” refers to the Office for Safe Schools within the Pennsylvania Department of Education. The term “biennially” means an event that occurs every two years.

Our audit found that the Memoranda of Understanding (MOUs) between the Steel Valley School District (District) and one local law enforcement agency had not been updated since August 19, 2009. Furthermore, the District still had not updated its MOUs with two other local law enforcement agencies since March 4, 1996. This deficiency was cited in our prior audit (see page 9).

Recently enacted amendments to the safe schools provisions of the Public School Code expand on the requirement to develop a MOU with local law enforcement. Beginning with the first filing deadline of June 30, 2011, public schools must biennially update and re-execute these MOUs and file them with the Pennsylvania Department of Education’s Office of Safe Schools on a biennial basis.

The failure to update the MOUs with all pertinent local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and the agencies if an incident occurs on school grounds, at any school-sponsored activity, or on any vehicle providing transportation to or from a school. Noncompliance with the requirement to biennially update and re-execute a MOU could impede a local law enforcement agency’s notification and response, and ultimately, the resolution of a problem situation.

### Recommendations

The *Steel Valley School District* should:

1. In consultation with the District’s solicitor, immediately review, update, and re-execute the current MOU between the District and all the local law enforcement agencies that have jurisdiction over school property.
2. In consultation with the District’s solicitor, immediately review new requirements for MOUs and other school safety areas under the Public School Code to ensure compliance with amended safe schools provisions.
3. Adopt an official board policy requiring District administration to biennially update and re-execute all



MOUs with local law enforcement agencies and file a copy with the Pennsylvania Department of Education's Office of Safe Schools on a biennial basis, as now required by law.

**Management Response**

Management stated the following:

“The Memorandum of Understanding has been obtained from all three boroughs for 2012.”

**Auditor Conclusion**

We commend the District for obtaining the required agreements with the local law enforcement agencies. However, given that the District has repeatedly failed to update its MOUs on time, it should also establish a board policy that ensures that these documents are re-executed biennially, as required by law. We will verify this during our next audit.

## Status of Prior Audit Findings and Observations

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Our prior audit of the Steel Valley School District (District) released on March 4, 2011, resulted in two findings and one observation. The first finding pertained to costly buy-outs of the former Superintendent and the Director of Operational Services, and the second pertained to inadequate documentation for transportation. The observation pertained to the Memoranda of Understanding that was not updated timely. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and interviewed District personnel regarding the prior findings and observation. As shown below, we found that the District partially implemented our recommendations related to contract buy-outs and implemented recommendations related to inadequate documentation of pupil transportation. The District did not implement our recommendations related to Memorandum of Understanding.

### Auditor General Performance Audit Report Released on March 4, 2011

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**Finding No. 1: Costly Buy-outs of Former Superintendent and Director of Operational Services**

Finding Summary: Our prior audit found that the District entered into two different separation agreements, one with the former Superintendent and one with the Director of Operational Services. Both agreements were costly buy-outs to the District taxpayers.

Recommendations: Our audit finding recommended that the District:

1. Enter into employment contracts with prospective superintendents at the three-year minimum term permitted by state law, in order to limit potential financial liability by the District and its taxpayers.
2. Ensure that all future employment contracts contain adequate termination provisions sufficient to protect the interests of the District and its taxpayers in the event that the employment ends prematurely for any reason.
3. Follow the termination provisions contained in all future employment contracts when employment ends prematurely, so that the District does not pay more than required by the contracts.
4. Provide as much information as possible to the taxpayers of the District explaining the reasons for the resignations of the Superintendent and Director of Operational Services and justifying the District's expenditure of a significant amount of public funds to buy-out the contracts.

Current Status: During our current audit, we found that the District partially implemented our prior recommendations. Specifically, the District did include the provisions suggested above in the current superintendent's contract. However, after reviewing the current Director of Operational Services' contract, we determined that it did not include adequate termination provisions to protect the District. We recommend the District re-evaluate the termination provisions in that contract to protect it from a costly buy-out.

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**Finding No. 2: Inadequate Documentation Supporting Pupil Transportation Reimbursement**

Finding Summary: Our prior audit of pupil transportation records and reports for the 2007-08, 2006-07, 2005-06, and 2004-05 school years found weaknesses in the District's system of internal controls. As a result, we were unable to verify the District's entitlement to reimbursements of \$146,448, \$124,589, \$143,626, and \$149,561 for the respective school years.

Recommendations: Our audit finding recommended that the District:

1. Prepare and maintain daily records of pupil counts and mileage data, as required by the Pennsylvania Department of Education (PDE) instructions and State Board of Education regulations.
2. Prepare detailed route descriptions and perform a yearly verification of all bus routes and mileages to ensure contracted buses follow board-approved routes.
3. Conduct an internal review to ensure the accuracy of daily mileage and pupil counts reported to PDE.
4. Maintain on file the source documentation used to calculate and report transportation data to PDE.

Current Status: During our current audit, we found that the District did implement our prior recommendations and that it has adequate documentation to support the pupil transportation data reported to PDE for reimbursement purposes.

**Observation: Memoranda of Understanding Not Updated Timely**

Observation  
Summary:

Our prior audit of the District's records found that the District had on file the properly signed Memoranda of Understanding (MOUs) with its local law enforcement agencies. However, for two of the three local law enforcement agencies, the MOUs had not been updated since March 4, 1996.

Recommendations: Our audit observation recommended that the District:

1. In consultation with the District's solicitor, review, update, and re-execute the current MOUs between the District and the local law enforcement agencies.
2. Adopt a policy requiring the administration to review and execute all MOUs every two years.

Current Status: During our current audit, we found that the District did not implement our prior recommendations. (See the finding in our current audit report.) In addition, a third MOU has also not been updated as required.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at [www.auditorgen.state.pa.us](http://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

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