



**BLACKHAWK SCHOOL DISTRICT
BEAVER 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

Mr. Richard Oswald, Board President
Blackhawk School District
500 Blackhawk Road
Beaver Falls, Pennsylvania 15010

Dear Governor Corbett and Mr. Oswald:

We conducted a performance audit of the Blackhawk School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period September 30, 2010 through December 31, 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 applicable state laws, contracts, grant requirements, and administrative procedures, 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 dark ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

September 17, 2013

cc: **BLACKHAWK 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 Blackhawk School District (District). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, 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 September 30, 2010 through December 31, 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 65 square miles. According to 2010 federal census data, it serves a resident population of 17,763. According to District officials, the District provided basic educational services to 2,579 pupils through the employment of 186 teachers, 76 full-time and part-time support personnel, and 9 administrators during the 2009-10 school year. Lastly, the District received \$13.3 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 applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance related matter reported as a finding.

Finding: Errors in Reporting Pupil Membership Resulted in a Reimbursement Overpayment of \$72,779.

Our audit of the Blackhawk School District's nonresident pupil membership for the 2008-09 school year found errors in the report submitted to the Pennsylvania Department of Education, resulting in an overpayment of \$72,779 in Commonwealth-paid tuition for children placed in private homes (foster children) (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendation to the Blackhawk School District (District) from an audit released on July 5, 2011, we found that the District had taken appropriate corrective action in implementing our recommendation pertaining to the failure of the District to have all school bus drivers' qualifications on file (see page 7).

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 September 30, 2010 through December 31, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011 through December 31, 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 (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 applicable state laws, 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 PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ 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, and any contracted vendors, ensure that their 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 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

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.

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, contracts, grant requirements, and administrative procedures.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. 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 applicable state laws, contracts, grant requirements, and administrative procedures 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 July 5, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

Resident and nonresident membership data must be maintained in accordance with the Pennsylvania Department of Education guidelines and instructions, since they are major factors in determining the District's subsidies and reimbursements.

Errors in Reporting Pupil Membership Resulted in a Reimbursement Overpayment of \$72,779

Our audit of the Blackhawk School District's (District) pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2008-09 school year found reporting errors. District personnel inaccurately reported membership for children placed in private homes (foster children).

Nonresident membership was overstated by 1,440 elementary and 180 secondary days for the foster children, resulting in a total overpayment of \$72,779.

The errors were due to District personnel misclassifying membership for resident students as membership for foster children. The misclassification occurred when the children were enrolled in the District's schools and the appropriate box was not checked by the District staff person when they were entered into the child accounting system.

It is the responsibility of District management to have internal policies and procedures in place to ensure that student data is accurately collected and reviewed before it is submitted to PDE. Without such internal controls in place, the District cannot be assured that it is receiving the appropriate reimbursement payments.

Recommendations

The *Blackhawk School District* should:

1. Implement enhanced internal control procedures that require someone other than the person entering the enrollment data into the child accounting software to review the information entered.
2. Provide regular in-service training to administrative and clerical personnel responsible for recording and reporting membership data. This training should stress the importance of maintaining accurate records and the relationship of membership data to state subsidies and reimbursements.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to recover the overpayment of \$72,779.

Management Response

Management stated the following:

“This problem developed because nine students were designated for the 2008-2009 and 2009-2010 school years in the child accounting system as non-residents when they were in fact residents. These errors seem to have been made when the students entered Kindergarten and the proper box was not checked in the system. These errors occurred over several years and some of the students were carried in the system several years without the errors being discovered. When the District reported orphans and court placed children, all students shown in the system as non-resident were reported, including the nine incorrectly designated as non-residents in the 2008-2009 school year. They were not reported in the 2009-2010 year. All the errors seem to have been corrected during the 2009-2010 school year. In the future the District will verify the status of all students reported as orphans or court placed prior to submitting a report.”

Auditor Conclusion

While we are encouraged that the District was able to identify the cause of the improper reporting of student data, we must stress that if the appropriate internal controls were in place, the error would have most likely been identified and eliminated before the incorrect information was reported to PDE and before the District received over \$72,000 in improper reimbursements. We will examine the new procedure the District has put into place during our next audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Blackhawk School District (District) released on July 5, 2011, resulted in one finding. The finding pertained to the District's failure to have all school bus drivers' qualifications on file. 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 finding. As shown below, we found that the District did implement our recommendation related to the failure to have all bus drivers' qualifications on file.

Auditor General Performance Audit Report Released on July 5, 2011

| | |
|-------------------------|---|
| Finding: | Failure to Have All School Bus Drivers' Qualifications on File |
| <u>Finding Summary:</u> | Our prior audit of the District's school bus drivers' qualifications for the 2009-10 school year found that not all records were on file at the time of our audit. |
| <u>Recommendations:</u> | Our audit finding recommended that the District: Adhere to the provisions of Section 111 of the Public School Code ensuring that all bus drivers have the required background checks prior to employment, and that those records are maintained in the District's files and records. |
| <u>Current Status:</u> | During our current audit, we found that the District did implement our recommendation. |

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at 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
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Harrisburg, PA 17126

The Honorable Robert M. McCord
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This report is a matter of public record and is available online at www.auditorgen.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@auditorgen.state.pa.us.