

PERFORMANCE AUDIT

Freeport Area School District Armstrong County, Pennsylvania

March 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Daniel Lucovich, Board President
Freeport Area School District
621 South Pike Road
Sarver, Pennsylvania 16055

Dear Governor Wolf and Mr. Lucovich:

We conducted a performance audit of the Freeport Area 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 January 23, 2012 through October 31, 2014, except as otherwise stated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. 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.

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

March 19, 2015

cc: **FREEPORT AREA 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 Freeport Area School District (District) in Armstrong 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 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 January 23, 2012 through October 31, 2014, except as otherwise stated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2010-11 and 2011-12 school years.

District Background

The District encompasses approximately 54 square miles. According to 2010 federal census data, it serves a resident population of 11,756. According to District officials, the District provided basic educational services to 2,020 pupils through the employment of 140 teachers, 102 full-time and part-time support personnel, and 11 administrators during the 2011-12 school year. The District received \$10.5 million in state funding in the 2011-12 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. Our audit resulted in no findings or observations.

Status of Prior Audit Findings and Observations

With regard to the status of our prior audit recommendations to the Freeport Area School District (District) from an audit released on November 1, 2012, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to membership. However, the continuing errors were insignificant in nature (see page 7). We also found that the District had taken appropriate corrective action in implementing our recommendations pertaining to transportation (see page 8).

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 January 23, 2012 through October 31, 2014, except for the verification of professional employee certification which was performed for the period July 1, 2014 through September 22, 2014.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 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?
 - To address this objective, auditors reviewed and evaluated certification documentations for all 49 teachers and administrators that did not have permanent certificates, were newly hired, or changed assignment at the time of our audit.

- ✓ In areas where the District received state subsidies and reimbursements based on non-resident pupil membership, did the District follow applicable laws [24 P.S. § 13-1301, 13-1302, 13-1305, and 13-1306] and procedures [22 *PA Code Chapter 11*]?
 - To address this objective, auditors reviewed placement information on all four (4) of the District's non-resident students for the 2010-11 school year and all eight (8) of the District's non-resident students for the 2011-12 school year.

- ✓ In areas where the District received state subsidies and reimbursements based on payroll, did the District follow applicable laws [24 P.S. § 8326 and 24 P.S. § 8535] and procedures?

To address this objective:

- Auditors verified total Social Security wages paid for employees who worked for a local education agency before July 1, 1994, considered existing employees, and those that were hired after July 1, 1994, considered new employees.
-
- ✓ Did the District ensure that bus drivers transporting District children at the time of the audit had the necessary license, physicals, training, background checks, and clearances as outlined in 24 P.S. § 1-111, 24 P.S. § 2070, 67 P.S. § 71.1, 22 *PA Code Chapter 8*, and 23 *PA C.S. § 58-6354*, and did they have written policies and procedures governing the hiring of new bus drivers?

To address this objective:

- The auditors initially selected the 5 newest drivers out of a total population of 54 drivers and worked backwards to the last time the Bureau of School Audits audited the District and reviewed bus driver compliance. Auditors ensured that all of the new drivers not reviewed during the previous audit were selected for review and included both district-employed and contractor-employed drivers, as appropriate.

- The auditors also requested copies of the written policies and procedures governing the hiring of bus drivers to determine that these processes included requesting background checks and clearances.
- ✓ Did the District take appropriate steps to ensure school safety?

To address this objective:

- The auditors reviewed a variety of documentation including safety plans, training schedules, anti-bullying policies, and after action reports to assess whether the District followed best practices in school safety and 24 P.S. Sect. 13-1302, 1302.1A, 13-1303.1, and 13-1303 A. Generally, the auditors evaluate the age of the plan, whether it is being practiced through training and whether the school has an after action process for trying to improve on the results of its training exercises.
- In addition, the auditors conducted on-site reviews at three (3) out of the District's five (5) school buildings to assess whether they had implemented basic physical safety practices based on national best practices.
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

To address this objective:

- The auditors interviewed District administrators to determine whether they had taken corrective action.
- The auditors then reviewed documentation to verify that the administration had implemented the prior audit report's recommendations and/or observed these changes in person.

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, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, financial stability, reimbursement applications, 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.

To determine the status of our audit recommendations made in a prior audit report released on November 1, 2012, we reviewed the District's response to PDE dated March 13, 2013. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Freeport Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Freeport Area School District (District) released on November 1, 2012, resulted in two (2) findings. The first finding pertained to pupil membership, and the second finding pertained to pupil transportation. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings. As shown below, we found that the District did not implement our recommendations related to pupil membership but did implement our recommendations related to pupil transportation.

Auditor General Performance Audit Report Released on November 1, 2012

Finding No. 1: Errors in Reporting Pupil Membership Resulted in Overpayment of \$17,837

Finding Summary: Our prior audit found that the District's pupil membership reports submitted to PDE for the 2008-09 and 2009-10 school years were inaccurate. The errors resulted in overpayments in Commonwealth-paid-tuition for children placed in private homes (foster children) of \$7,246 and \$10,591 for the 2008-09 and 2009-10 school years, respectively.

Recommendations: Our audit finding recommended that the District should:

1. Perform an internal review of all pupil membership reports and supporting documentation before submission to PDE.
2. Review subsequent school years' membership reports for accuracy and resubmit if necessary.

We also recommended that PDE should:

3. Adjust the District's future allocations to correct the overpayment of \$17,837.

Current Status: During our current audit, we found that the District did not implement our prior recommendations. However, the continuing errors were insignificant in nature. We reiterated our prior recommendations in a verbal comment presented on October 30, 2014. As of October 31, 2014, PDE had not adjusted the District's allocations to correct the overpayment.

Finding No. 2: Internal Control Weaknesses and Errors in Reporting Pupil Transportation Data

Finding Summary: Our prior audit of the District's pupil transportation data submitted to PDE for the 2008-09 and 2009-10 school years found internal control weaknesses and errors in reporting the number of nonpublic pupils transported.

Recommendations: Our audit finding recommended that the District should:

1. Have a system in place to verify bus mileage has not changed by taking monthly mileage reading.
2. Correct the transportation software program for pupil count so it will include all pupils who entered late or withdrew during the year.
3. Report only those nonpublic pupils that the District actually transports.
4. Perform a review of subsequent years' data for accuracy and resubmit reports if necessary.

We also recommended that PDE should:

5. Adjust the District's future allocations to correct the overpayments of \$3,080.

Current Status: During our current audit, we found that the District did implement our prior recommendations starting with the 2014-15 school year. As of October 31, 2014, PDE had not adjusted the District's allocations to correct the overpayment.

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

Christopher B. Craig, *Esq.*
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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, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditor.gen.state.pa.us.