

# PERFORMANCE AUDIT

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## Baldwin-Whitehall School District Allegheny County, Pennsylvania

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June 2015



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

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

Mr. Ray Rosing, Board President  
Baldwin-Whitehall School District  
4900 Curry Road  
Pittsburgh, Pennsylvania 15236

Dear Governor Wolf and Mr. Rosing:

We conducted a performance audit of the Baldwin-Whitehall 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 July 9, 2010 through November 6, 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, 2009, 2010, 2011, and 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 significant noncompliance with relevant requirements, as detailed in the three audit findings within this report. A summary of the results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District and a number of different government entities, including the Pennsylvania Department of Education.

Our audit findings 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

June 19, 2015

cc: **BALDWIN-WHITEHALL 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 Baldwin-Whitehall School District (District) in Allegheny 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 July 9, 2010 through November 6, 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 2008-09, 2009-10, 2010-11, and 2011-12 school years.

### **District Background**

The District encompasses approximately ten square miles. According to 2010 federal census data, it serves a resident population of 35,703. According to District officials, the District provided basic educational services to 4,428 pupils through the employment of 284 teachers, 58 full-time and part-time support personnel, and 11 administrators during the 2011-12 school year. The District received \$18 million in state funding in the 2011-12 school year.

### **Audit Conclusion and Results**

Our audit found significant noncompliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, as detailed in the three audit findings within this report.

**Finding No. 1: The Baldwin-Whitehall Board of School Directors Frequently Exercised Poor Governance Over the District, Including a Failure to Comply with the Public School Code.** Our audit found that the District's Board of School Directors (Board) frequently exercised poor governance over the District. We determined that this poor governance by the Board manifested itself in three main areas. Audit test-work revealed that the Board failed to properly oversee the District's fiscal operations, failed to adhere to its own board policy, and failed to fully comply with the Public School Code (see page 8).

**Finding No. 2: Lack of Internal Controls Over the Use of District Procurement Cards.** Our audit found that the District failed to adhere to the board policies, approved manuals, and procedures governing the use of procurement cards (see page 16).

**Finding No. 3: Inadequate Documentations to Support Commonwealth-Paid Tuition for Institutionalized Children and Children Placed in Private Homes.** Our audit of the District's pupil membership records for the 2008-09, 2009-10, 2010-11, and 2011-12 school years found that the District did not maintain adequate documentation to support membership days reported to the

Pennsylvania Department of Education for non-resident students placed in private homes (foster children) or for children placed in institutions (state wards) (see page 20).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the District from an audit released on July 5, 2011, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to unauthorized disbursements (see page 24).

## 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 July 9, 2010 through November 6, 2014, except for the verification of professional employee certification which was performed for the period July 1, 2012 through June 30, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2008-09, 2009-10, 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:

- ü Were professional employees certified for the positions they held?
  - o To address this objective, auditors reviewed and evaluated certification documentation for all sixteen teachers and administrators that did not have permanent certificates, were newly hired, or changed assignment at the time of our audit.

Ü In areas where the District received state subsidies and reimbursements based on non-resident pupil membership, did it 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 10 of the District's non-resident students in the 2008-09 school year, all 20 non-resident students in the 2009-10 school year, and all 8 non-resident students in school years 2010-11 and 2011-12, respectively.

Ü Did the District ensure that bus drivers transporting District children at the time of the audit have 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 five newest drivers out of the ten "new drivers" from the current school year 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.

Ü 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?

- To address this objective, the auditors reviewed the contract(s), settlement agreement(s), board meeting minutes, board policies, and payroll records for any administrator whose District contract was bought-out.

Ü Were votes made by the District's Board of School Directors free from apparent conflicts of interest?

- To address this objective, auditors reviewed for the 2011 calendar year all 13 of the sitting and recent board members' and for the 2012 calendar year all 10 of the sitting and recent board member's employment history, Statements of Financial Interest, board meeting minutes, and any known outside relationships with the District.

Ü 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 for the most current year available?

To address this objective:

- The auditors randomly selected 20 out of 4,296 total registered students (5 resident, 5 non-resident, 5 intermediate units, and 5 area vocational-technical schools) from the vendor software listing and verified that each child was appropriately registered with the District.



- In addition, the auditors randomly selected 2 out of 14 school terms reported on the Summary of Child Accounting and verified the school days reported on the Instructional Time Membership Report and matched them to the School Calendar Fact Template.

Ü 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.

Ü 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 if the administration had implemented the prior audit report's recommendations and/or observed these changes in person.

## **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 certain relevant state laws, regulations, 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 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, 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.

To determine the status of our audit recommendations made in a prior audit report released on July 5, 2011, we reviewed the District's response to PDE dated February 8, 2012. We then performed additional audit procedures targeting the previously reported matters.

# Findings and Observations

## Finding No. 1

### The Baldwin-Whitehall Board of School Directors Frequently Exercised Poor Governance Over the District, Including a Failure to Comply with the Public School Code

*Criteria relevant to the finding:*

Baldwin-Whitehall School District Board Policy Number 101 Mission Statement states in part:

*The mission of the Baldwin-Whitehall School District is to provide . . . a challenging educational program... and these demands impact . . . the scope of business and finance . . .*

Baldwin-Whitehall School District Board Policy Number 601 Fiscal Objectives states:

*The Board recognizes its responsibility to ensure that public monies expended by the school district are utilized for delivery of the educational program in a manner that reflects reasonable value to district residents, and that adequate procedures and records are established to ensure that end.*

*To meet the goals of this policy, the Board directs the Superintendent or designee to establish sound accounting procedures based upon recommendations of the district auditor and state and federal government, institute effective business practices, and recommend appropriate equipment and technology when necessary.*

Our audit of the Baldwin-Whitehall School District (District) found that the District’s Board of School Directors (Board) frequently exercised poor governance over the District. We determined that this poor governance by the Board manifested itself in three main areas. Audit test-work revealed that the Board failed to properly oversee the District’s fiscal operations, failed to adhere to its own board policy, and failed to fully comply with the Public School Code.

#### **Failure to Properly Oversee the District’s Fiscal Operations**

Our audit identified three specific areas where the Board failed to provide sufficient oversight of fiscal operations:

#### **1. Repeat Findings in Its Independent Financial Audits:**

The District has had several repeat findings in its last four independent financial reports (fiscal years 2008-09, 2009-10, 2010-11, and 2011-12).

School Year	Total Findings	Findings Deemed Significant	Material Weaknesses	Repeat Findings
2008-09	12	10	9	
2009-10	19	14	7	6
2010-11	7	7	4	6
2011-12	8	6	6	4

The following findings were consistent in all four reports:

- The District did not present financial statements in accordance with Generally Accepted Accounting Principles (GAAP).
- Concerns with processing of Activity Fund and Athletic Funds.

*Criteria relevant to the finding (continued):*

24 P.S. § 3-324 of the Public School Code, provides, in part:

*No school director shall, during the term for which he was elected or appointed, as a private person engaged in any business transaction with the school district in which he is elected or appointed, be employed in any capacity by the school district in which he is elected or appointed, or receive from such school district any pay for services rendered to the district except as provided in this act . . .*

And provided further:

*. . . one who has served as a school director may, after resigning from office as a school director, be elected to the position of teacher by the board of which he was a member by a vote of at least two-thirds of all other members of the board and shall be entitled to receive such pay for his services as a teacher as the board of school directors may lawfully determine.*

- Concerns regarding payroll processing.
- Weaknesses regarding physical inventory.
- Concerns with the Cafeteria Fund, free and reduced lunches.

The independent auditors mentioned procurement card concerns in two of the four reports, which is a topic of a finding in our current report (*see Finding No. 2*).

**2. *No Appropriate Action Taken on Recommendation of Forensic Audit Recommendations:***

A forensic audit was completed for the fiscal year 2008-09, which contained numerous audit findings. The District has not taken appropriate corrective action to address the financial and forensic auditors' issues. As an example, our audit found that the problems brought up in the previous audits still exist. By failing to implement the repeated recommendations of its financial and forensic audits, the District's management is violating the intentions of the Board as outlined in Board Policy Number 601, regarding the compliance with recommendations made by "the district auditor, and state and federal government."

**3. *Lack of Accounting Policies and Procedures:***

The District has not significantly improved or developed its policies and procedures for governing its accounting processes, as recommended in the prior independent financial and forensic audit report findings and recommendations. As a result, its accounting system is not reliable and is prone to continued errors. The District is not following the requirements of the Generally Accepted Accounting Principles (GAAP), even though the Commonwealth directs school districts to adhere to GAAP as part of its *Manual of Accounting and Financial Reporting for Pennsylvania Public Schools* (Manual) "as a basis for program evaluation and budgetary planning." The Manual also states that following GAAP gives public schools' financial information a higher level of credibility with outside stakeholders.

### **Failure to Adhere to its Own Board Policy**

In the Board's own policy (Board Policy Number 601), it recognizes its responsibility of oversight over public funds. It adopted a policy to ensure that there is proper oversight of those funds. However, as mentioned above, the District has not significantly improved or developed its policies and procedures for governing its accounting processes as they relate to the numerous reported audit findings and recommendations. Therefore, the Board has failed to require District management to establish a strong accountability system in this regard.

The Board should have evaluated whether it was getting all of the information it needed to make sound operational and financial decisions, particularly with regard to the implementation of policies and procedures. With the District's poor internal controls, audit findings and financial circumstances were apparently becoming repetitive in nature. Any decisions that the Board may have made in the past, because of inaccurate or missing information, or the lack of financial/internal controls, will likely make efforts to weather current and future fiscal challenges even more difficult.

It is important to note the near constant turnover in the District's upper management. This has certainly been a factor in its governance issues. Specifically, since July of 2008, the District has had two superintendents, four business managers, and seven treasurers. We asked the District's current management why there was such a high amount of turnover. The current administration replied that the high turnover was due to terminations, resignations, and retirements. Nevertheless, without a strong system for maintaining consistent operations and accountability, this level of turnover in key management positions, especially after the 2008-09 school year, contributed to the District's inability to implement recommendations from previous audits to improve policies and procedures.

Particularly, the constant yielding of authority to a new set of administrators allowed inappropriate handling of important issues, such as the repeat findings in the independent financial and forensic audits, combined with the related recommendations. Similarly, the District's Board should have ensured that each new administrative staff member addressed the appropriate operational and fiscal priorities.

### **Failure to Comply with the Public School Code**

During our fieldwork, we became aware that, on November 19, 2013, a sitting board member resigned his position on the Board to accept a newly created position at the District entitled "Supervisor of Projects for the Board of School Directors and Special Assistant to the Superintendent, a Professional Employee." This violated Section 324 of the Public School Code, which only allows board members to resign their positions to become teachers at the District. Following public outcry, the individual subsequently resigned from the newly created position on December 4, 2013. However, the individual was then immediately sworn-in as a board member once again, as a result of the November 2013 election.

Although the Public School Code clearly states that the appointment of a former board member to a position at the District is not permitted during the board member's term of office, the District's solicitor, in a newspaper article dated December 4, 2013, stated that he felt the position was legal. The board member stated that the reason for resigning the position was "in the best interest of the District." The District's Board failed to perform their duties for upholding, obeying, and enforcing the laws of the Commonwealth of Pennsylvania and discharging their duties of their office with fidelity.

To improve its governance, the District must create a more stable operational environment that can withstand changes to its senior management. The District's management must create a strong system of internal controls that it can use to maintain consistency and meet organizational goals. In addition, the District's Board must develop mechanisms for determining whether management is being effective and for assessing whether its members are receiving the information needed to make sound operational decisions.

In addition, the District's current management should identify the District's key activities and then ensure that there are written policies and procedures to govern them. Finally, the District's current management must develop a process for monitoring whether staff regularly follows these established protocols.

### **Recommendations**

The *Baldwin-Whitehall School District's Board of School Directors* should:

1. Hold District management accountable for addressing all audit recommendations and properly implementing the necessary policies and procedures. Consistently monitor management's performance to ensure that the District has a sound operational structure and has the governance necessary to achieve its financial and operational objectives.
2. Comply with all Public School Code regulations.
3. Immediately initiate implementation of the recommendations in the District's last four independent financial audits, the forensic audit, and the Department of the Auditor General's performance audit reports.
4. Ensure that District personnel maintains all the documentation required to verify that that it has developed and implemented the policies, procedures, techniques, and mechanisms that ensure goals are met and that the risk of errors are reduced.
5. Identify all of the District's key activities and then ensure that there are written policies and procedures to govern them. In addition, the District's management should develop a process for monitoring whether staff regularly follows these established protocols. The District's strategy for implementing a system of accountability should include:
  - i. Keeping proper documentation, including complete and accurate board meeting minutes documenting the status of the implementation of the auditors' recommendations.

- ii. Developing policies and procedures to address the immediate implementation of all audit recommendations within a year of receiving the audit.

### **Management Response**

District management provided the following response to each of the recommendations:

1. “No Response.
2. The Audit avers that the District ‘violated Section 324 of the Public School Code’, however there is no precedential case law to support such a finding. Contrary to the Auditors’ Findings, even a spokesman for the Pennsylvania Education Department, indicated that ‘if someone resigns from a director’s seat, there’s nothing to prevent him or her from assuming a paid position.’ As outlined in the Audit Findings, the Board Member resigned shortly after his hire and therefore the matter is presently moot. The District will comply with the Public School Code and will henceforth adopt the Auditor General’s conservative interpretation of the School Code with regard to any future hires.
3. The District Business Office staff has been working on clearing audit exceptions over the past year and a half. Several items have dropped off the local audit because of this increased focus on remedying findings that are identified annually. At the time of this review in 2013, I as the Business Manager was not aware that a Forensic Audit had been completed or that there were any recommendations made regarding the past financial inaccuracies. Since that time, the Business Office staff has been working on clearing up those findings that are still relevant in today’s processing. The findings identified in this review will be included in our weekly reviews with target dates assigned for completion.
4. At the present time, all Business Office personnel are in the process of documenting all parts and pieces of their functions that will ultimately end with a Standard set of Operating Procedures for all of the functions completed in the Business Office. During the audit review period, this was not a focus but has been actively worked on



over the past year and a half. Any procedures that escalate to the point that a revision to a Board Policy is required will be taken to the board for consideration at a public meeting.

5. The Business Manager maintains accountability for ensuring that the policies and procedures related to all financial functions are adhered to by the staff completing those functions. This is done in a variety of ways including documented review of all receipts entered to the system, documented approval of all wire transfers, documented approval of all ACH [electronic payment] transactions, documented review of all bank account reconcilements, and physically signing every accounts payable check prior to mailing. In addition, the Business Office staff meets weekly to discuss internal controls over the functions contained in the Business Office.”

### **Auditor Conclusion**

With regard to management’s comments relating to item number 2, we are pleased that the District will comply with Section 324 of the Public School Code<sup>1</sup> and adopt our “conservative interpretation” for any of their future hires. We believe our interpretation is valid because it comports with the Statutory Construction Act’s encouragement to interpret and construct statutes by “ascertain[ing] and effectuat[ing] the **intention** of the General Assembly.”<sup>2</sup> The act further provides that “[e]very statute shall be construed, if possible, to give effect to all its provisions” and not to disregard the letter of it “under the pretext of pursuing its spirit,” particularly, when the statutory language, such as in this case, is “clear and free from all ambiguity.”<sup>3</sup> Section 324(a) explicitly states, in part: “And provided further, that one who has served as a school director may, after resigning from office as a school director, be elected to the position of teacher by the board of which he was a member by a vote of at least two-thirds of all other members of the board . . .”

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<sup>1</sup> 24 P.S. § 3-324.

<sup>2</sup> 1 Pa.C.S. § 1921(a) and (b). [Emphasis added.]

<sup>3</sup> Ibid.

Therefore, a statement by a former spokesman for the Pennsylvania Department of Education who was not speaking as the Department's legal counsel, does not in any manner undermine our determination that the plain meaning and intent of Section 324 of the Public School Code is that board members may not resign to engage in any other district employment other than by becoming a teacher who is dually elected by at least two-thirds of all other members of the board.

Furthermore, as previously stated, the District has not significantly improved or developed its policies and procedures for governing its accounting processes as they relate to the numerous reported audit findings and recommendations.

The District's Board is responsible for governance over the District which includes ensuring that adequate policies and procedures are established, that District management has established strong accountability systems, and that the District is complying with the Public School Code. The District's Board is responsible for performing their duties for upholding, obeying, and enforcing the laws of the Commonwealth of Pennsylvania, as well as discharging the duties of their office with fidelity in accordance with the Public School Code. We will review the District's corrective actions during our next cyclical audit.

## Finding No. 2

## Lack of Internal Controls Over the Use of District Procurement Cards

### *Criteria relevant to the finding:*

Baldwin-Whitehall School District Board Policy No. 625 entitled "Procurement Cards" outlines the following guidelines:

1. "The Business Manager shall establish a list of preferred suppliers and vendors. Cardholders may make purchases only from this list of vendors.
2. The Business Manager shall authorize and coordinate the issuance of procurement cards to employees and shall establish the purchasing limits and vendor authorization for each cardholder.
3. Procurement cards shall be subject to revocation at any time.
5. The procurement card shall be used for school district purchases only. Card use for personal purchases is prohibited.
8. Each employee to whom a procurement card is issued shall sign an Employee Usage Agreement form.
9. Employees who violate district policies or procedures in the use of any district issued procurement card shall be subject to disciplinary action including suspension and/or termination."

Our audit of the Baldwin-Whitehall School District (District) found that the District failed to implement its board policies and internal procedures for using District procurement cards. We found that on April 12, 2006, the District's Board of School Directors (Board) approved Board Policy Number 625, governing the usage of procurement cards. This policy was later revised on February 10, 2010.

Furthermore, the District has a specific Procedures Manual (Manual), which provides additional guidance over the procurement cards. Of the many requirements outlined in the Manual, six provide direct guidance over purchases, one of which states that "Sales receipts and packing slips must be attached to the Transactions & Reconciliation Log at the month end for auditing purposes." Regarding the reconciliation process, the Manual goes on to instruct, "The Accounting Supervisor or Business Manager will review the Transaction and Reconciliation Log against the monthly memo statement."

Based on documentation provided by the District, there were at least four accounts in use with various credit limits ranging from \$10,000 to \$100,000. At one point during the 2011-12 school year, the "Corporate Account" had a credit limit of \$500,000.

Although the Board did establish a system of internal controls over the District's procurement card usage, the Board failed to provide adequate oversight to ensure that these policies were enacted.

Examples of the policies and procedures that the District's business office should have, but did **not** implement, include, but are not limited to:

- Maintaining a list of employees who are authorized to use District procurement cards.
- Tracking employees who have lost their procurement card privileges because of termination and revocation.

*Criteria relevant to the finding (continued):*

The Manual of Accounting and Financial Reporting for Pennsylvania Public Schools (Manual) states in part that:

“The accounting system of an LEA [local education agency] shall provide the information necessary to: (a) prepare financial reports that present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the LEA in conformity with generally accepted accounting principles (GAAP).” (Chapter 1, pg 1.7)

In addition, the Manual states in part that:

Management is responsible for:

- ◆ Adopting and practicing sound accounting policies (GAAP and Best Practices).
- ◆ Maintaining an adequate system of records and accounts
- ◆ Establishing and maintaining internal controls to ensure effectiveness and efficient operations, reliability of financial reporting, and compliance with laws and regulations (Chapter 16, pg 16.3)

According to the federal Government Accountability Office’s (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency’s ability to meet its mission, improve performance, and “minimize operational problems.”

- Requiring employees to sign an employee usage agreement.
- Maintaining a log of the spending limits and the transactions on each procurement card.
- Developing an approved vendor suppliers list.

In addition, our audit found no documentation to support that there was any supervisory approval of the purchases made on the procurement card. Business office staff also failed to keep detailed records explaining why procurement card purchases were made and how they related to District operations.

During the audit, the District’s current Business Manager, who had been in his position since January 2013, acknowledged that he and his staff had not implemented the District’s existing procurement card policies and procedures. This failure is likely the result of the business office’s overall internal control weaknesses stemming from repeated changes in upper management (see Finding No. 1). In addition, the District’s Board failed to establish an effective system for holding the administration accountable for implementing its policies. For example, the Board should ask the administration to produce a signed copy of an employee usage agreement so that it can be assured that this oversight has been corrected.

The District’s administration is responsible for enacting board policy by establishing internal procedures. Furthermore, without incorporating internal controls over those procedures, the District’s business office cannot ensure that its procurement card purchases are in accordance with the District’s guidelines and the Pennsylvania School Code. For example, without a list of the procurement card transactions, the business office cannot verify their appropriateness. Likewise, by not properly tracking the pool of employees who are permitted to use the procurement cards, the business office increases the risk of abuse. For example, a terminated employee could avoid turning in his or her assigned procurement card and then continue to use it for personal purchases.

*Criteria relevant to the finding  
(continued):*

In addition, this guidebook states that an “Internal control is not an event, but a series of actions and activities that occur throughout an entity’s operations and on an ongoing basis . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis.”

U.S. General Accounting Office.  
*Standards for Internal Control in  
the Federal Government.*  
(November 1999), pg 1.

The use of procurement cards can be beneficial for the districts that use them, as described on the Easy Procure website. The procurement card allows districts to “establish merchant category controls, and daily, weekly, or monthly transaction limits; transaction amount limits. . . .” However, these benefits can only be experienced with proper internal controls and governance.

### **Recommendations**

The *Baldwin-Whitehall School District* should:

1. Ensure that all employees authorized to use the procurement cards receive instructions on how to use them.
2. Ensure all employees authorized to use procurement cards sign an employee usage agreement form, which is then maintained in the District’s business office.
3. Set up a monthly dollar spending limit and a daily or transaction limit on all District procurement cards.
4. Track all procurement card transactions on a log maintained in the District’s business office.
5. Attach detailed sales receipts and packing slips to the transaction and reconciliation log at month end.
6. Document every item purchased with a procurement card, as well as the corresponding cost. All receipts should be supplemented with a written explanation or supporting detail regarding the reason for the procurement card purchases, including how the purchase is related to District operations.
7. Compare and evaluate all transaction and reconciliation logs against the bank monthly memo statements.
8. Maintain a list of all employees who are issued or authorized to use the procurement cards.
9. Keep track of the employees who are authorized to use the procurement card and those who have lost those privileges due to termination or any other reason.

## **Management Response**

District management provided the following response to our recommendations:

“Since the time period of this audit review, the district has done away with the use of procurement cards with the exception of three remaining. There are two maintained in the Central Administration Building. One is in the name of Business Office and one is in the name of Superintendent’s Office. The third card is in the name of the Director of Operations and is maintained on his person. The District does have a documented procedure manual for the use of procurement cards. The Business Office staff will review and revise where necessary those procedures to ensure that the recommendations listed above are part of the procedure manual that governs the distribution and use of the procurement cards going forward. Another option the District will explore as a part of this review is the total elimination of all procurement cards.”

## **Auditor Conclusion**

We are pleased that the District is currently taking appropriate action to eliminate the use of procurement cards and controls over its three remaining cards. However, as previously stated, the District should have begun implementing its board policies, proper internal controls and procedures, and good governance practices for the usage of District procurement cards prior to the cards being used by District personnel. We will review the District’s corrective actions during our next cyclical audit. The finding will remain as written.

**Finding No. 3**

**Inadequate Documentation to Support Commonwealth-Paid Tuition for Institutionalized Children and Children Placed in Private Homes**

*Criteria relevant to the finding:*

Baldwin-Whitehall School District Board Policy Number 202, entitled: "Eligibility of Non-resident Students" provides, in part:

"The Board shall require that appropriate legal documentation showing dependency or guardianship or a sworn statement of full residential support be filed with the Board Secretary before an eligible non-resident student may be accepted as a student in district schools."

"The Superintendent or designee shall develop procedures for enrollment of non-resident students which admit such students only on proper application and submission of required documentation by the parent/guardian and shall verify claims of residency. . ."

24 P.S. § 13-1302 of the Public School Code (PSC) indicates that a child shall be considered a resident of the school district in which his parents or the guardian of his person resides.

Our audit of the Baldwin-Whitehall School District's (District) pupil membership records for the 2008-09, 2009-10, 2010-11, and 2011-12 school years found that the District did not maintain adequate documentation to support membership days reported to the Pennsylvania Department of Education (PDE) for non-resident students placed in private homes (foster children) or for children placed in institutions (state wards). As a result, we were unable to verify the accuracy of the Commonwealth-paid tuition, detailed as follows:

School Year	Commonwealth Tuition Received
2008-09	\$ 72,952
2009-10	144,920
2010-11	61,518
2011-12	<u>63,671</u>
Total	\$343,061

To ensure that the District is eligible for these payments, PDE guidelines require them to maintain documentation for the placement of these children within the District. Our testing found that the District did not have the required documentation to support the classifications of foster and state wards.

The deficiencies occurred because the District management failed to follow the board approved Board Policy Number 202 entitled: "Eligibility of Non-resident Students," which describes that the District shall develop procedures for the enrollment of non-resident students. Management also failed to appropriately train staff whose responsibility it is to register the students into the District to obtain and retain the required documentation to support the classification of their foster and state ward students.

*Criteria relevant to the finding  
(continued):*

24 P.S. § 13-1305 of the PSC provides for Commonwealth payment of tuition for a non-resident child who is placed in the home of a resident of the school district by order of court, or by an arrangement with an association, agency or institution having the care of neglected and dependent children when such resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

Section 1306 of the PSC, 24 P.S. § 13-1306 provides that any school district in which there is located any orphan asylum, home for the friendless, children's home, or other institution for the care or training of orphans or other children, shall permit any children who are inmates of such homes, but not legal residents in such district, to attend the public schools in said district.

Section 518 of the PSC, 24 P.S. § 5-518, requires that records be retained for a period of not less than six years.

It is the responsibility of District management to have in place proper policies and procedures to ensure that student data collected and reported to PDE is adequately supported. Without internal controls, the District cannot be assured that it will receive the correct amount of state subsidy to which it is entitled.

### **Recommendations**

The *Baldwin-Whitehall School District* should:

1. Develop written policies and procedures to ensure proper classification of students enrolling in the District as resident or non-resident students.
2. Ensure that the staff responsible for enrolling in the District obtain and retain all required documents at the time of enrollment including, but not limited to, a placement order from the court or agency showing that the student has been placed in foster care or an institution, documentation showing that the student's custodial parent/legal guardian does not reside in the district where the student has been placed, and documentation to show that the foster parent is receiving a per diem allowance from the court or placement agency for caring for the student.
3. 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 and complete records and the relationship of membership data to state subsidies and reimbursements.

The *Pennsylvania Department of Education* should:

4. Take necessary steps to recover the total tuition paid to the District of \$343,061 for the four school years audited.



## Management Response

District management provided the following response to our recommendations:

“The review period of 2008-2012 included 28 children identified as non-resident within our student management data system. The determination of that status would have been made either during the initial registration process or by a change of status during the period as an active student within the school district. The audit’s assertion in the finding is that there was inadequate documentation to support any of the placements. It is the District’s position that this statement is false and misleading.

Per School District Policy 202 – Eligibility of Non-Resident Students, nonresident students may not be enrolled in the district except as required by law or allowed under express written policy of the Board. The Board shall require that appropriate legal documentation showing dependency or guardianship or a sworn statement of full residential support be filed with the Board Secretary before an eligible nonresident student may be accepted as a student in district schools. The Board may require a resident to submit additional, reasonable information to substantiate a sworn statement, in accordance with guidelines issued by the Department of Education.

Upon further review of the files, all 28 students had documentation that established residency within the school district, thus permitting attendance in the Baldwin-Whitehall School District. Many students had placement orders from the courts or other agencies while others had notarized paperwork authorizing the change in guardianship. Several had documentation of some per diem allowance received by the guardian for the care of the child.

The District does acknowledge that children were not properly classified as non-resident in some instances during the testing period. Examples included:

- Six children during the tested period were adopted by their legal guardian. Adoption paperwork existed for all children; however, their status in the student management system was not changed.

- Guardians used the term ‘adoptive’ or ‘foster’ during the registration process in a manner that was inconsistent with the definition acknowledged by PDE, resulting in some cases of incorrect classification.

The District was made aware of these findings initially during the summer of 2014. Starting with the 2014-15 school year the following changes/actions have been undertaken:

- Creation of a central registration process to unify and streamline the registration process, reducing or eliminating errors or inconsistencies.
- Review of PDE Public School Code and guidelines regarding non-resident students with social workers and other office staff that would be responsible for recording and reporting membership data.
- Developing a review process with the Pennsylvania Information Management System administrator to review all student data prior to submission for all students classified as non-resident.
- Develop administrative regulations or procedures consistent with Board Policy 202 – Eligibility of Non-Resident Students to support timely and accurate collection of student data.”

### **Auditor Conclusion**

We are pleased that the District has taken the necessary steps toward corrective action but continue to stand by our determination that the District could not provide the necessary documentation to support any of the non-resident placements. We also disagree with the District’s assertion that our conclusion of inadequate documentation to support any of the placements was “false and misleading.” The evidence gathered during the audit more than supports our finding. We will review the District’s corrective actions during our next cyclical audit. The finding will remain as written.

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

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**O**ur prior audit of the Baldwin-Whitehall School District (District) released on July 5, 2011, resulted in one observation, which pertained to a former District employee who made unauthorized disbursements totaling \$298,556. 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 observation. We found that the District did not implement our recommendations related to the former District employee who made unauthorized disbursements.

### **Auditor General Performance Audit Report Released on July 5, 2011**

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

Observation Summary: Our prior audit of the District found that a forensic auditing firm reported that, from 2002 to 2009, a former District employee had made unauthorized disbursements totaling \$298,556 from various District funds. The firm listed numerous internal control weaknesses that allowed these disbursements to go undetected.

Recommendations: Our audit observation recommended that the District should:

1. Establish a standard accounting and operating procedures manual outlining policies to be followed.
2. 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.
  - The employee responsible for preparing checks should be segregated from the individual mailing the same checks.

3. 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.
4. 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.
5. Original invoices or other supporting documents should accompany check requests, and checks should be signed only after the signer reviews the appropriate supporting documentation.
6. All voided checks should be defaced with the signature portion of the check removed and the check retained and accounted for in numerical sequence.
7. Blank check stock should be kept in a locked safe or cabinet accessible only to those with proper authorization.
8. 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 investigate any large or unexpected variances.

Current Status:

With regard to our prior year recommendations, we found the following:

Recommendation No. 1: The District provided us with a binder entitled “Baldwin-Whitehall School District Business Office Procedures Manual”. The manual contained some haphazardly placed policies and procedures but many of these policies were outdated. In addition, the manual’s table of contents was never updated.

Recommendations No. 2, No. 6, and No. 7: The District failed to develop and implement policies and procedures to address these audit recommendations.

Recommendation No. 3: The District stated they no longer use the accounting system they were using at the time of the prior audit. In the 2009-10 school year, the District began using a new software program for their accounting transactions. This program provides multi-user capability with individual ID’s and passwords.

Recommendations No. 4 and No. 5: The District has policies or procedures, which address these audit recommendations.

Recommendation No. 8: The District failed to develop and implement a written policy or procedure that requires the business manager to review the monthly financial reports and compare these reports to the prepared budget reports.

Overall, based on the results of our current audit procedures, we determined the District did not take sufficient and appropriate corrective action. Therefore, we concluded that the District's Board of School Directors did not implement good governance practices. (See Finding No. 1 beginning on page 8).

## **Distribution List**

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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

Christopher B. Craig, *Esq.*  
Acting 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

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