

CANON-MCMILLAN SCHOOL DISTRICT
WASHINGTON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2011

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Ms. Debbie Link, Board President
Canon-McMillan School District
1 North Jefferson Avenue
Canonsburg, Pennsylvania 15317

Dear Governor Corbett and Ms. Link:

We conducted a performance audit of the Canon-McMillan School District (CMSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period December 23, 2008 through April 28, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. Our audit was conducted pursuant to 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 CMSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit observation and recommendations have been discussed with CMSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CMSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CMSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

April 13, 2011

cc: **CANON-McMILLAN SCHOOL DISTRICT** Board Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Canon-McMillan School District (CMSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the CMSD in response to our prior audit recommendations.

Our audit scope covered the period December 23, 2008 through April 28, 2010, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

District Background

The CMSD encompasses approximately 54 square miles. According to 2000 federal census data, it serves a resident population of 28,420. According to District officials, in school year 2007-08 the CMSD provided basic educational services to 4,654 pupils through the employment of 320 teachers, 219 full-time and part-time support personnel, and 23 administrators. Lastly, the CMSD received more than \$17 million in state funding in school year 2007-08.

Audit Conclusion and Results

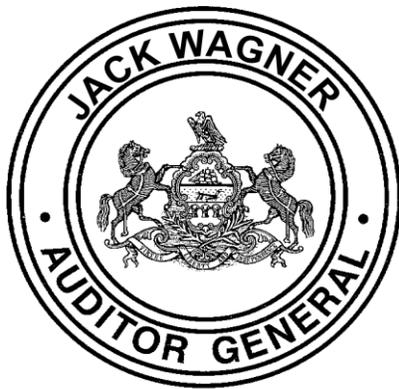
Our audit found that the CMSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, one matter unrelated to compliance is reported as an observation.

Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications.

Our review found that the CMSD and its transportation contractors do not have written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children (see page 6).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the CMSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the CMSD had taken corrective action pertaining to the CMSD's deficit fund balance (see page 8).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the 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 PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 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 December 23, 2008 through April 28, 2010, except for the verification of professional employee certification which was performed for the period November 30, 2008 through April 26, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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 Department of Education (DE) 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 law, regulation, 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, regulations, and defined business practices. Our audit focused on assessing the CMSD's compliance with applicable 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?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?

- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

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 applicable 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 findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

CMSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit 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/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes.

Additionally, we interviewed selected administrators and support personnel associated with CMSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on August 6, 2009, we reviewed the CMSD's response to DE dated December 14, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

Internal Control Weaknesses in Administrative Policies Regarding Bus Driver's Qualifications

Criteria relevant to the observation:

Public School Code (PSC) Section 111 (24 P.S. 1-111) requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions of certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Similarly, Section 6355 of the Child Protective Services Law (CPSL), 23 Pa. C.S. 6355, requires prospective school employees to provide an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

The ultimate purpose of the requirements of the PSC and the CPSL cited in the box to the left is to ensure the protection of the safety and welfare of the students transported in school buses. To that end, there are other serious crimes that school districts should consider, on a case-by case basis, in determining a prospective employee's suitability to have direct contact with children. Such crimes would include those listed in Section 111 but which were committed beyond the five year look-back period, as well as other crimes of a serious nature that are not on the list at all. School districts should also consider reviewing the criminal history and child abuse reports for current bus drivers on a periodic basis in order to learn of incidents that may have occurred after the commencement of employment.

Our testing procedures did not find any individuals who did not possess the minimum requirements to be employed as bus drivers. However, we found that neither the District nor the District's transportation contractors have written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

Recommendations

The *Canon McMillan School District* should:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District or the District's transportation contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.

2. Implement written policies and procedures to ensure the District is notified when current employees are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children, and to ensure the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.

Management Response

Management stated the following:

I [superintendent] disagree on the basis of not having this knowledge previously. Had I been aware of this during my first year of superintendency, I would have worked to remedy it. Our goal in the Canon-McMillan School District is to align all of our process with best practices. This issue was never shared with me.

Auditor Conclusion

We appreciate the expressed willingness of management to remedy this matter now that our current audit procedures have brought it to management's attention.

Status of Prior Audit Findings and Observations

Our prior audit of the Canon McMillan School District (CMSD) for the school years 2005-06 and 2004-05 resulted in one reported finding pertaining to the District’s deficit fund balance. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the CMSD’s written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the CMSD has addressed the deficit fund balance.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: District Reports Deficit Fund Balances for Fiscal Years Ended June 30, 2006, 2007, and 2008.</i></u></p> <ol style="list-style-type: none"> 1. Monitor and maintain budgetary control over expenditures in compliance with Section 609 of the Public School Code. 2. Use monthly budget status reports to scrutinize proposed expenditures for the current operations and limit them to revenues received and the amount appropriated. 3. Provide for a systematic reduction of the general fund deficit. 	<p>Background:</p> <p>Our prior audit of the District’s annual financial reports, local auditor’s report, and general fund budgets for the fiscal years ended June 30, 2008, 2007, 2006 and 2005 found that the District reported general fund deficits for the last three years. It’s deficit as of June 30, 2008, was \$1,176,003.</p>	<p>Current Status:</p> <p>Our current audit found that the District had reduced the deficit balance to \$535,661 as of June 30, 2009. We also noted that the District had improved its use of budgetary controls. Furthermore, subsequent to the completion of fieldwork for our current audit we obtained the annual financial report and local auditor’s report for the year ended June 30, 2010, which report a positive general fund balance of \$2,131,801.</p> <p>We concluded that the District has addressed the general fund deficit. We will continue to monitor the District’s general fund balance during future audits of the District.</p>

Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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