



**MERCER AREA SCHOOL DISTRICT
MERCER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

MARCH 2014

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. Cedric A. Butchy, Board President
Mercer Area School District
545 West Butler Street
Mercer, Pennsylvania 16137

Dear Governor Corbett and Mr. Butchy:

We conducted a performance audit of the Mercer 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 April 13, 2012 through February 4, 2014, except as otherwise indicated 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, except as detailed in one (1) 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 recommendation 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

March 6, 2014

cc: **MERCER 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 Mercer Area School District (District) in Mercer 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 April 13, 2012 through February 4, 2014, 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 2010-11 and 2011-12 school years.

District Background

The District encompasses approximately 91 square miles. According to 2010 federal census data, it serves a resident population of 10,752. According to District officials, the District provided basic educational services to 1,284 pupils through the employment of 97 teachers, 59 full-time and part-time support personnel, and six (6) administrators during the 2011-12 school year. The District received \$7,952,002 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, except for one (1) compliance related matter reported as a finding.

Finding: Certification Deficiency. Our review of the Mercer Area School District's (District) professional employees' certification for the period February 22, 2012 through November 6, 2013, found one (1) professional employee was assigned to a professional position without proper certification, subjecting the District to subsidy forfeitures for the 2012-13 and 2013-14 school years (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Mercer Area School District (District) from an audit released on December 20, 2012, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to professional personnel certification (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 April 13, 2012 through February 4, 2014, except for the verification of professional employee certification, which was performed for the period February 22, 2012 through November 6, 2013.

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?
- ✓ 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?

- ✓ In areas where the District received transportation subsidies, was the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations.
- Relevance and reliability of operational and financial information.
- Compliance with certain 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, 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.

To determine the status of our audit recommendations made in a prior audit report released on December 20, 2012, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

Section 1202, 24 P.S. § 1202, of the Public School Code (PSC) provides, in part:

“No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.”

Section 2518, 24 P.S. § 25-2518, of the PSC provides, in part:

“ . . . [A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Pennsylvania Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district’s market value/income aid ratio.”

Certification Deficiency

Our audit of the Mercer Area School District’s (District) professional employees’ certification for the period February 22, 2012 through November 6, 2013, found that one (1) individual was assigned to the position of Coordinator of Special Education without possessing the proper certification for the 2012-13 and 2013-14 school years.

The deficiency was due to the District’s erroneous belief that the individual’s Principal K-12 certification covered the proper certification for the position.

Information pertaining to the assignment was submitted to the Pennsylvania Department of Education’s Bureau of School Leadership and Teacher Quality (BSLTQ) for its review. On December 5, 2013, BSLTQ confirmed the employee was not properly certified, which subjected the District to a subsidy forfeiture of \$1,096 for the 2012-13 school year. The subsidy forfeiture for the 2013-14 school year could not be calculated due to the applicable aid ratio needed for subsidy forfeiture calculation not being available at the time of audit.

It is the responsibility of District management to have in place internal policies and procedures to ensure that employees are both properly certified and up-to-date with their certifications. A lack of appropriate internal controls can lead to uncertificated persons teaching certification-required classes and also to a possible loss of state education subsidy.

Recommendations

The Mercer Area School District should:

In conjunction with the BSLTQ’s determination, require District administrative personnel to ensure that an individual’s certification(s) meet the requirement of the assignments that District intends to assign to the individual.

The *Pennsylvania Department of Education* should:

Adjust the District's allocations to recover the subsidy forfeitures.

Management Response

Management stated the following:

“The management of the Mercer Area School District disagrees with the finding of the Pennsylvania Office of the Auditor General. The Mercer Area School District's position descriptions of both the Assistant Superintendent and the Coordinator of Special Education clearly indicate the authority level granted to each person and role they played with respect to the administration of special education within the district. As such the core decision-making for special education decisions lay with the Assistant Superintendent and the Coordinator of Special Education's role was simple to implement the decisions much the same as a building level administrator, wherein this person clearly held the proper certification.

Nevertheless, it is the district's understanding that current certification governing guidelines now permit those who hold K-12 Principal certification to now officially operate in this position. Therefore, it is our belief that no corrective action is necessary.”

Auditor Conclusion

The citation was issued by BSLTQ's based on the job description provided by the District and certification guidelines for the years of audit. The finding will stand as written.

Status of Prior Audit Findings and Observations

Our prior audit of the Mercer Area School District (District) released on December 20, 2012, resulted in one (1) finding, as shown below. The finding pertained to certification. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We performed audit procedures and interviewed District personnel regarding the prior finding. As shown below, we found that the District did not implement our recommendations related to the finding.

Auditor General Performance Audit Report Released on December 20, 2012

Finding: **Certification Deficiency**

Finding Summary: Our prior audit of the District found one (1) employee was improperly assigned to a professional position without holding a proper certification. We calculated a subsidy forfeiture of \$964.

Recommendations: Our audit finding recommended that the District should:

Put procedures in place to ensure that all employees holding Instructional I certificates obtain permanent Instructional II certificates before they lapse.

We also recommended that the *Pennsylvania Department of Education* (PDE) should:

Recover the subsidy forfeiture levied as a result of PDE's Bureau of School Leadership and Teacher Quality's determination.

Current Status: During our current audit, we found that the District did not implement our prior recommendations (see current Finding, page 5). PDE determined that the District was subject to a subsidy forfeiture of \$964, which was recovered through a deduction from the District's December 26, 2013 basic education funding payment.

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
1010 Harristown Building #2
333 Market Street
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.