



**NORTHWESTERN SCHOOL DISTRICT
ERIE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JANUARY 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

Ms. Joan Baxter, Board President
Northwestern School District
100 Harthan Way
Albion, Pennsylvania 16401

Dear Governor Corbett and Ms. Baxter:

We conducted a performance audit of the Northwestern 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 May 27, 2011 through August 28, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2012 and June 30, 2011. 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

January 3, 2014

cc: **NORTHWESTERN 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 Northwestern School District (District) in Erie 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 May 27, 2011 through August 28, 2013, 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 122 square miles. According to 2010 federal census data, it serves a resident population of 12,097. According to District officials, the District provided basic educational services to 1,659 pupils through the employment of 118 teachers, 50 full-time and part-time support personnel, and eleven (11) administrators during the 2011-12 school year. Lastly, the District received \$12,825,659 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. We report no findings or observations in this report.

Status of Prior Audit Findings and Observations

With regard to the status of our prior audit recommendations to the Northwestern School District (District) from an audit released on July 10, 2012, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to Social Security and Medicare reimbursement (see page 6), pupil transportation (see page 7), and bus driver qualifications (see page 9).

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 May 27, 2011 through August 28, 2013, except for the verification of professional employee certification which was performed for the period March 29, 2011 through July 15, 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 state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), 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?
- ✓ 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?
- ✓ 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

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, 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, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 10, 2012, we reviewed the District's response to PDE dated September 17, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Northwestern School District (District) released on July 10, 2012, resulted in three (3) findings as shown below. 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 implement our recommendations related to the Social Security and Medicare reimbursement, pupil transportation, and bus driver qualifications.

Auditor General Performance Audit Report Released on July 10, 2012

Finding No. 1: **Omission of IDEA and ACCESS Funding in Reported Social Security and Medicare Wages Resulted in Reimbursement Overpayments of \$21,785**

Finding Summary: Our prior audit of the District's Social Security and Medicare wages reported for the 2009-10 and 2008-09 school years found administrative internal control weaknesses, which resulted in inaccurate reports being submitted to PDE. These inaccuracies resulted in overpayments of \$10,899 and \$10,886 in the 2009-10 and 2008-09 school years, respectively.

Recommendations: Our audit finding recommended that the District should:

1. Comply with PDE instructions for the completion of the Social Security/Medicare reimbursement applications (PDE-2105) when reporting wages paid by federal funds.
2. Perform an internal review of the 2010-11 school year reports prior to PDE submission making necessary revisions as required.

We also recommended that PDE should:

3. Adjust the Social Security/Medicare reimbursement to correct the overpayments of \$21,785.

Current Status: Our current audit of Social Security and Medicare wages for the 2011-12 school year found the District complied with PDE instructions and correctly reported all wages including those paid with federal funds. Additionally, the District revised the previously reported wages for the 2010-11 school year on July 6, 2011. As of August 28, 2013, PDE has not adjusted the overpayment of \$21,785. We found that District did implement our prior recommendations.

Finding No. 2: Reporting Errors, Internal Control Weaknesses, and Lack of Documentation Supporting Pupil Transportation Reimbursement and Tax Exempt Fuel Usage

Finding Summary: Our prior audit of the District's pupil transportation records and the reports submitted to PDE for the 2009-10 and 2008-09 school years found reporting errors, internal control weaknesses, and a lack of documentation supporting reimbursements of \$903,594 and \$951,752, respectively, as well as a lack of documentation supporting the usage of tax-exempt fuel.

Recommendations: Our audit finding recommended that the District should:

1. Consult with their local auditors regarding their accounting methodology and determine if resubmission to PDE is required, along with the reissuance of financial information.
2. Review the data submitted for the 2009-10 and 2008-09 school years and work with officials at PDE to resubmit the data, if necessary and if possible.
3. Require the District's transportation contractor to provide all bus file documentation to the District for record retention.
4. Ensure that adequate and appropriate nonpublic pupil information is obtained and retained for audit.
5. Require the transportation manager to properly identify all hazardous and non-reimbursable students for reporting purposes.
6. Obtain all required school calendars to ensure that days of service are properly reported.
7. Develop pupil rosters to verify and confirm pupil counts reported.
8. Modify the system used to monitor fuel usage by the contractor to include the ability to track usage by designated purpose.
9. Ensure that layover hours are properly reported and approved by the state for reimbursement.
10. Ensure that District personnel become more involved in the recordkeeping of pupil transportation supporting documentation provided by the contractor and perform an internal review to ensure the accuracy of data submitted to PDE for reimbursement.

11. Ensure that the transportation manager attends training regarding the collection, maintenance, and submission of pupil transportation data.

We also recommended that PDE should:

12. Consider withholding future pupil transportation reimbursement payments until the District prepares and retains support documentation as required by Chapter 23 regulations, Section 518 of the Public School Code, instructions for completing the end-of-year pupil transportation reports, and board policies.

We also recommended that the Pennsylvania Department of Revenue (PDR) should:

13. Review the District's internal controls and actual usage of tax exempt liquid fuel purchased by the District and utilized by the pupil transportation contractors.

Current Status:

Our current audit of the 2011-12 school year found that the District utilizes transportation software to provide the necessary documentation for audit. Before the start of the school year, the District provides bus routes to the Board of School Directors for approval. The route documentation includes pick-up times, students' names and addresses, and approximate distance between each stop. All documentation was available for audit.

The District requires all nonpublic schools to submit a listing of students who require transportation before the start of the school year and a copy of their school calendar. To ensure adequate reporting of days transported the District kept track of days in session for each vehicle by recording the data for each vehicle including the spares. The District reviews the information that the contractor enters into transportation software on a monthly basis to ensure accurate reporting.

The District has not received any communication from PDE regarding withholding future reimbursement payments and the Director of Transportation has attended training regarding the submission of pupil transportation data.

In the summer of 2012, the representative from PDR visited the District regarding fuel usage. The District records the fuel usage in a log, which is used to report the fuel usage at the end of the year. The District also has a card system in place to keep track of who is dispensing the fuel, how much fuel is dispensed to the vehicle number, and the purpose of the fuel.

For the 2011-12 school year, the District prepared a listing of all students who are within walking distance to the school buildings. However, during

the audit it was noted by the Director of Transportation that he never contacted the Pennsylvania Department of Transportation to certify that Route 20 in Springfield Township is indeed a hazardous walking area for students attending Springfield Elementary School resulting in non-reimbursable pupils being underreported by 20 students resulting in an overpayment of \$1,507 in transportation subsidy. The District has been made aware of this issue through a verbal comment, and it was recommended that they contact PDE to correct the error.

Finding No. 3: Failure to Have All School Bus Drivers' Qualifications on File

Finding Summary: Our prior audit of the District's school bus drivers' qualifications for the 2009-10 school year found that not all records were on file at the time of audit. Additionally, the documentation was not provided to the District by the contractor as specified in the transportation contract.

Recommendations: Our audit finding recommended that the District should:

1. Ensure that the District's transportation manager reviews each driver's qualifications prior to board approval.
2. Ensure that the transportation contractor does not allow any driver to transport students without required board approval.
3. Require the transportation contractor to enact procedures requiring drivers to immediately report criminal charges and/or convictions.
4. Ensure that the transportation contractor provides the District written notice if current drivers have been charged with or convicted of criminal offenses.
5. Ensure that District maintained files are up-to-date and complete.

Current Status: The current audit included a review of the eleven (11) newly hired drivers since our prior audit. The District's files were up-to-date and did not find any criminal convictions that would have barred them from employment. The contractor reviews all applications and clearances before they are given to the District's transportation manager who reviews the qualifications before they are brought to the board for approval.

On February 22, 2011, the District revised Board Policy #810, requiring the contractor to enact procedures requiring drivers to notify them when they are charged with crimes or child abuse. On April 16, 2012, the District revised Board Policy #818, requiring the contractor and their employees to

report on a designated form arrests and convictions as required by law. We found that District did implement our prior recommendations.

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
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The Honorable Carolyn Dumaesq
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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.